中國城市基礎設施集團有限公司

China City Infrastructure Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2349

ANNUAL REPORT

2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Chao Bo
(Chairman and Chief Executive Officer)
Mr. Ji Jiaming
Ms. Wang Wenxia
(Vice Chairman and Chief Executive Officer)
(resigned on 31 May 2018)

Non-executive Director

Mr. Zhang Guiqing

Independent non-executive Directors

Mr. Wang Jian
Mr. Ng Chi Ho, Dennis
Mr. Ji Yehong

AUDIT COMMITTEE

Mr. Ng Chi Ho, Dennis *(Committee Chairman)*
Mr. Wang Jian
Mr. Ji Yehong

REMUNERATION COMMITTEE

Mr. Ji Yehong *(Committee Chairman)*
Mr. Wang Jian
Mr. Ng Chi Ho, Dennis

NOMINATION COMMITTEE

Mr. Ji Yehong *(Committee Chairman)*
Mr. Wang Jian
Mr. Ng Chi Ho, Dennis

COMPANY SECRETARY

Mr. Chan Hoi Yin Anthony

AUTHORISED REPRESENTATIVES

Mr. Li Chao Bo
(Chairman and Chief Executive Officer)
Mr. Chan Hoi Yin Anthony
(appointed on 31 May 2018)
Ms. Wang Wenxia
(Vice Chairman and Chief Executive Officer)
(resigned on 31 May 2018)

AUDITOR

HLM CPA Limited
Certified Public Accountants

WEBSITE

www.city-infrastructure.com

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL BANKERS

Chiyu Banking Corporation Limited
No. 78 Des Voeux Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor, The Center
No. 99 Queen's Road Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
Level 10, HSBC Main Building
No. 1 Queen's Road Central, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 6208, 62nd Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
No. 183 Queen's Road East
Hong Kong

CORPORATE PROFILE

China City Infrastructure Group Limited and its subsidiaries (collectively refer as the "Group") is dedicated to the core businesses in property development, property investment, hotel business and property management in the People's Republic of China ("PRC"). The Group develops a diverse property portfolio of residential properties, office buildings, shopping malls and hotels in first-to-second tier cities in the PRC. At the meantime, the Group also pays attention to potential real estate and infrastructure related businesses to expand its portfolio.

CHAIRMAN STATEMENT

On behalf of the board of Directors (the "Board"), I am pleased to present the annual results of China City Infrastructure Group Limited ("China City Infrastructure" or the "Group") and its subsidiaries for the year ended 31 December 2018.

In 2018, the continuing trade disputes between the United States and China and the regulation of real estate market in China affected the market in general. Despite the above uncertainties, the Group is optimistic about the outlook of the real estate industry's development of Mainland China. More quality land and properties will be acquired through mergers and acquisitions, co-operation and other approaches, with the aim of propelling the growth of the Group's business.

The Group continues to optimize its capital structure and business portfolio and narrow the loss. In the second half of 2018, the Group sold a real estate development project in Qiandao Lake, Hangzhou. In January 2019, the Group entered into a conditional sale and purchase agreement to acquire a company which holds properties and lands in Longgang, Shenzhen. The Group hopes to gain property redevelopment experience from this project and is optimistic about the potential redevelopment and appreciation in value of the relevant property following the redevelopment and believes that the potential investment will bring positive returns to the Group in the long run. The Group will focus on property related business and pay attention to the investment opportunities in developing infrastructure business.

Finally, on behalf of the Board of Directors, I would like to express my sincere gratitude to all staff members for their dedication and contribution, and to our shareholders and business partners for their support.

Li Chao Bo
Chairman

Hong Kong, 21 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in property related business and started to dedicate to the infrastructure business in late 2014. The Group disposed the Natural Gas Business on 15 December 2017. The proceeds from the disposal have strengthened the financial position of the Group. In support of the further business development of the Group, the management is actively looking for the potential projects which related to the Group's principal activities.

Pursuant to the announcement made on 3 January 2019, the Group entered into a conditional sale and purchase agreement with an independent third party for the acquisition of an entire interest in a target group which holds land and properties in Longgang, Shenzhen. In order to devote more resources to meet the strategic direction of the Group's business, the Group may sell the whole or a portion of Group's property portfolio depending on the market and market value of the property portfolio.

RESULT SUMMARY

The consolidated revenue from continuing operations of the Group decreased by 53.3% from approximately HK$628.9 million for the year ended 31 December 2017 to approximately HK$293.6 million for the year ended 31 December 2018. The revenues from properties sales were approximately HK$191.9 million mainly arising from sales of the Zhongshui Longyang Plaza in Wuhan and Mei Lai International Centre in Hangzhou. The revenues from property leasing, hotel business and property management business were approximately HK$39.6 million, HK$34.1 million and HK$28.0 million respectively.

The overall gross profit from continuing operations increased by 37.1% to approximately HK$122.2 million in 2018 from approximately HK$89.1 million in 2017, while the gross profit margin increased to 41.6% in 2018 from 14.2% in 2017. The Group also had net fair value losses on revaluation of various investment properties of approximately HK$28.9 million and an impairment loss of goodwill amounting to HK$31.0 million for the year ended 31 December 2018.

The loss attributable to owners of the Company was approximately HK$174.9 million for the year ended 31 December 2018 (2017: HK$286.9 million). Basic loss per share attributable to owners of the Company was HK$5.67 cents (2017: HK$10.80 cents). The Board does not propose any final dividend for the year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The PRC Property Development Business

During the year ended 31 December 2018, the Group's revenue from property development business amounted to approximately HK$191.9 million, representing a decrease of approximately 65.6%, compared with approximately HK$558.4 million in 2017. Aggregate gross floor area (the "GFA") sold for the year was 14,494 square meters ("sq.m."), representing a decrease of 58.9% from 35,233 sq.m. in 2017. Average selling price (the "ASP") was approximately HK$13,240 (2017: HK$15,849) per sq.m. for the year.

The PRC Property Investment Business

Wuhan Future City Commercial Property Management Company Limited ("Commercial Company") was formed by the Group to operate the Future City Shopping Centre ("Future City") owned by the Group. The Future City is located at Luo Shi Road South within close proximity to the Luoyu Road shopping belt and the Jiedao Kou station of metro line No. 2. The total leasable area of Future City is approximately 55,362 sq.m. with car park included. Future City is situated in the heart of business and commercial centre of Hongshan District in Wuhan City, convenient to East Lake, Wuhan University, Wuhan University of Technology and other landmarks. Future City now becomes a fashionable, dynamic and international shopping centre to cater for the growing demand from the surrounding business centres and university region (more than twenty universities and tertiary education institutions including Wuhan University and Wuhan University of Technology) with 1,000,000 students and residential consumers. As at 31 December 2018, the occupancy rate of Future city was over 91%.

Hangzhou Mei Lai Commercial Property Management Company Limited was formed by the Group to prepare the operation of the commercial part of Mei Lai International Centre in Yuhang district of Hangzhou. The commercial part has approximately 55,980.22 sq.m. with car park included. Mei Lai International Centre is located in new Central Business District in Yuhang district of Hangzhou and adjacent to the south station of Shanghai-Hangzhou High-Speed Railway and also the terminal of Hangzhou metro line No. 1, it is expected that Mei Lai International Centre can meet the increasing needs from residential and office customers nearby.

As at 31 December 2018, the aggregate fair value of the Future City and the commercial part of Mei Lai International Centre held by the Group was approximately HK$1,988.6 million. During the year ended 31 December 2018, the rental income generated from the investment properties was approximately HK$39.6 million and the average occupancy rate was around 84.7%.

MANAGEMENT DISCUSSION AND ANALYSIS

The PRC Hotel Business

Wuhan Future City Hotel Management Company Limited ("Hotel Company"), an indirect wholly owned subsidiary of the Company, manages a business hotel ("Future City Hotel") with around 400 rooms, which is featured as one of the largest all suite business hotels in term of room number in Central China. Easy access to the East Lake and universities and government authorities attracts travellers from different levels. Future City Hotel is well-equipped with function rooms and conference rooms to provide services of banquet and business conference and team of hospitality professionals was recruited to deliver personalised services to customers.

During the year ended 31 December 2018, the revenue arising from Future City Hotel was approximately HK$34.1 million and the average occupancy rate was around 80.0% (2017: 82.6%).

Chunan Yuehuzhuang Hotel Company Limited was formed by the Group to operate 3 villas, the clubhouse and the yacht berths of Qiandao Lake Villa project as a featured hotel under the name "Yuehuzhuang Hotel". Chunan Yuehuzhang Hotel Company Limited is the wholly own subsidiary of Hangzhou Pu Tian Property Development Company Limited* ("Pu Tian"). The Group entered a sales and purchase agreement to dispose of the 60% equity interest in Pu Tian to an independent third party on 11 September 2018. The disposal was completed on 30 September 2018. During the period from 1 January 2018 to 30 September 2018, the hotel recorded a revenue of approximately HK$0.9 million.

The PRC Property Management Business

Wuhan Future City Property Management Company Limited and Wuhan Chengji Commodity City Management Company Limited, the indirect wholly owned subsidiaries of the Company, provides residents and tenants with safe, modern, comfortable and high quality property management services. During the year ended 31 December 2018, the revenue from property management was approximately HK$28.0 million (2017: HK$8.3 million).

GROUP PROJECTS

Property related business

Wuhan City, Hubei
Future City

Future City is a large-scale integrated composite development located at Luo Shi Road South within close proximity to the Luoyu Road shopping belt and the Jiedao Kou stations of metro line No. 2. Future City is situated in the heart of business and commercial centre of Hongshan District in Wuhan City, convenient to East Lake, Wuhan University, Wuhan University of Technology and other landmarks in the neighbourhood with 1,000,000 students and residential consumers. Future City covers a total site area of 19,191 sq.m. with a total GFA of approximately 145,273 sq.m. and comprises of five high-rise residential towers, a four-story premier shopping centre and parking spaces. In order to improve the leasing portfolio, the Group renovated the Future City and the renovation was completed in mid-2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Future Mansion

Future Mansion is located at a prime location at Wuluo Road in Hongshan District in Wuhan City, just 600 meters from Future City project. It is near the conjunction of metro line No. 2 and 7. It has a total site area of 5,852 sq.m. and been developed for a composite building of residential apartments and retail shops with GFA of approximately 42,149 sq.m..

Wuhan City, Hubei
Zhongshui • Longyang Plaza

Zhongshui • Longyang Plaza is strategically situated in the prime location between the Wangjiawan business area and national level Wuhan Economic & Technological Development Zone, delineated in the western Wuhan Middle Ring Road, next to the Hanyang bus terminal and adjacent to Longyang Avenue. The project has a land site of 30,625 sq.m. and is atop the Hanyang Station of metro line No. 3. This integrated complex will be developed for splendorous shopping mall and luxurious office apartments with planned GFA of approximately 135,173 sq.m..

Hangzhou City, Zhejiang
Mei Lai International Centre

Mei Lai International Centre is strategically located in Yuhang District, which is designated as part of the new Central Business Centre of Hangzhou City, delineated in the southern of intersection of Yingbin Road, Wengmei Road and Nanyuan Street. The integrated complex occupies a total site area of 16,448 sq.m. and is adjacent to the south station of Shanghai-Hangzhou High-Speed Railway and also the terminal of Hangzhou metro line No. 1. The total GFA is approximately 114,610 sq.m. which comprised of commercial buildings and carpark of approximately 55,980 sq.m. under investment property and commercial buildings for sale of approximately 58,630 sq.m.. The development comprises of one grade-A office block with work loft setting, two high-rise premium apartment towers and a premier shopping centre and parking spaces. As at 31 December 2018, the remaining GFA of approximately 24,877 sq.m. are under sale.

Hangzhou City, Zhejiang
Qiandao Lake Villa

This development occupies a site area of approximately 44,016 sq.m. in Qiandao Lake in Hangzhou City. It is a low-density lakefront precinct with 26 detached villas featuring luxurious settings, inclusive of lift, garage, swimming pool, yards and complemented by a full-facility clubhouse. The total planned GFA is approximately 33,493 sq.m.. The location enjoys spectacular unobstructed lake view and conveniently accessible to Hangzhou City, Shanghai and Mount Huang by either high-speed railway or expressway. The project was disposed on 30 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table set forth an overview of the Group's property projects at 31 December 2018:

Project	City	Equity Interest in the Project	Site Area *sq.m.*	Total GFA/ Planned GFA *sq.m.*
Completed Projects				
Future City	Wuhan	100%	19,191	145,273
Future Mansion	Wuhan	100%	5,852	42,149
Zhongshui • Longyang Plaza	Wuhan	100%	30,625	135,173
Mei Lai International Centre	Hangzhou	100%	16,448	114,610
Subtotal			72,116	437,205

FINANCIAL REVIEW

Revenue

Revenue from continuing operations of the Group for the year decreased to approximately HK$293.6 million from approximately HK$628.9 million, a decrease of 53.3% compared with that of last year. The revenue of property development decreased from approximately HK$558.4 million in 2017 to approximately HK$191.9 million in 2018. The decrease was mainly due to a decrease in revenue from sales of properties, in which the total GFA recognised during the year was 14,494 sq.m., representing a decrease of 58.9%, compared with the total GFA of 35,233 sq.m. recognised in last year.

The revenue from property leasing, hotel business and property management business increased from approximately HK$26.0 million in 2017 to approximately HK$39.6 million in 2018, from approximately HK$36.2 million in 2017 to approximately HK$34.1 million in 2018 and from approximately HK$8.3 million in 2017 to approximately HK$28.0 million in 2018 respectively.

Cost of Sales

The cost of sales decreased from approximately HK$539.8 million in 2017 to approximately HK$171.4 million in 2018, where the cost of properties sold including development costs, land costs and borrowing costs. The decrease in cost of sales was primarily due to the decrease in total GFA of shopping mall of Zhongshui • Longyang Plaza recognised in 2018 (2018: 1,102 sq.m.; 2017: 12,763 sq.m.).

During the year, the Group's cost of sales included cost of sale in respect of property investment segment of approximately HK$6.2 million, an increase of approximately HK$4.4 million compared with that of 2017, and of hotel business and property management business of approximately HK$36.6 million and approximately HK$10.3 million respectively, an increase of approximately HK$6.0 million and 6.3 million with that of 2017 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

The gross profit increased by approximately HK$33.1 million from approximately HK$89.1 million in 2017 to approximately HK$122.2 million in 2018. The Group has a gross profit margin of 41.6% in 2018, as compared with 14.2% in 2017. The increase was mainly due to an increase in the gross profit from the sales of Mei Lai International Centre. The selling price and the cost per square meter are HK$13,339 and HK$8,095 respectively.

Other Operating Income

Other operating income increased to approximately HK$49.5 million in 2018 from approximately HK$18.0 million in 2017. The increase was primarily due to the compensation for compulsory land acquisition by PRC Government of approximately HK$22.9 million.

Other Operating Expenses

Other operating expenses decreased to approximately HK$39.8 million in 2018 from approximately HK$86.6 million in 2017. The decrease was primarily due to the decrease of impairment loss on goodwill of property development business of approximately HK$22.0 million and the decrease of loss on disposal of investment property of approximately HK$21.4 million in 2018.

Change in Fair Value of the Investment Properties

There was a net loss of approximately HK$28.9 million in 2018 (2017: HK$57.0 million) arising from change in fair value of the investment property portfolio in the PRC held by the Group.

Selling and Distribution Expenses

The selling and distribution expenses decreased by 6.5% to approximately HK$54.3 million in 2018 from approximately HK$58.1 million in 2017, primarily due to decrease in advertising and promotion, and commission expenses for properties sales.

Administrative Expenses

The administrative expenses decreased by 31.0% to approximately HK$84.4 million in 2018 from approximately HK$122.3 million in 2017. The decrease was due to the decrease in legal and professional fee.

Finance Costs

The finance costs decreased to approximately HK$138.8 million in 2018 from that of approximately HK$185.6 million in 2017. The decrease was primarily due to the reduction in aggregate borrowings.

Income Tax (Expenses) Credit

The Group recorded income tax expenses of approximately HK$8.2 million during the year (2017: income tax credit of approximately HK$6.5 million). The increase in income tax expenses was primarily attributable to the decrease in deferred tax credit resulting from the reduction in the fair value loss of investment properties decreased.

MANAGEMENT DISCUSSION AND ANALYSIS

Discontinued Operation

The Group had disposed of its Natural Gas Business operation last year. The result from discontinued operation reflected the net loss of approximately HK$5.3 million from the Natural Gas Business operation along with the gain arising from the disposal of approximately HK$96.7 million, which were all recognised in 2017.

Loss Attributable to Owners of the Company

The loss attributable to owners of the Company decreased from approximately HK$286.9 million in 2017 to that of approximately HK$174.9 million in 2018. The decrease is mainly attributed to an increase in gross profit margin, decrease in other operating expenses of approximately HK$46.8 million and decrease in finance cost of approximately HK$46.8 million in the current year.

Liquidity, Financial and Capital Resources

Cash Position

As at 31 December 2018, total bank deposits and cash (including pledged bank deposits) of the Group amounted to approximately HK$50.0 million (31 December 2017: approximately HK$64.5 million), representing a decrease of HK$14.5 million as compared to that as at 31 December 2017.

Borrowings and Charges on the Group's Assets

At 31 December 2018, the Group's total borrowings included bank loans, amounts due to shareholder's subsidiaries and convertible notes, in which bank loans and amounts due to shareholder's subsidiaries amounted to approximately HK$949.1 million (31 December 2017: approximately HK$1,457.9 million) and liability component of convertible notes of approximately HK$22.3 million (31 December 2017: approximately HK$20.4 million). Amounts due to shareholder's subsidiaries of approximately HK$366.7 million was reclassified under borrowings as at 31 December 2018 as those companies are no longer the shareholder's subsidiaries of the Group. Amongst the borrowings and amounts due to shareholder's subsidiaries, approximately HK$333.5 million (31 December 2017: approximately HK$904.5 million) will be repayable within one year and approximately HK$615.6 million (31 December 2017: approximately HK$553.4 million) will be repayable after one year. The convertible notes are due in June 2019.

At 31 December 2018, certain inventory of properties together with relevant land use rights and certain investment properties with an aggregate amounts of approximately HK$835.2 million (2017: HK$2,129.0 million) were pledged as security for certain banking facilities granted to the Group.

Gearing Ratio

The gearing ratio was 73.0% as at 31 December 2018 (31 December 2017: 87.7%). The gearing ratio was measured by net debt (aggregated borrowings, amount due to shareholder's subsidiaries and convertible notes net of bank balances and cash and pledged bank deposits) over the total equity. The decrease in gearing ratio was mainly due to a decrease in borrowings and amounts due to shareholder's subsidiaries of approximately HK$508.8 million. The current ratio (current assets divided by current liabilities) was 1.11 (31 December 2017: 1.24).

MANAGEMENT DISCUSSION AND ANALYSIS

Use of Proceeds From Fund Raising

Reference is made to the announcement of the Group dated 29 June 2017, the Group placed 460,000,000 new shares at a price of HK$0.5 per placing share, representing approximately 14.92% of the issued share capital of the Group as at 31 December 2018. The net proceeds from the placing were approximately HK$229.7 million. An analysis of the planned use of the net proceeds from placing and the actual utilised amount as at 31 December 2017 and 31 December 2018 are set out below respectively:

	Planned use of proceeds *HK$'000*	Change in use of proceeds *HK$'000*	Actual utilised amount as at 31 December 2017 *HK$'000*	Actual utilised amount during the period from 1 January 2018 to 31 December 2018 *HK$'000*	The remaining proceeds as at 31 December 2018 *HK$'000*
Repayment of loans	70,000	60,000	(120,000)	(10,000)	–
Settlement of construction costs	50,000	10,000	(60,000)	–	–
Use for potential investments and future development	99,900	(70,000)	–	(3,659)	26,241
Use for daily operations	9,800	–	(9,800)	–	–
	229,700	–	(189,800)	(13,659)	26,241

Reference is made to the announcement of the Group dated on 18 May 2017, in which the Group entered into a framework agreement with a vendor for a possible acquisition of 51% equity interests in a target company ("possible acquisition"). The wholly-owned subsidiary of the target company owned a plant, two buildings and related land at Shenzhen. The Group originally planned to allocate part of proceeds to the possible acquisition. However, no formal agreement in relation to the possible acquisition has been entered into as at 31 December 2018. Therefore, the Group has reallocated such portion of proceeds to repayment of loans and settlement of construction cost in order to improve its current capital structure, raise the utilization efficiency of its capital and reduce finance expenses which is in the best interest of the Group and its shareholders as a whole.

Contingent Liabilities and Commitments

(a) As at 31 December 2018, the Group had no capital commitments in respect of its construction of properties, contracted but not provided in the consolidated financial statements (31 December 2017: approximately HK$62.4 million).

(b) As at 31 December 2018, the Group had capital commitments in respect of its capital injection of a joint venture, contracted but not provided in the consolidated financial statement amounting to approximately RMB9,000,000, equivalent to approximately HK$10,227,000 (31 December 2017: RMB Nil).

(c) The Group has not recognised any deferred income for the guarantees given in respect of borrowing and other banking facilities as their fair value cannot be reliably measured and transaction was minimal.

MANAGEMENT DISCUSSION AND ANALYSIS

(d) As at 31 December 2018, the Group had not provided guarantees to banks for loans (31 December 2017: approximately HK$12.6 million) in respect of the mortgage loans provided by the banks to purchasers of the properties the Group developed and sold. The guarantees are issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates.

(e) As at 31 December 2018, a subsidiary was exposed to litigations in relation to joint and several guarantees provided to certain financial institutions and independent third parties regarding loans and the interest thereon totalling approximately RMB10,015,000 (equivalent to approximately HK11,381,000) (2017: RMB34,015,000 (equivalent to approximately HK$40,982,000)) granted to certain independent third parties. The guarantees will be released after the full repayment of the loan and interest thereon. The Group has reached an agreement with other joint guarantors and the lenders that the other joint guarantors are committed to bear the loans and the interest. Therefore, the directors consider the risk to the Company is remote and does not affect the operation of the group. As at 31 December 2018, the Group had settled approximately RMB24,000,000 (equivalent to approximately HK$27,272,000) for the guarantees provided.

The directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 31 December 2018 and 2017.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the total number of employees stood at approximately 235. Total staff costs for the year from continuing and discontinued operations was approximately HK$37.9 million. The Group offers its workforce comprehensive remuneration and employees' benefits packages.

OUTLOOK AND FUTURE PLAN

The Group is principally engaged in the property related business and started to dedicate to the infrastructure businesses in late 2014. The economic foundation of China remains solid in the coming future as the state continues to drive the economic and financial reform further and promotes the development of urbanisation, with a strategic focus on policies related to the "Greater Bay Area".

Property Business

The Group focuses on property development business in first- and second-tier cities in the PRC. The Group expects to seize the market trend and adjust the progress according to the market changes and market value of the property portfolio. The Company will also pay attention to domestic urban redevelopment and opportunities of acquisition and co-operation.

Other Infrastructure Business

The Belt and Road initiative and the "Guangdong-Hong Kong-Macao Greater Bay Area" are the significant development strategy launched by the Chinese government. The Group is looking for different infrastructure business which may benefit from the government strategy and policy.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

MR. LI CHAO BO ("MR. LI")

– Chairman, Executive Director and Chief Executive Officer

Mr. Li, aged 44, was appointed as the Chairman and an Executive Director of the Company with effect from 31 March 2016 and was appointed as the Chief Executive Officer with effect from 31 May 2018 and is currently a director and the sole beneficial owner of Linkway Investment Holdings Limited. Linkway Investment Holdings Limited is a company incorporated in the British Virgin Islands with limited liabilities. Mr. Li is currently a chairman of the number of the investment and property investment development company which is registered in the PRC. Mr. Li currently holds a master degree from Hong Kong Baptist University and a degree from Central South University. Mr. Li is experienced in brand operation, property development and financial investment.

The register of substantial shareholders maintained under section 336 of the SFO show that at 31 December 2018, Linkway Investment Holdings Limited holds 668,912,000 issued Shares of the Company (each a "Share"), representing approximately 21.70% of the total issued share capital of the Company.

MS. WANG WENXIA ("MS. WANG")

– Vice Chairman, Executive Director and Chief Executive Officer

Ms. Wang, aged 59, was appointed as Vice Chairman, an Executive Director and Chief Executive Officer of the Company. Ms. Wang is responsible for the overall strategic development, making decisions for investment projects and determining the direction of development of the Group. Ms. Wang holds a master degree in finance from Dongbei University of Finance and Economics. Ms. Wang currently holds senior management positions in various unlisted companies incorporated in the PRC, and has active experience at the management level in structured finance and real estate for over 20 years, including investment, mergers and acquisitions and asset management services.

Ms. Wang was the chairman, the executive director and the chief executive officer of China Financial International Investments Limited (Stock Code: 721), a company listed on the main board of the Stock Exchange.

Ms. Wang has resigned as Vice Chairman, Executive Director and Chief Executive Officer on 31 May 2018.

MR. JI JIAMING ("MR. JI")

– Executive Director

Mr. Ji, aged 57, holds a master's degree in business administration from Capital University of Economics and Business# and is a senior economist. Mr. Ji has worked in construction, property and infrastructure construction industries for many years and has extensive experience in enterprise management, strategy formulation and engineering management. Mr. Ji served as the board chairman of China Construction First Building Development Corporation#, the general manager of China Architecture First Building (Group) Corporation Limited#, the board chairman of China Construction Municipal Construction Corporation Limited# before May 2012. From June 2012 until December 2014, Mr. Ji was an executive director and vice-chairman of Kaisa Group Holdings Ltd. (stock code: 1638), the issued shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Ji was the board chairman of China Economic International New Technology Corporation Limited# on June 2015. Mr. Ji was appointed as the Executive Director of the Company with effect from 21 July 2017.

The English translation of Chinese names or words in this biography is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

MR. ZHANG GUIQING ("MR. ZHANG")

– Non-executive Director

Mr. Zhang, aged 56, holds a Bachelor's degree in Engineering with a major in material studies from Central South Institute of Mining and Metallurgy (currently known as Central South University). Mr. Zhang has worked in real estate and construction industry for many years and has extensive experience in enterprise management and engineering management. Mr. Zhang served as Vice President of Beijing Dongfang Hongming Real Estate Development Limited# from May 1999 to May 2008. From May 2008 until June 2010, Mr. Zhang was an executive director of Sanya Hongli Orient Holdings Limited#. Mr. Zhang was appointed as the Non-executive Director of the Company with effect from 16 August 2017.

MR. WANG JIAN ("MR. WANG")

– Independent Non-executive Director

Mr. Wang, aged 49, was appointed as Independent Non-executive Director on 21 April 2011. Mr. Wang holds a bachelor of Economics degree from the Jiangsu Yangzhou University. Mr. Wang is currently managing director of Shenzhen City Jin Ruige Investment Management Company Limited#. He has served as a branch credit manager of Industrial and Commercial Bank of China, vice president of Hua Li Property Group Company Limited#, vice general manager of Shenzhen Zhong Ke Zhi Investment Guarantee Company Limited# and executive vice president of Shenzhen City Jin Ruige Investment Management Company Limited#. He has extensive experience in enterprise funds operations, investment and financing of real estate projects and corporate operational management.

MR. NG CHI HO, DENNIS ("MR. NG")

– Independent Non-executive Director

Mr. Ng, aged 60, was appointed as Independent Non-executive Director on 16 March 2017. Mr. Ng holds a Bachelor of Commerce degree from The University of New South Wales, Australia and is a chartered accountant of The Chartered Accountants Australia and New Zealand and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is also a practising certified public accountant and has extensive experience in auditing, accounting, financial management and corporate affairs. Mr. Ng is currently the company secretary of MEIGU Technology Holding Group Limited (stock code: 8349), an independent non-executive director of Kirin Group Holdings Limited (stock code: 8109) and Media Asia Group Holdings Limited (stock code: 8075), and a non-executive director of My Heart Bodilbra Group Limited (stock code: 8297). Mr. Ng was an independent non-executive director of KOALA Financial Group Limited (formerly known as Sunrise (China) Technology Group Limited) (stock code: 8226) from June 2014 to May 2015 and was the company secretary of Celebrate International Holdings Limited (stock code: 8212) from July 2014 to February 2018. Mr. Ng was appointed as the Independent Non-executive Director of the Company with effect from 16 March 2017.

The English translation of Chinese names or words in this biography is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

MR. JI YEHONG ("MR. JI")

– Independent Non-executive Director

Mr. Ji, aged 54, is currently the Managing Director of Investment Banking Division of ICBC International Holdings Limited and President of China Science & Merchants (Hong Kong) Investment Management Co., Limited. He has 21 years of work experience with various international investment banks, including J.P. Morgan, Credit Suisse, Citi, Morgan Stanley and Rothschild. Mr. Ji obtained a Bachelor's Degree in Science from Chongqing University in 1985 and a Bachelor's Degree in Economics from University of International Business and Economics in Beijing in 1990. Mr. Ji was appointed as the Independent Non-executive Director of the Company with effect from 5 June 2017.

SENIOR MANAGEMENT

The abovementioned Directors of the Company are members of senior management of the Group.

DIRECTORS' REPORT

The directors of the Company (each a "Director") present the annual report and the audited consolidated financial statements of China City Infrastructure Group Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in Note 41 to the consolidated financial statements. The Group has discontinued the Natural Gas Business in 2017.

BUSINESS REVIEW

The business review, analysis using financial key performance indicators and future development in the Company's business of the Group for the year ended 31 December 2018 are set out in the section headed "Management Discussion and Analysis" on pages 5 to 13 of this annual report.

The environmental policies and performance, compliance with relevant laws and regulations and relationships with employees are also discussed under section headed "Environmental, Social and Governance Report" on pages 26 to 38.

Review and outlook of the business of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance are disclosed in the Chairman's Statement, Notes to the Consolidated Financial Statements and Group Financial Summary of this annual report, which form part of this report. There are no significant events affecting the Group which have occurred since the end of the financial year.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 61 of this report.

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

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The Group is committed to maintaining close relationship with our employees, providing quality services to customers and strengthening the cooperation with our business partners.

DIRECTORS' REPORT

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group committed to enhancing governance, promoting employee benefits and development, protecting the environment and giving back to society in order to fulfill social responsibility and achieve sustainable growth.

As the major businesses of the Group are property related businesses in the PRC, the Group evaluate, manage and mitigate from time to time environmental issues within the context of the Group's business activities and objectives for the conservation of energy and other natural resources, and devise environmental policies and measures for the Group so as to keep them in line with the standards required under the applicable laws, rules and regulations to the extent practicable. To name a few, for the Group's hotel in Wuhan, all guest rooms have room card insert energy saving switches to reduce energy waste. In the office, the Group encourages the reduction in paper and energy usage.

During the year under review, there had been no record of material breach or violation by the Group of applicable environmental laws, rules or regulations.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group seeks to uphold high standard of integrity in all aspects of business and is committed to ensure that its affairs are conducted in accordance with applicable laws and regulatory requirements and has formulated and adopted various internal control measures, approval procedures and training within all business units at all levels of the Group. During the year, there has been no violation or breach of relevant laws and regulations that had a significant impact on the Company.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 173 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in Note 16 to the consolidated financial statements. Further details of the Group's major properties are set out on page 174 of this report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 29 to the consolidated financial statements.

DIRECTORS' REPORT

CONVERTIBLE NOTES

Details of the movements in convertible notes during the year are disclosed in Note 28 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity from pages 65 to 66 of this report and Note 42 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

Distributable reserves of the Company is HK$733 million as at 31 December 2018, which comply with the Companies Law of the Cayman Islands.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles of Association", each an "Article"), or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FINAL DIVIDEND

The Board resolved that the Company would not declare the payment of a dividend for the year ended 31 December 2018 (2017: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's ordinary shares during the year ended 31 December 2018.

EVENTS AFTER THE REPORTING PERIOD

Details of significant subsequent events of the Group are set out in Note 43 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Mr. Li Chao Bo *(Chairman and Chief Executive Officer)*
Ms. Wang Wenxia *(Vice Chairman and Chief Executive Officer)* (resigned on 31 May 2018)
Mr. Ji Jiaming

Non-executive Director

Mr. Zhang Guiqing

Independent Non-executive Directors

Mr. Wang Jian
Mr. Ng Chi Ho, Dennis
Mr. Ji Yehong

DIRECTORS' REPORT

In accordance with Article 108 of the Articles of Association, Mr. Ng Chi Ho, Dennis and Mr. Zhang Guiqing shall retire from their office by rotation at the forthcoming annual general meeting. Being eligible, Mr. Ng Chi Ho, Dennis and Mr. Zhang Guiqing will offer themselves for re-election as Independent Non-executive Director and Non-executive Director, respectively at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. Li Chao Bo ("Mr. Li") has been appointed as the executive Director of the Company with effect from 31 March 2016 and Mr. Li has entered into the service contract with the Company on 31 March 2016. The term of the service contract will be for three years commencing from the date of the service contract subject to compliance with the relevant provisions of the Listing Rules. Mr. Li is entitled to a salary of HK$250,000 per month, with housing allowance of not more than HK$50,000 per month, together with discretionary management bonus by the Company to be determined by the Board. Mr. Li's emolument is reviewed by the remuneration committee of the Company.

Mr. Ji Jiaming ("Mr. Ji") has been appointed as the executive Director of the Company with effect from 21 July 2017 and Mr. Ji has entered into the service contract with the Company on 21 July 2017. The term of the service contract will be for three years commencing from the date of the service contract subject to compliance with the relevant provisions of the Listing Rules. Mr. Ji is entitled to a salary of HK$250,000 per month, together with discretionary management bonus by the Company to be determined by the Board. Mr. Ji's emolument is reviewed by the remuneration committee of the Company.

Mr. Wang Jian has been re-appointed as the Independent Non-executive Director of the Company and Mr. Wang has also entered into service contract with the Company for a term of two years which commence on 21 April 2017.

Mr. Ng Chi Ho, Dennis has been appointed as the Independent Non-executive Director of the Company and he has entered into new service contract with the Company for a term of two years which commence on 16 March 2019.

Mr. Ji Yehong has been appointed as the Independent Non-executive Director of the Company and he has entered into service contract with the Company for a term of two years which commence on 5 June 2017.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the Independent Non-executive Directors, namely Mr. Wang Jian, Mr. Ng Chi Ho, Dennis and Mr. Ji Yehong for the year ended 31 December 2018 and as at the date of this report, the Company considers the Independent Non-executive Directors to be independent.

DIRECTORS' BIOGRAPHY

Biographical details of the Directors are set out from pages 14 to 16 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND THE UNDERLYING SHARES OF THE COMPANY AND ANY ASSOCIATED CORPORATIONS

At 31 December 2018, the interests and short positions of each Director and the chief executives of the Company in the shares and the underlying shares of the Company and any associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(i) Long positions in shares at 31 December 2018

Name of Director	Capacity	Notes	Number of underlying shares	Approximate percentage of shareholding
Mr. Li Chao Bo	Beneficial owner	(1)	678,992,000	22.02%
Mr. Ji Jiaming	Beneficial owner	(2)	100,000,000	3.24%

(ii) Long positions in underlying shares at 31 December 2018

Name of Director	Capacity	Notes	Number of underlying shares	Approximate percentage of shareholding
Mr. Wang Jian	Beneficial owner	(3)	700,000	0.02%
		(4)	700,000	0.02%
			1,400,000	**0.04%**

Notes:

(1) Mr. Li Chao Bo is the sole beneficial owner of Linkway Investment Holdings Limited and Asia Unite Limited which in turn owns 668,912,000 shares and 10,080,000 shares of the Company respectively. Mr. Li Chao Bo was appointed as the Chairman and an Executive Director of the Company with effect from 31 March 2016, and as the chief executive officer of the Company with effect from 31 May 2018.

(2) Mr. Ji Jiaming holds 50% of Double Joy Developments Limited and is a director of Double Joy Developments Limited, which in turn owns 100,000,000 shares of the Company.

(3) These share options were granted on 29 May 2013 at an exercise price of HK$0.64 per share of the Company with exercise period from 29 May 2013 to 28 May 2023.

(4) These share options were granted on 22 January 2015 at an exercise price of HK$0.668 per share of the Company with exercise period from 22 January 2015 to 21 January 2025.

Save as disclosed above, at 31 December 2018, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

SHARE OPTIONS

The following table discloses movements in the Company's share options during the year.

Category	Date of grant	Exercise price (HK$)	Exercise period	As at 1 January 2018	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	As at 31 December 2018
				Number of share options					
Directors	03/11/2010	0.9602	03/11/2010 to 02/11/2020	12,795,263	–	–	–	(12,795,263)	–
Directors/Employees/Consultants	29/05/2013	0.64	29/05/2013 to 28/05/2023	21,787,228	–	–	–	(18,087,228)	3,700,000
Directors/Employees/Consultants	22/01/2015	0.668	22/01/2015 to 21/01/2025	54,961,684	–	–	–	(54,261,684)	700,000
Employees/Consultants	16/06/2015	0.88	16/06/2015 to 15/06/2025	5,000,000	–	–	–	–	5,000,000
Consultant	25/06/2015	0.91	25/06/2015 to 24/06/2025	20,445,948	–	–	–	–	20,445,948
				114,990,123	–	–	–	(85,144,175)	29,845,948

Saved as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

On 18 June 2013, the shareholders of the Company at the annual general meeting approved the adoption of a new share option scheme (the "New Scheme") and the termination of the old share option scheme (the "Old Scheme") which has been adopted by the Company on 3 June 2003. The New Scheme will expire on 17 June 2023. Option granted under the Old Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of the Old Scheme.

Under the current refreshed Scheme mandate limit, the share options carrying the rights to subscribe for 308,227,854 shares (representing approximately 10% of issued share capital of the Company as at 5 June 2017 (the date of annual general meeting)) were available for granting by the Company as at 31 December 2018.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and the related parties or other companies in which the Directors had beneficial interest are set out in Note 40 to the consolidated financial statements.

Saved as disclosed above, no contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders (other than Directors and chief executives) maintained under Section 336 of the SFO shows that at 31 December 2018, the Company had been notified of the following substantial shareholders' interests and short positions in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital.

(i) Long positions in the shares at 31 December 2018

Name of substantial Shareholder	Notes	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
Linkway Investment Holdings Limited ("LIHL")	(1)	Beneficial owner and interest of controlled corporation	668,912,000	21.70%
Good Outlook Investments Limited	(2)	Beneficial owner	215,683,681	7.00%
China Financial International Investments Limited ("CFIIL")	(3)	Beneficial owner	558,735,429	18.13%
China Financial International Investments and Managements Limited	(4)	Investment manager	196,735,429	6.38%
Capital Focus Asset Management Limited	(4)	Investment manager	196,735,429	6.38%
Century Forum Development Limited	(5)	Beneficial owner	200,000,000	6.49%
Trikey Investments Limited	(5)	Beneficial owner	160,000,000	5.19%

(ii) Long positions in the underlying shares at 31 December 2018

Name of substantial Shareholder	Notes	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
CFIIL	(6)	Beneficial owner	46,000,000	1.49%

DIRECTORS' REPORT

Notes:

(1) These Shares were held by LIHL. Mr. Li Chao Bo ("Mr. Li") is the sole beneficial owner of LIHL. Therefore, Mr. Li has beneficially interested in the said Shares.

(2) The Company is a company incorporated in the British Virgin Island with limited liability.

(3) These Shares were held by CFIIL (Stock Code: 721). Therefore, CFIIL have beneficially interested in the said Shares.

(4) These Shares were held by CFIIL. China Financial International Investments and Managements Limited ("CFIIM") is 51% owned by Capital Focus Asset Management Limited ("Capital Focus") and 29% by owned CFIIL. Accordingly, for the purposes of the SFO, CFIIM and Capital Focus are deemed to have the same interests in the Company as CFIIL, being in the capacity of investment manager of CFIIL.

(5) The company is a company incorporated in the British Virgin Island with limited liability.

(6) Convertible notes in the principal amount of HK$73,000,000 carrying the rights to subscribe for Shares at conversion price of HK$0.50 per share was issued by the Company to CFIIL on 28 June 2016. On 30 June 2017, partial of the convertible notes with principal amount of HK$50,000,000 was converted into 100,000,000 ordinary shares at the conversion price of HK$0.50. If the remaining conversion rights attached to the convertible notes had been fully exercised, 46,000,000 shares would be issued at the conversion price of HK$0.5 per share.

Save as disclosed above, the Company has not been notified by any persons or corporations, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO at 31 December 2018.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of the significant related party transactions or continuing connected transactions undertaken by the Group during the year in the ordinary course of business or on normal commercial terms are set out in Note 40 to the consolidated financial statements. Certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The audit committee is accountable to the Board and the primary duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls. During the year ended 31 December 2018, the audit committee comprised Mr. Wang Jian, Mr. Ng Chi Ho, Dennis and Mr. Ji Yehong, who are the independent non-executive Directors.

The audit committee has reviewed the audited consolidated results and the risk management and internal control system of the Group for the year ended 31 December 2018.

The Group's annual results for the year ended 31 December 2018 have been reviewed by the audit committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

The top five suppliers in aggregate and the single largest supplier of the Group accounted for approximately 38.8% and 18.5% for the Group's total purchases for the year ended 31 December 2018 respectively.

During the year, the aggregate sales attributable to the five largest customers of the Group accounted for less than 30% of the Group's total sales.

At no time during the year did a Director, an associate of a Director, within the meaning of the Listing Rules, or a Shareholder which to the knowledge of the Directors owns more than 5% of the Company's share capital, have any interest in the Group's five largest suppliers and five largest customers.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has complied with the public float requirements of the Listing Rules.

MANAGEMENT CONTRACT

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

DIRECTOR'S INTEREST IN COMPETING BUSINESS

As at 31 December 2018, none of the Directors of the Company had any interest in business which competes or may constitute competition directly or indirectly with the business of the Group.

PERMITTED INDEMNITY PROVISIONS

At no time during the financial year and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors of the Company or an associated company.

The Company has taken out and maintained Directors' and officers' liability insurance throughout the year, which provides appropriate cover for the certain legal actions brought against its Directors and officers.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint HLM CPA Limited as auditor of the Company.

On behalf of the Board
Li Chao Bo
Chairman

Hong Kong, 21 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to be a socially responsible corporation through constant interaction with stakeholders and taking into account of their interests and benefits. We have been building the Group as an open, transparent and fair enterprise with due consideration of the environmental and social responsibilities with its business objectives. We have also been working towards achieving long-term sustainable growth of our business while safeguarding stakeholders' interests. The Board has taken into account the listed environmental and social areas and aspects in the ESG Guide which are significant considerations for its business planning and operation, and has integrated those environmental and social considerations into its business objectives, strategies and practices.

(A) ENVIRONMENTAL

A1. Emissions and Wastes

(i) Hazardous and Non-Hazardous Air Emissions

The operations and activities of the Group do not generate any hazardous air emissions and pollutants, and the only non-hazardous greenhouse gas of Carbon Dioxide (CO_2) is generated directly from the use of electricity by the offices and the managed properties, shopping malls and hotels. The degree of electricity consumption by the residents, tenants, visitors and guests of the managed properties, shopping malls and hotels will determine the amount of greenhouse gas emissions.

Hazardous air emissions such as SOx, NOx and pollutants will be generated from direct use of diesel, petrol and other fossils fuels. Our managed properties, shopping malls and hotels have a few standby small diesel generators, which will be used only when there is a sudden power cut-off. If we constantly and regularly use diesel, we will need to report and estimate its hazardous emissions. Fortunately power cut-off incidents were only on ad hoc basis with a few short periods in the last 2 years, these were insignificant on continuous management basis and we therefore have not reported any use of diesel herein. Also, as the Group does not own or operate transport vehicles, its petrol and other fossils fuel consumption is insignificant and not reporting herein as well. The Group always encourages staff to reduce flights by teleconferencing, to use public transport as a means to consume less energy and produce less greenhouse gas of CO_2.

For the reporting period, same as 2017, the Group did not breach any laws, rules or regulations and did not receive any fine or warning notice from any governmental agencies in relation to its emissions in China and Hong Kong, which might have an adverse impact on the environment and the Group.

For the reporting period, the Group's operations and activities indirectly generated 4,771 tonnes of greenhouse gas of CO_2 from its offices and the managed properties, shopping malls and hotels from the use of electricity, which was 286 tonnes or 6.4% more than 2017, which was mainly due to an increase in the activities of the Future City hotel and shopping mall in Wuhan, causing a corresponding increase in electricity uses which in our opinion is reasonable.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(ii) Noise Pollution Emission

The operations and activities of our offices and the managed properties, shopping malls and hotels do not generate and emit any noises. Moreover, we have also forbidden the managed properties' and shopping malls' residents, tenants and visitors and the hotels' guests to generate any noises which may disturb others. The Group has complied with all the national and local laws, rules and regulations to ensure noise emission is under strict control. We did not receive any complaints related to noise emission in the reporting period, which was consistent with our performance in 2017.

(iii) Light Emission

The operations and activities of our offices and the managed properties, shopping malls and hotels do not generate and emit any light pollution as well. We have designed, decorated and installed the managed properties, shopping malls and hotels with lighting systems strictly in compliance with the local requirements and standards, and therefore no light pollution is caused. For the reporting period, the Group did not receive any complaints related to light emission, which was in consistency with our performance in 2017.

(iv) Water Pollution and Discharge

Our operations and activities only discharge after-used living and hygiene wastewater by our employees, residents, tenants, visitors and guests of the managed properties, shopping malls and hotels, which is neither harmful nor toxic by nature. Water is supplied from the city supply network and is discharged through the central sewage system. For the reporting period, the Group did not receive any complaints or warnings on its polluted water discharges, same as 2017.

(v) Wastes Discharge and Disposal

The Group's operations and activities only generate non-hazardous general wastes such as used papers and packaging materials, office residuals, general rubbish and hygiene and living wastes, by its employees, residents, tenants, visitors and guests of the managed properties, shopping malls and hotels. All these wastes are disposed to rubbish bins, stored in rubbish depots, and will be collected by the environmental hygiene service providers on daily basis at a fee. The Group did not receive any complaints or warnings on its wastes disposal for the reporting period, which was consistent with its performance in 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(vi) Mitigation Measures

As a responsible corporation, both for protecting the environment and cost-saving purpose, the Group not only complied with all the national and local environmental laws, rules and regulations and industrial standards, we have also incorporated the following environmental friendly measures into our daily operations and activities to reduce and avoid adverse impacts on our environment.

We have appointed responsible officers to regularly inspect our offices and managed properties, shopping malls and hotels to ensure that (i) fresh water is not wasted and used reasonably, and (ii) power is turned off when work is not being carried out or it is not in use, use of natural ventilation to replace air-conditioning in allowable conditions. The Group has also invested in fresh water and energy saving tools and equipment such as the installation of water meters, LED lights and solar energy systems to reduce unnecessary resources consumption. We encourage economical and recycling use of resources to prevent wastage.

A2. Use of Resources

Our property/shopping mall/hotel investment, development and management services offices ("**Services Offices**") only use electricity to run their operations, water for general hygiene and cleaning needs, printing papers and packing materials for general offices routine works. The Group has not used other natural resources in a significant amount in its business activities and operation processes.

Although our operations and activities do not generate much environmental hazards, we are committed to act responsibly and aiming at minimizing the impact on the environment and our operation costs. We promote efficient uses of resources including electricity, fresh water, paper and packaging materials through the introduction of various measures disclosed in above and previous ESG reporting. During the reporting period, the Group did not find any abnormal or excessive uses of resources including electricity and diesel, fresh water, paper and packaging materials, which were all within our internal control targets.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(i) Electricity and Fuel Consumption

The offices and the managed properties, shopping malls and hotels management only use electricity from the city grids without any problem. To save operational costs and to improve its environmental friendly footprint, the Group has already implemented measures as mentioned before to save energy consumption.

For the reporting period, our offices and the managed properties, shopping malls and hotels used a total of 4,785,703.70 kWh, which was 286,920.93 kWh or 6.4% more than 2017, which was mainly due to increase in business activities in the managed Future City hotel and shopping mall and was considered normal.

(ii) Fresh Water Consumption

The Group's offices and the managed properties, shopping malls and hotels have no problem in sourcing fresh water supply, which comes from the cities' central water supply network, and is mainly for living, hygiene and cleaning purposes by its employees, residents, tenants, visitors and guests of the managed properties, shopping malls and hotels. We encourage our employees to efficiently use fresh water as it is one of the most important scare resources of today's world. We have appointed supervising staff to regularly inspect the places such as toilets, kitchens and bathrooms to ensure all the water taps have been turned off when they are not in use, and to check and immediately remediate any water leakage. We encourage our employees and guests to use water wisely in order to reduce consumption. In our offices, managed properties, shopping malls and hotel rooms, we have posted notices to remind the users to save fresh water consumption, and in the managed hotels we have encouraged guests to reuse towels to assist in conserving water consumption. We have also continued to reuse treated water for toiletry purpose in the managed properties, shopping malls and hotels.

For the reporting period, the Group used a total 109,784.34 CBM of fresh water, which was 42,885.62 CBM or 64% more than 2017, which was mainly due to increase in business activities in managed properties, shopping malls and hotels. The rise in fresh water consumption has alerted the management, and all of the managers of our managed properties, shopping malls and hotels management offices have been informed to monitor regularly to ensure no wastage and to find out possible ways to encourage the residents, tenants, visitors and guests to co-operate on efficient uses of fresh water.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(iii) Paper and Packaging Materials and other Raw Materials Consumption

Although the Group activities and operations do not consume significant amounts of papers and packaging materials, to save operational costs and to improve its environmental friendly footprint, the Group has implemented following measures, requested the employees and the residents, tenants, visitors and guests of the managed properties, shopping malls and hotels to co-operate to reduce paper and packaging materials consumption:

For employees:

- Applying computer technology such as storage of documents in electronic version, communications via emails and messages to replace paper consumption; and
- Reusing stationery such as envelopes, document folders etc. and using both sides and recycled papers for printing.

For residents, tenants and visitors of the managed properties and shopping malls and guests of the managed hotels:

- Stopping the provision of plastics and paper bags in the hotels;
- Encouraging them to use recyclable and reusable bags and containers; and
- Posting notices in convenient places to request their cooperation in reducing the uses of plastic bags and papers.

For the reporting period, the Group did not aware any indictor alerting the consumption of papers and packaging materials on an excessive situation.

A3. The Environment and Natural Resources

The Group activities and operations do not generate any environmentally unfriendly emissions and discharges, and do not consume significant amounts of the world's scarce resources especially water, paper and packaging materials. The Group is aware of its social obligations and has not violated any of the national and local environmental laws, rules and regulations, and has also taken measures to advise and to instruct employees to practice green and to use fewer natural resources. We have also taken initiatives to guide and request the residents, tenants, visitors and guests to co-operate on saving energy and water.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(B) SOCIAL RESPONSIBILITY

Employment and Labour Practices Aspects

B1. Employment

The Group has continued its employment policies and practices throughout 2018, which include the following main features:

- Provide a safe and pleasant working environment to our employees;

- Adopt humanistic and responsible human resources policies with equal opportunities for all without discrimination in hiring, promotion, remuneration, benefits, training, dismissal and other aspects of employment;

- Instruct all the subsidiaries to strictly comply with the local employment laws, rules and regulations;

- Owing to the diversity in our operation bases, the Human Resources Department in the Headquarter office is responsible to review and approve the human resources policies, employment terms and conditions, while the local subsidiaries' human resources managers will implement the approved measures in accordance with the local practices;

- All employees are required to sign employment contracts with the Group and/or its subsidiaries; and

- The recruitment process of the Group is transparent and ensures equitable positions and equal opportunities to all employees on all qualified job applications, transfers and promotions; vacant positions will be advertised and applications or referrals will go through the standard selection process. Applicants will be considered without discrimination on age, race, religion, sex and disability basis.

The Group has complied with all the employment laws, rules and regulations of the People's Republic of China (the "PRC") and Hong Kong Special Administrative Region ("HKSAR"), and has honored all obligations including the payment of salaries and wages, holidays and leaves, compensations, insurances and health benefits without disputes with our employees in the reporting period, which is consistent with its performance in 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(i) *Employment Mix*

In the reporting period, the Group's total employee headcount was 235, which was 53 less than 2017. If we excluded the 77 employees of the disposed LNG business and the 19 employees from the Hong Kong Headquarter office, the Group employed 24 or 12.5% more in its property and hotel management services operations in China. Our employment mix had the following features in 2018:

- female to male mix – 121 or 51.5% (2017: 124 or 43.1%) were female and 114 or 48.5% (2017: 164 or 56.9%) were male; and the female numbers exceeded the male number in 2018 as more female workers were employed for our general and cleaning services provision in our managed hotels and shopping malls;

- On location mix – 19 employees or 8.1% were in Hong Kong and 216 employees or 91.9% were in China.

(ii) *Employee Compensation and Package*

The Group strictly complies with the relevant laws and regulations of the "Labour Law of the PRC" 《中華人民共和國勞動法》and Employment Ordinances of the HKSAR, and has totally forbidden the recruitment of child labour and forced labour. All employees are required to sign contracts containing detailed terms and conditions including but not limited to salaries and wages, benefits, medical and accidental insurances, unemployment funds, working hours, employee rights, and holidays and leaves, etc., and such contracts are filed with the local Human Resource Bureau.

We pay competitive market salaries and wages to our employees, and for especially talented, skilled and qualified employees, remunerate them either by offering higher than market salaries and wages or additional benefits.

In accordance with the requirements of the laws of the PRC and the HKSAR, where appropriate, the Group has provided and maintained statutory benefits to all qualified employees, including but not limited to mandatory provident fund, social security insurance, medical insurance, work injury insurance and compensation and statutory holidays.

For the reporting period, the Group did not have any legal disputes with its employees in relation to salaries and wages and other benefits and compensations payments on record, which was consistent with its performance in 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B2. Health and Safety

The Group strikes to provide a safe, clean and pleasant working environment to all employees. It is our top priority to manage and monitor our policies, planning, budget allocation and measures implementation in 2018 reporting period summarize below:

- the Group constantly improves the occupational safety and health management system in order to reduce risks and create a safe working environment;

- The Group ensures all the safety, medical and hygiene equipment are adequately in place and are operating efficiently, and have passed inspections and complied with all the safety and hygiene rules and regulations;

- The Group requires all employees to strictly comply with the health and safety policies, rules and regulations, and has constantly alerted the employees to perform their tasks under safety conditions;

- Taking occupational health and safety as one of our prime responsibilities, we have implemented emergency procedures that in case of accidents, regardless of minor or serious, employees are required by the in-house rules to notify their superiors immediately, who will then take appropriate measures to ensure safety is not compromised. Measures are in place to require corresponding remedial or compensatory actions arising from safety and health issues or work injuries are taken where necessary in accordance with the in-house and national rules; and

- The Group has insured all qualified employees in both the PRC and Hong Kong with medical insurance in accordance with the local statutory requirements.

The Employees' Handbook and Labour Contract for Chinese employees and Employment Contract for Hong Kong employees set out detailed health and safety guidance and measures in compliance with the employment ordinance of Hong Kong and labour laws and regulations of the PRC, which the Group has honored completely.

For the reporting period, the Group did not have any work related fatalities or injuries, nor any claimed disputes on employee compensation or investigation by any government agencies, which was consistent with its performance in 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B3. Development and Training

The Group recognizes the value and contributions of its employees and is willing to invest and to offer training and development to enhance their skills and capabilities. The Services Offices have designed and required the new employees as well as its existing employees to regularly attend internal and on-the job training programs including but not limited to occupational safety, jobs related skills, services quality etc. The Group has also supported its employees to continue learning and enhancing their job skills. Individual employees can apply for further development and training and the Group will sponsor or grant paid leave to employees for attending job related training programs.

For the reporting period, in its managed properties, shopping malls and hotel management offices in China, the Group provided internally designed training programs to 80 employees, totaling 230 hours, which was approximately 3 hours per employees, which was quite similar to 2017.

B4. Labour Standards

The Group has continued to fully comply with the PRC and the Hong Kong labour laws and employment regulations in the relevant jurisdictions in which it operates, and adopts the respective national standard as its minimum labour standard on labour protection and welfare. The Group also maintains strict compliance with the laws in relation to equal employment opportunities, prevention of child or forced labour. We have honored all of our obligations towards the employees under the signed employment contracts and the terms and conditions written in the Employee Handbook, and have built a safe, healthy and harmonious working environment in all our offices. The Group did not violate any provisions under the Labour Laws of the PRC and Employment Ordinances of Hong Kong, and no labour litigation and charge was filed against us in the reporting period, which was consistent with its performance in 2017.

To build a mutually understanding and acceptable working environment, the Group encourages employees to communicate open-heartedly, and has invited employee representatives to meet regularly to discuss issues relating to working conditions, health and safety and employment terms and conditions. The Group believes that with effective communication, trust can be built and a win-win situation can be established.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.3 Operation Practices and Social Investment Aspects

B5. Supply Chain Management

Supply chain management primarily refers to the management of sourcing, and procurement. The Group has approved and implemented policies and regulations to achieve an efficient and stable supply of quality products and services, elimination of malpractices, and manage the suppliers to be in line with the Group's core values to uphold environmental and social standards.

The sourcing and procurement management of the Group's properties/shopping malls/hotels management services operation and activities summarized in below:

For property/shopping mall/hotel management services operations, there are many types of purchases including raw materials, utensils and consumables such as stationery, cleaning detergent, towels, appliances; food and beverage products, repair and maintenance tools, project construction materials and contract services.

To ensure a stable, quality assured and cost efficient procurement, the Group has implemented clear procurement management rules and guidelines containing policies and procedures with respect to procurement including quality control, warehousing, payment and documentation approval process, and methods of payment. We select suppliers based on a set of criteria, which includes (i) ability to meet specification and standards, (ii) products and services quality; (iii) pricing of the products and services; (iv) reliable delivery times; and (v) track records of the suppliers' business relationships with us and others in the industry and their committed compliance to laws, rules and regulations. The Group keeps a list of suppliers and will invite 2-3 suppliers to tender for purchases to get the optimal offer and to eliminate malpractices if the purchase order is of a reasonable size in the opinion of the CEO and office manager.

To save costs and delivery time and to support the local economic development, we procured all the raw materials and accessories from local suppliers in China in the reporting period, same as 2017. Also, the Group did not have any disputes and litigations with our suppliers in the last 2 reporting periods.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B6. Product Responsibility

The ESG Guide mentioned four major aspects related to Product Responsibility policies and practices: product quality and safety, customer services and complaints, privacy and intellectual property rights.

(i) Quality and Safety

The Group takes all reasonable steps to ensure that the services delivered to its residents, tenants and visitors in its managed properties, shopping malls and hotels, are safe and satisfactory and meet all agreed or legally required requirements and industries standards. Pursuant to its sales and purchase contracts and/or tenancy agreements signed on health and safety, quality of services, timing and price satisfaction. The Group has trained and reminded the property and hotel management services employees to provide service with politeness, smiles and a positive attitude, and to render support with empathy and heart to the residents, tenants, visitors and/or guests.

In the reporting period, the Services Offices were proud again that they had no major complaints from the residents, tenants, visitors and guests, or warnings from the Consumer Councils or relevant government authorities on the quality of its services, which was in consistence with its performance in 2017.

(ii) Customer Services and Complaints

The local management services offices managers are the direct controllers to monitor and to review the performance and quality of services delivered and to ensure that they are compliant with both internal and external quality assurance codes. The residents, tenants, visitors and guests of the managed properties, shopping malls and hotels can contact the managers directly or to leave messages by letters, emails and phone calls about their requests, concerns, dissatisfactions, and complaints. Upon receiving, the responsible officers or managers are required to handle the issues immediately without delay. If the incidents are beyond the handling capacity of the site duty officers or managers, they have to report immediately to the general manager of the local offices, to ensure that a feasible solution can be sought to address the requests, concerns, dissatisfactions and complaints. For serious issues and complaints, the local management offices will afterwards complete a report to explain and to give recommendations for future improvement to the management of the Group to consider.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(iii) *Intellectual Property*

Given the nature of the Group's business, it does not involve intellectual property right ("IPR") issues. However, the Group recognizes and complies with all the relevant laws and rules in relation to intellectual property such as buying original software for office applications and uses. In the reporting period, as well as 2017, the Group did not have any infringement by third parties on its IPR or by itself to any IPR of third parties.

(iv) *Privacy*

The Group's property/shopping mall/hotel management services business operations, owing to their business nature, have generated and accumulated large volumes of private, confidential and sensitive information on the residents, tenants, visitors, and guests as well as suppliers especially about the personal and company detailed background information, and financial documents and position details, terms of contracts etc., of the managed properties, shopping malls and hotels. These types of information are extremely sensitive and important. Pursuant to the Personal Data (Privacy) Ordinance ("PDPO") of Hong Kong (Cap 486 of the Laws of Hong Kong) and the relevant laws rules and regulations relating to privacy of the PRC, the Group is obliged to keep and to protect all such data confidential and safe. If there is any breach of confidentiality or failure to comply with the protection, collection, use and disclosure of personal data as prescribed under the PDPO, resulting in personal data related to individual candidates being leaked to or obtained by third parties as a result of its breach of confidentiality, individual candidates may take legal action against the Group for damages and/or compensation for the loss that may have arisen or been incurred therefrom, in addition and being subject to the penalties prescribed under the PDPO.

The Group is fully aware of its obligation, and has exercised due diligence on protecting the information. The Group has set up a system to encrypt and safeguard such sensitive and confidential information to prevent unauthorized access. The Group has authorized an IT security expert to continuously monitor, maintain and update the hardware software and security system to prevent hacking attacks. Also, all the employees have been notified and legally bounded in the employment contracts that they are obligated to honor the "Confidentiality Undertaking" that no disclosure and/or leakage in whatever form of the confidential information shall be accessed and/or obtained without the approval of the senior management of Group. Legal actions will be taken if violation takes place. In the report period, there was no report on information leakage received, same as 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B7. Anti-corruption

As discussed in the introduction section, anti-corruption is a material aspect to all stakeholders. The Group has the social responsibility, as well as the duty to safeguard the assets and interests of all our stakeholders. We have therefore adopted a zero tolerance approach to bribery, extortion fraud, and money laundering crimes. All our employees and suppliers must follow our strict policies on ethical standards/business integrity that prohibits bribery and corruption in any form. The Employees' Handbook and employment contracts have incorporated anti-corruption, anti-bribery and malpractices clauses, which strictly prohibit to offer, give, demand or accept any undue advantage (such as money, favours, gifts, discounts, services, loans, contracts, etc.) to or from any person in order to obtain or retain business.

In the reporting period, there was no bribery or corruption cases against the Group or its employees reported, which was consistent with 2017.

B8. Community Investment

The Group's property/shopping mall/hotel management services operations continued to provide nearly 200 jobs to low skilled city and country-side workers especially female in 2018, and to encourage and support employees to provide voluntary services to the community.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value. The board of directors (the "Board") reviews its corporate governance system from time to time in order to meet the rising expectations of shareholders and comply with the increasingly tightened regulatory requirements.

BOARD OF DIRECTORS

1. The Board

The Company is managed through the Board which currently comprises six Directors, comprising Mr. Li Chao Bo (Chairman and Chief Executive Officer) and Mr. Ji Jiaming as Executive Directors, Mr. Zhang Guiging as Non-executive Director and Mr. Wang Jian, Mr. Ng Chi Ho, Dennis and Mr. Ji Yehong as Independent Non-executive Directors. Independent Non-executive Directors comprise 50% of the Board. The Company has compiled with the Listing Rules requirement of Independent Non-executive Directors representing at least one-third of the Board throughout the year ended 31 December 2018. The names and biographical details of the Directors of the Company, and the relationship amongst them, if any, are set out on pages 14 to 16 of this annual report.

The Board is responsible for setting the strategic direction and policies of the Group and supervising the management. Some functions including, inter alia, the monitoring and approval of material transactions, matters involving a conflict of interest for a substantial shareholder or Director of the Company, the approval of the interim and final results, other disclosures to the public or regulators and the internal control system are reserved by the Board and the decisions relating to such matter shall be subject to the decision of the Board. Matters not specifically reserved to the Board and necessary for the daily operations of the Company are delegated to the management under the supervision of the respective Directors and the leadership of the chief executive officer.

There are agreed procedures for the Directors, upon reasonable request, to seek independent professional advice at the Company's expense in appropriate circumstances.

The Board conducts scheduled meetings on a regular basis. Ad-hoc meetings are convened when circumstances require; the Board had met eight times in the year ended 31 December 2018 to consider, review and approve significant matters including the 2017 annual results, the 2018 interim results, proposed disposal of 60% equity interest of a subsidiary, and refreshment of general mandate.

CORPORATE GOVERNANCE REPORT

Non-executive Directors and Independent Non-executive Directors are selected with the necessary skills and experience to provide strong independent element on the Board and to exercise independent judgement. At least one of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise as provided under Rule 3.10 of the Listing Rules.

To enhance the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established an audit committee, a remuneration committee and a nomination committee. Detailed descriptions of each of these committees are set out below. All of these committees adopt, as far as practicable, the principles, procedures and arrangements of the Board in relation to the scheduling and proceeding of meetings, notice of meetings and inclusion of agenda items, records and availability of minutes.

2. Appointment, Re-election and Removal of Directors

At each annual general meeting of the Company ("AGM"), one-third of the Directors are required to retire from office by rotation. At 31 December 2018, all Independent Non-executive Directors are appointed for a fixed term not exceeding three years and all Non-executive Directors (except for chairman) are subject to the requirements of retirement by rotation and re-election by Shareholders at the AGM in accordance with the Company's articles of association (the "Articles").

The names and biographical details of the Directors who will offer themselves for election or re-election at the forthcoming AGM are set out in the circular to Shareholders to assist Shareholders in making an informed decision on their elections.

The Company establishes a nomination committee participating in the appointment of new Directors. In evaluating whether an applicant is suitable to act as a Director, the nomination committee will consider the experience and skills of the applicant, as well as personal ethics, integrity and the willingness to commit time in the affairs of the Group. Where the applicant is appointed as an Independent Non-executive Director, the Board will also consider his independence. During the year ended 31 December 2018, the Board had also reviewed and made recommendations in respect of the re-appointments of retiring Directors, which were approved by the Shareholders at the last AGM.

Newly appointed Director(s) will be given an induction on the information of the Group and a manual on the duties and responsibilities as a director of a listed company both under the Listing Rules and applicable laws. The Company has arranged appropriate insurance cover in respect of legal action against the Directors and officers.

3. Chairman and Chief Executive Officer

The Group is committed to achieving high standards of corporate governance. Throughout the year ended 31 December 2018, the Company had applied the principles and complied with the requirements set out in the CG Code in Appendix 14 of the Listing Rules.

Under this code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, Mr. Li Chao Bo is acting as both the chairman of the Board (the "Chairman") and the Chief Executive Officer (the "CEO"). The Board believes that vesting the roles of both the Chairman and the Chief Executive Officer in the same person can facilitate the execution of the Group's business strategies and boost effectiveness of its operation. Therefore, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance. In addition, under the supervision of the Board which is comprised of two executive Directors, one non-executive Director and three independent non-executive Directors, the Board is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Company and its shareholders.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues at the Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. The Chief Executive Officer is in charge of the Company's management and operating businesses. The Chief Executive Officer is also responsible for developing strategic plans and formulating the Company practices and procedures, business objectives, and risk assessment for the Board's approval.

BOARD COMMITTEES

1. Audit Committee ("AC")

During the year ended 31 December 2018, the AC comprised three Independent Non-executive Directors, namely Mr. Ng Chi Ho, Dennis (AC Chairman), Mr. Ji Yehong and Mr. Wang Jian. The company secretary (the "Company Secretary") of the Company serves as the secretary of the AC and minutes of the meetings are sent to the members of the AC within a reasonable time after the meetings. The quorum necessary for the transaction of business by the AC is two.

At least one of the members of the AC has appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of the Company.

CORPORATE GOVERNANCE REPORT

The Board expects the members of the AC to exercise independent judgement and delegates the responsibilities of the corporate governance functions to the AC in order to comply with the requirement of the CG Code. In December 2015, the Board adopted a revised terms of reference of the AC which include the amendments in line with the requirements of the CG Code. The revised terms of reference setting out the AC's authority and its duties and responsibilities are available on the Company's website and on the Stock Exchange website.

Under its revised terms of reference, the AC has been delegated the corporate governance functions of the Board to monitor, procure and manage corporate compliance within the Group.

The operations of the AC are regulated by its terms of reference. The main duties of the AC include:

- to review and supervise the Group's financial reporting process including the review of interim and annual results of the Group;
- to review the external auditors' appointment, remuneration and any matters relating to resignation or termination;
- to examine the effectiveness of the Group's internal control which involves regular review in various corporate structures and business process; and
- to realise corporate objective and strategy by taking into account the potential risk and the nature of its urgency in order to ensure the effectiveness of the Group's business operations. The scope of such reviews includes finance, operations, regulatory compliance and risk management.

Works performed during the year included:

(i) considered and approved the terms of engagement of the external auditor and their remuneration;

(ii) reviewed the annual financial statements for the year ended 31 December 2017 and the interim financial statements for the six months ended 30 June 2018;

(iii) reviewed the Group's risk management and internal control system; and

(iv) reviewed the Company's policies and practices on corporate governance.

The revised terms of reference setting out the AC's authority and its duties and responsibilities are available on the Company's website and on the Stock Exchange website.

The AC met two times during the year ended 31 December 2018 with an attendance rate of 100% and reviewed the annual results of the Group for the year ended 31 December 2017 and the interim results of the Group for the six months ended 30 June 2018. The Company Secretary keeps all the minutes of the AC meeting.

CORPORATE GOVERNANCE REPORT

2. Remuneration Committee ("RC")

During the year ended 31 December 2018, the RC comprised three Independent Non-executive Directors namely Mr. Ji Yehong (RC Chairman), Mr. Ng Chi Ho, Dennis and Mr. Wang Jian. The Company Secretary serves as the secretary of the RC and minutes of the meetings are sent to the members of the RC within a reasonable time after the meetings. The quorum necessary for the transaction of business by the RC is two.

In February 2015, the Board adopted a revised terms of reference of the RC which include the amendments in line with the requirements of the CG Code. The revised terms of reference setting out the RC's authority and its duties and responsibilities are available on the Company's website and on the Stock Exchange website.

The RC has adopted the model that it will review the proposals made by the management on the remuneration of Executive Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the RC.

Major responsibilities and functions of the RC are:

- to make recommendations to the Board on the issuer's policy and structure for all remuneration of Directors and senior management;

- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

- to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the issuer;

- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

- to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board.

CORPORATE GOVERNANCE REPORT

Works performed during the year included:

(i) reviewed and approved the remuneration of all Executive Directors of the Company for the year of 2018; and

(ii) reviewed the level of Directors' fees and made recommendations on the Directors' fees for the year ended 31 December 2018.

The RC met two times during the year ended 31 December 2018 with an attendance rate of 100% and reviewed its terms of reference, the remuneration policy of the Group and the remuneration packages of Directors and senior management. The fees of the Directors are subject to the Shareholders' approval at general meetings of the Company. Other emoluments are reviewed by the RC with reference to Directors' duties, responsibilities and performance and the results of the Group. Details of the remuneration payable to the Directors are set out in Note 9 to consolidated financial statements.

3. Nomination Committee ("NC")

During the year ended 31 December 2018, the NC comprised three Independent Non-executive Directors namely Mr. Ji Yehong (NC Chairman), Mr. Ng Chi Ho, Dennis and Mr. Wang Jian. The Company Secretary serves as the secretary of the NC and minutes of the meeting is sent to the members of the NC within a reasonable time after the meeting. The quorum necessary for the transaction of business by the NC is two.

The operations of the NC are regulated by its terms of reference. The main duties of the NC include:

- to implement the nomination policy laid down by the Board;
- to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for directors in particular the Chairman and the Chief Executive Officer; and
- to report to the Board the findings and recommendations of the committee at the next meeting of the Board following each NC meeting.

CORPORATE GOVERNANCE REPORT

Works performed during the year included:

(i) to make recommendations to the Board in respect of the re-appointment and re-election of retiring Directors at 2017 AGM.

In February 2015, the Board adopted a revised terms of reference of the NC which include the amendments in line with the requirements of the CG Code. The revised terms of reference setting out the NC's authority and its duties and responsibilities are available on the Company's website and on the Stock Exchange website.

The NC met two times during the year ended 31 December 2018 with an attendance rate of 100%. To review its terms of reference and re-election of retiring Directors, the nomination procedures basically follow the Article 111 which empowers the Board from time to time and at any time to appoint any person as director either to fill a casual vacancy or as an addition to the Board.

During the year, the Company has formulated a policy for nomination of directors with the following procedures:

1. The Nomination Committee shall consider suitability of an individual pursuant to the Listing Rules, the Board Nomination Policy and Board Diversity Policy, and the independence of an individual for the position of independent non-executive director.

2. The Nomination Committee shall make recommendation to the Board's for consideration.

3. The Board shall consider the individual recommended by the Nomination Committee pursuant to the Listing Rules (including the corporate governance code as Appendix 14 to the Listing Rules), the Board Nomination Policy and Board Diversity Policy.

4. For casual vacancy and addition of new directors, the Board shall confirm the appointment of the individual and the new director shall be subjected to re-election by shareholders of the Company at the next annual general meeting in accordance with the articles of association of the Company.

5. For re-appointment of retiring directors, the Board shall, based on the recommendation of Nomination Committee, recommend the retiring directors to stand for re-election at the annual general meeting. The appointment of retiring directors shall be subjected to the approval of shareholder at the annual general meeting.

6. The Board reserves the right to final decision on the matters in relation to the selection and appointment of directors.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy, under which the Company seeks to achieve board diversity through the consideration of a number of factors in the Board members' selection process, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board members' appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. During the reporting period, the Company has a solid slate of Directors with diverse perspectives and varied educational background and expertise made-up, from finance and corporate management, to professional qualifications in accounting fields. The Board shall review the structure, size and composition of the Board from time to time to ensure that it has a balanced composition of skills and experience appropriate to the requirements of the Company's business, with due regard to the benefits of diversity of the Board.

ATTENDANCE AT MEETINGS

During the year under review, the attendance records of the Directors at Board Meetings, Audit Committee Meetings, Remuneration Committee Meeting, Nomination Committee Meeting and the 2018 annual general meeting ("AGM") are as follows:

	Numbers of meetings attended/held				
	Board Meetings	**Audit Committee Meetings ("AC")**	**Remuneration Committee Meetings ("RC")**	**Nomination Committee Meeting ("NC")**	**2018 AGM**
Attendance/Number of meetings held					
Executive Directors					
Mr. Li Chao Bo	8/8	N/A	N/A	N/A	1/1
Mr. Ji Jiaming	8/8	N/A	N/A	N/A	1/1
Ms. Wang Wenxia[1]	3/3	N/A	N/A	N/A	0/0
Non-executive Directors					
Mr. Zhang Guiqing	8/8	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Ji Yehong *(RC and NC Chairman)*	8/8	2/2	2/2	2/2	1/1
Mr. Ng Chi Ho, Dennis *(AC Chairman)*	8/8	2/2	2/2	2/2	1/1
Mr. Wang Jian	8/8	2/2	2/2	2/2	1/1

Notes:

1. Ms. Wang Wenxia was resigned on 31 May 2018 and there were three meetings of the Board during her tenure.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2018, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarised as below:

(1) Code Provision A.1.3

Under this code provision A.1.3, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given. Although the ad-hoc meetings of the Board had convened when the circumstances required, which has given the sufficient notice to all directors and validly convened pursuant to the articles of association (the "Articles") of the Company.

(2) Code Provision A.2.1

Under this code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, Mr. Li Chao Bo is acting as both the chairman of the Board (the "Chairman") and the Chief Executive Officer (the "CEO"). The Board believes that vesting the roles of both the Chairman and the Chief Executive Officer in the same person can facilitate the execution of the Group's business strategies and boost effectiveness of its operation. Therefore, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance. In addition, under the supervision of the Board which is comprised of two executive Directors, one non-executive Director and three independent non-executive Directors, the Board is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Company and its shareholders.

(3) Code Provision A.4.2

Under this code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to Articles, at each annual general meeting, one third of the Directors shall retire from office by rotation provided that notwithstanding anything therein, the chairman (the "Chairman") of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of Directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the role of the chairman provides the Group with strong and consistent leadership and allows more effective planning and execution of long-term business strategy. As such, the Board is of the view that the Chairman should not be subject to retirement by rotation.

Except as stated above, the Company has continued to comply with the applicable code provisions of the CG Code.

CORPORATE GOVERNANCE REPORT

INDUCTION PROGRAMME AND TRAINING FOR BOARD MEMBERS

Each newly appointed Director receives a comprehensive and formal induction to ensure that he/she has an appropriate understanding of (i) the business and operations of the Group; (ii) his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements; (iii) the corporate governance code of the Company; and (iv) the Model Code for Securities Transactions by Directors of Listed Issuers.

The Directors are committed to complying with code provision A.6.5 of the CG Code on Directors' training effective from 1 April 2012. All Directors confirmed that they have participated in continuous professional development to develop and refresh their knowledge and skills during the year.

DIVIDEND POLICY

Under the dividend policy adopted by the Company, dividends may be declared from time to time and be paid to shareholders provided that the Group is profitable and without affecting the normal operations of the Group. In summary, the declaration of dividends and the dividend amount shall be determined at the sole and absolute discretion of the Board taking into account the following factors including (1) the Group's financial performance; (2) the liquidity position and capital requirements of the Group; and (3) any other factors that the Board may consider appropriate.

COMPANY SECRETARY

The Company Secretary, Mr. Chan Hoi Yin Anthony, is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully appraised of the relevant legislative, regulatory and corporate governance developments relating to the Group and facilitating the induction and professional development of Directors.

The Company Secretary reports to the Chairman and the Chief Executive Officer, plays an essential role in the relationship between the Company and its shareholders, and assists the Board in discharging its obligations to shareholders pursuant to the Listing Rules.

During the year under review, Mr. Chan Hoi Yin Anthony has attended relevant professional seminars to update his skills and knowledge. He has complied with the Listing Rules to take no less than 15 hours of relevant professional training in each financial year.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring sound and effective internal control systems and risk management to safeguard the Shareholders' interests and the Company's assets. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment.

1. Risk Management

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- *Evaluation:* Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted in 2018, no significant risk was identified.

2. Internal Control

The Group's has outsourced the internal control systems auditing function. The outsourced internal auditor reports directly to the Audit Committee and is responsible for conducting regular audits on the major activities of the Group. The Audit Committee has received a report from the outsourced internal auditor summarizing audits concluded in the year. The Audit Committee has reviewed the findings and recommendations made by the outsourced internal auditor and have ensured that any issues arising from the audit are appropriately resolved by management in an efficient and timely manner.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of the Listing Rules (as amended from time to time by the Stock Exchange) as its own code of conduct for regulating securities transactions by Directors.

Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

1. Financial Reporting

The Board acknowledges its responsibility for preparing the Group's accounts which give a true and fair view of the state of affairs of the Group on a going concern basis, with supporting assumptions or qualification as necessary.

In preparing the accounts for the year ended 31 December 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable.

The management provides explanation and information to the Board to enable the Board to make informed assessments of the financial and other information put before the Board for approval.

The Board endeavours to ensure the making of balanced, clear and understandable assessments of the Group's position and prospects and extending the coverage of such information to include annual reports, interim reports, price-sensitive announcements and financial disclosures as required under the Listing Rules, reports to regulators as well as any information that is required to be disclosed pursuant to statutory requirements.

2. Auditor and their Remuneration

For the year ended 31 December 2018, the total remuneration in respect of audit service paid and payable to the Company's auditor, HLM CPA Limited, amounted to HK$1,070,000. Non-audit service fee in relation to financial reporting review and tax service for the year paid amounted to HK$265,000.

COMMUNICATION WITH SHAREHOLDERS

The Company strives to convey to Shareholders pertinent information in a clear, detailed, timely manner and on a regular basis and to take into consideration their views and inputs, and to address the Shareholders concerned. Their views are communicated to the Board comprehensively.

1. Disclosure of information on Company's website

The Company communicates with the Shareholders through the publication of annual, interim reports, circulars, results announcements and press releases. All communications to Shareholders are also available on the Company's website at www.city-infrastructure.com.

2. General meetings

The Company had provided sufficient notice for Shareholders on all general meetings of the Company. The AGM provides a useful platform for Shareholders to exchange views with the Board. The Chairman and the Board members are available to answer Shareholders' questions.

3. Voting by poll

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

All votes of the Shareholders at a general meeting must be taken by poll according to the Listing Rules. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the AGM pursuant to the Article.

RIGHT TO CONVENE AN EXTRAORDINARY GENERAL MEETING AND PUT FORWARD PROPOSALS

In accordance with the provisions under the Articles of Association of the Company, extraordinary general meetings can be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Secretary for the purpose of requiring an Extraordinary General Meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

COMMUNICATION WITH INVESTORS

The Board recognises that effective communication with investors is the key to establish investor confidence and to attract new investors.

1. Results announcement

Annual reports and interim reports are prepared and issued to all Shareholders within the prescribed period stipulated by the Listing Rules. All results announcements and reports are posted on the Company's website and the Stock Exchange's website. The Company can still provide the Shareholders and investors with an adequate degree of transparency and information of the financial position of the Company.

2. Regular release of corporate information

The Group regularly releases corporate information such as the latest news of the Group's developments on its Company's website. The public are welcome to give their comments and make their enquiries through the Company's website and the management will give their prompt response.

INDEPENDENT AUDITOR'S REPORT

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西2-12號聯發商業中心305室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: info@hlm.com.hk

TO THE MEMBERS OF CHINA CITY INFRASTRUCTURE GROUP LIMITED
中國城市基礎設施集團有限公司
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China City Infrastructure Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 61 to 172, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS OF OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. 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.

Impairment assessment of goodwill

Reference is made to note 17 to the consolidated financial statements.

Impairment of goodwill is considered to be a key audit matter due to significant management judgements and estimates required in assessing the inputs to the valuation models supporting management's assessment of impairment.

The significant judgements that affect management's assessment of impairment of the Group's goodwill include cash flows forecast, discount rates applied, and the assumptions underlying forecast growth.

How our audit addressed the key audit matter

Our procedures in relation to the impairment of goodwill included:

- Assessing the reasonableness of management's estimate of the Group's revenue growth rate and operating margin based on our understanding of the nature of the Group's business and the operating models, management expectation of market development and the industry trends;

- Evaluating the objectivity, independence and competency of the valuer;

- Discussing with and challenging the valuer on the valuation methodologies, assumptions and key estimates used in the valuation;

- Performing a sensitivity analysis to assess the impact on the recoverable amount of the CGU by reasonable possible changes to the key assumptions such as discount rates, revenue gross margins, forecast operating margins and terminal growth rates and further challenging management's assumptions and estimates; and

- Comparing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against the CGU's historical performance to test the accuracy of management's projections.

We found the key assumptions used by management were comparable with historical performance and expected future outlook, and were reasonable and appropriate in the circumstances.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Revenue recognition from sales of properties

Reference is made to note 7 to the consolidated financial statements.

The Group recognised revenue from sales of properties of approximately HK$191,940,000 for the year ended 31 December 2018. Revenue from sales of properties is recognised when effective control of ownership is transferred to the buyers, which is dependent on the sales and purchase contracts for the sale and require significant management's judgement.

Apart from the foregoings, revenue from sales of properties is identified as a key audit matter due to its significant financial impact on the consolidated financial statements.

How our audit addressed the key audit matter

Our procedures in relation to revenue recognition:

We selected samples of sales of properties transactions for testing. Our procedures in relation to the recognition of revenue from these transactions included:

- Assessing the appropriateness of the Group's revenue recognition accounting policy in line with HKFRS;
- Testing the Group's internal control over revenue recognition, including the timing of revenue recognition;
- Checking on a sample bases, the terms regarding the timing of completion of sales as set out in the signed sales and purchase agreements to assess the progress of the transfer of properties to the buyer and obtaining evidence regarding the transfer of effective control of ownership (including, where relevant, completion certificates, occupation permits, and assignments);
- Reconciling of the sales amounts to the signed sales and purchase agreements and agreeing the deposits and final payments to the bank statements on a sample bases.

We found that the amounts and timing of the revenue recorded were supported by the available evidence.

KEY AUDIT MATTERS (continued)

Valuation of investment properties

Reference is made to note 16 to the consolidated financial statements.

Management has estimated the fair value of the Group's investment properties to be HK$1,988,636,000 with a revaluation loss amounting to approximately HK$28,863,000 for the year recorded in the consolidated statement of profit or loss.

Management made the valuation based on independent external valuations.

Due to the significant financial impacts of the valuation which is dependent on certain key assumptions and inputs that require significant management's judgements and estimation, we identified the valuation of investment properties as a key audit matter.

How our audit addressed the key audit matter

Our procedures in relation to valuation of investment properties included:

- Assessing the independent external valuers' competence, capabilities, independence and objectivity;
- Assessing the valuation methodologies used and the appropriateness of the key assumptions and data adopted in the valuation based on our knowledge of the property industry;
- Evaluating, on a sample basis, the reasonableness of the significant unobservable and the accuracy of the input data used in the valuation by comparing them to, where relevant, existing tenancy profiles, and available public information of similars comparable properties;
- Discussing the valuation with the external valuer and management and challenging key estimates and inputs adopted in the valuation including those relating to market selling prices, by comparing them with available market data, taking into consideration comparability and other local market factors; and
- Conducting site visits to all investment properties.

We consider the key assumptions and estimates adopted in the valuation supported by available evidence and reasonable.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Valuation of inventory of properties

Reference is made to note 20 to the consolidated financial statements.

We identified the assessment of whether the inventory of properties which include properties under development and stocks of completed properties totaling approximately HK$393,484,000 was stated at the lower of cost and net realisable value, net of cost of sale as a key audit matter due to the significance of the balance to the consolidated financial statements and the assessment requires significant management's judgement and estimation. As at 31 December 2018, the Group's inventory of properties represented 48% of the Group's current assets.

How our audit addressed the key audit matter

Our procedures in relation to valuation of inventory of properties included:

- Testing the effectiveness of the process of making valuation of the inventory of properties;
- Challenging the appropriateness of the key assumptions applied by the management in estimating the net realisable value and future costs to completion of the properties under development;
- Evaluating the appropriateness of the sales price estimated by the management on a sample basis, by comparing it with the recent sales price in the same project and recently available public sales information of neighbouring comparable properties; and
- Evaluating the reasonableness of management estimation of future construction costs to completion for the properties under development, on a sample basis, by comparing these to the actual development costs of similar completed properties of the Group and comparing to management assessment based on current market data by reference to information such as sales contracts, historical sales information and payment records.

We consider management's judgements and estimates in respect of the valuation of the inventory of properties reasonable.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Legal matters

Reference is made to note 38 in the consolidated financial statements.

Provisions are recognised for legal matters when it is probable that a material outflow of resources will be required. When a material outflow of resources is not probable, the matter is disclosed unless the probability of outflow of resources is remote.

A subsidiary of the Group was exposed to potential litigation in relation to joint guarantee provided to independent third parties.

The Group has reached agreement with the joint guarantors ("the guarantors") and the guarantors have committed to bearing full responsibility for the joint and several liabilities.

The Directors are of the opinion that material outflow of resources is not probable due to the commitment made by the guarantors, and no provision has been made.

How our audit addressed the key audit matter

Our procedures on management's assessment of legal matters included:

- Reviewing the Group's significant legal matters and contractual claims;
- Obtaining legal opinion from external legal counsel on potential claims arising from the joint guarantee;
- Reviewing written agreement with the guarantors for the commitment to the potential joint and several liabilities;
- Considering management's assessment of those matters that provision are not recognised as the probability of material outflow of resources is considered to be remote; and
- Reviewing the adequacy and completeness of the Group's disclosures.

Based on the work performed, we found the provisions recorded and disclosures made supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Valuation of an interest-bearing loan receivables

Reference is made to note 21 to the consolidated financial statements.

As at 31 December 2018, the Group had loan receivables of approximately HK$119,801,000 bearing interest ranging from 7% to 9% p.a. from independent third parties.

We identified the valuation of the interest-bearing loan receivables as a key audit matter due to its significant financial impact on the consolidated financial statements and the valuation of the interest-bearing loan receivables involves significant management judgements and estimations.

How our audit addressed the key audit matter

Our procedures in relation to the valuation of the interest-bearing loan receivables included:

- Evaluating management's process of collectability assessment in respect of interest-bearing loan receivables and assessing the operating effectiveness of the relevant internal control in determining the provision for impairment;

- Examining payment records and obtaining confirmation from borrowers to confirm the existence of the loan receivables; and

- Examining the loan agreements to assess the payment terms and making corroborative enquires.

Based on the work performed, we consider the management's judgements made in relation to the recoverability of the interest-bearing loan receivables reasonable.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year 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.

HLM CPA Limited
Certified Public Accountants
Chan Lap Chi
Practicing Certificate Number P04084

Hong Kong, 21 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
CONTINUING OPERATIONS			
Revenue	7a	**293,593**	628,890
Cost of sales		**(171,382)**	(539,756)
Gross profit		**122,211**	89,134
Fair value loss in respect of investment properties revaluation	16	**(28,863)**	(56,992)
Gain on disposal of subsidiaries	33	**7,644**	96,661
Gain on disposal of an associate		**–**	19,800
Share of result of an associate		**–**	(4,318)
Share of result of a joint venture	18	**(1,331)**	–
Other operating income	7b	**49,504**	17,958
Other operating expenses		**(39,776)**	(86,619)
Selling and distribution expenses		**(54,301)**	(58,139)
Administrative expenses		**(84,381)**	(122,330)
Finance costs	8	**(138,824)**	(185,553)
Loss before tax		**(168,117)**	(290,398)
Income tax (expense) credit	10	**(8,233)**	6,513
Loss for the year from continuing operations	11	**(176,350)**	(283,885)
DISCONTINUED OPERATION			
Loss for the year from discontinued operation	12	**–**	(5,337)
Loss for the year		**(176,350)**	(289,222)
Loss attributable to:			
Owners of the Company			
– Loss from continuing operations		**(174,883)**	(282,229)
– Loss from discontinued operation		**–**	(4,686)
		(174,883)	(286,915)
Non-controlling interests			
– Loss from continuing operations		**(1,467)**	(1,656)
– Loss from discontinued operation		**–**	(651)
		(1,467)	(2,307)
		(176,350)	(289,222)
Loss per share	14	***HK cents***	*HK cents*
From continuing and discontinued operations			
– Basic		**(5.67)**	(10.80)
– Diluted		**(5.67)**	(10.80)
From continuing operations			
– Basic		**(5.67)**	(10.62)
– Diluted		**(5.67)**	(10.62)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Loss for the year	**(176,350)**	(289,222)
Other comprehensive (expenses) income for the year:		
Items that are reclassified or may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(68,241)**	79,033
Release of translation reserve upon disposal of subsidiaries	**(5,065)**	(12,903)
Release of translation reserve upon deregistration of subsidiaries	**–**	9,671
Release of translation reserve upon disposal of an associate	**–**	(454)
Share of translation reserve of a joint venture	**(188)**	–
Other comprehensive (expense) income for the year (net of tax)	**(73,494)**	75,347
Total comprehensive expenses for the year (net of tax)	**(249,844)**	(213,875)
Total comprehensive expenses attributable to:		
Owners of the Company	**(251,141)**	(211,772)
Non-controlling interests	**1,297**	(2,103)
	(249,844)	(213,875)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*15*	**1,924**	18,231
Investment properties	*16*	**1,988,636**	2,100,000
Goodwill	*17*	**48,605**	79,605
Interest in a joint venture	*18*	**2,139**	–
		2,041,304	2,197,836
Current assets			
Inventories	*19*	**136**	380
Inventory of properties	*20*	**393,484**	1,285,390
Trade and other receivables	*21*	**382,931**	460,153
Bank balances and cash	*22*	**49,980**	64,501
		826,531	1,810,424
TOTAL ASSETS		**2,867,835**	4,008,260
EQUITY AND LIABILITIES			
EQUITY			
Capital and reserves			
Share capital	*29*	**308,228**	308,228
Reserves		**953,135**	1,204,276
Equity attributable to owners of the Company		**1,261,363**	1,512,504
Non-controlling interests		**–**	99,830
TOTAL EQUITY		**1,261,363**	1,612,334

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	**2018** **HK$'000**	2017 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	31	**232,307**	345,742
Borrowings – due after one year	27	**615,588**	163,253
Amounts due to shareholder's subsidiaries			
– due after one year	26	**–**	390,106
Convertible notes – due after one year	28	**–**	20,446
Deposits received for sale and lease of properties			
– non-current portion	25	**12,852**	11,944
		860,747	931,491
Current liabilities			
Trade and other payables	23	**192,854**	281,635
Contract liabilities	24	**122,908**	–
Deposits received for sale and lease of properties			
– current portion	25	**–**	175,668
Tax payable		**74,201**	102,592
Amounts due to shareholder's subsidiaries – due within one year	26	**–**	571,427
Borrowings – due within one year	27	**333,502**	333,113
Convertible notes – due within one year	28	**22,260**	–
		745,725	1,464,435
TOTAL LIABILITIES		**1,606,472**	2,395,926
TOTAL EQUITY AND LIABILITIES		**2,867,835**	4,008,260
NET CURRENT ASSETS		**80,806**	345,989
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,122,110**	2,543,825

The consolidated financial statements on pages 61 to 172 were approved and authorised for issue by the board of directors on 21 March 2019 and are signed on its behalf by:

Li Chao Bo
DIRECTOR

Ji Jiaming
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Share premium	Convertible notes equity reserve	Share options reserve	Special reserve *(note a)*	Capital reserve *(note b)*	PRC statutory reserve *(note c)*	Translation reserve	Accumulated profits/ (losses)	Attributable to owners of the Company	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	230,659	1,404,662	42,534	31,507	(184)	45,224	25,565	(95,060)	(313,708)	1,371,199	129,637	1,500,836
Loss for the year	–	–	–	–	–	–	–	–	(286,915)	(286,915)	(2,307)	(289,222)
Release of translation reserve upon disposal of subsidiaries	–	–	–	–	–	–	–	(12,903)	–	(12,903)	–	(12,903)
Release of translation reserve upon disposal of an associate	–	–	–	–	–	–	–	(454)	–	(454)	–	(454)
Release of translation reserve upon deregistration of subsidiaries	–	–	–	–	–	–	–	9,671	–	9,671	–	9,671
Translation exchange differences	–	–	–	–	–	–	–	78,829	–	78,829	204	79,033
Total comprehensive expenses for the year	–	–	–	–	–	–	–	75,143	(286,915)	(211,772)	(2,103)	(213,875)
Issue of shares by placing	46,000	184,000	–	–	–	–	–	–	–	230,000	–	230,000
Issue of shares by conversion of convertible notes	31,569	128,654	(37,146)	–	–	–	–	–	–	123,077	–	123,077
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(27,704)	(27,704)
Release of statutory reserve upon deregistration of subsidiaries	–	–	–	–	–	–	(25,565)	–	25,565	–	–	–
Share options lapsed	–	–	–	(1,952)	–	–	–	–	1,952	–	–	–
At 31 December 2017 and 1 January 2018	308,228	1,717,316	5,388	29,555	(184)	45,224	–	(19,917)	(573,106)	1,512,504	99,830	1,612,334
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(174,883)**	**(174,883)**	**(1,467)**	**(176,350)**
Release of translation reserve upon disposal of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,065)**	**-**	**(5,065)**	**-**	**(5,065)**
Share of translation reserve of a joint venture	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(188)**	**-**	**(188)**	**-**	**(188)**
Translation exchange differences	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(71,005)**	**-**	**(71,005)**	**2,764**	**(68,241)**
Total comprehensive expenses for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(76,258)**	**(174,883)**	**(251,141)**	**1,297**	**(249,844)**
Share options lapsed	**-**	**-**	**-**	**(22,542)**	**-**	**-**	**-**	**-**	**22,542**	**-**	**-**	**-**
Disposal of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(101,127)**	**(101,127)**
At 31 December 2018	**308,228**	**1,717,316**	**5,388**	**7,013**	**(184)**	**45,224**	**-**	**(96,175)**	**(725,447)**	**1,261,363**	**-**	**1,261,363**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Notes:

(a) The special reserve represents:

(i) the difference between the nominal value of the share capital issued by Wah Yuen Foods International Limited, a subsidiary of the Company, and the nominal value of the share capital of the subsidiaries acquired in a previous group reorganisation; and

(ii) the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired in a previous group reorganisation.

(b) The Group accounted for the acquisition of additional interests in a subsidiary as equity transactions and the difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid was recognised in capital reserve.

(c) The People's Republic of China (the "PRC") statutory reserve consists of a reserve fund and an expansion fund provided in accordance with the articles of association of the PRC subsidiaries. Laws and regulations in the PRC allow foreign investment enterprises to appropriate from profit after taxation, prepared in accordance with the PRC rules and regulations, an annual amount to the reserve fund and the expansion fund according to the decision of the board or the articles of association.

The reserve fund is to be used to expand the working capital of the PRC subsidiaries. When the PRC subsidiaries suffer losses, the reserve fund may be used to make up for the accumulated losses under special circumstances.

The expansion fund is to be used for business expansion and, if approved, can also be used to increase the capital of the PRC subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Loss before tax		
From continuing operations	**(168,117)**	(290,398)
From discontinued operation	**–**	(6,524)
	(168,117)	(296,922)
Adjustments for:		
Interest expenses	**138,824**	193,206
Interest income	**(10,066)**	(7,629)
Depreciation of property, plant and equipment	**10,342**	17,787
Gain on disposals of property, plant and equipment	**–**	(102)
Loss on disposal of investment property	**–**	21,351
Amortisation of intangible assets	**–**	4,777
Impairment of other receivables	**–**	506
Impairment loss on goodwill	**31,000**	53,000
Net gain on trading of financial assets at fair value through profit or loss	**–**	(188)
Fair value loss in respect of investment properties revaluation	**28,863**	56,992
Share of result of an associate	**–**	4,318
Share of result of a joint venture	**1,331**	–
Gain on disposal of subsidiaries	**(7,644)**	(96,661)
Gain on disposal of an associate	**–**	(19,800)
Gain on deregistration of subsidiaries	**–**	(8,037)
Write-off of property, plant and equipment	**–**	48
Operating cash flows before movements in working capital	**24,533**	(77,354)
Decrease (increase) in inventories	**256**	(2,093)
Decrease in inventory of properties	**23,369**	488,851
Decrease (increase) in trade and other receivables	**4,083**	(55,939)
Increase (decrease) in trade and other payables	**111,197**	(297,254)
Increase in deposits received for sale and lease of properties	**951**	90,802
Decrease in contract liabilities	**(28,898)**	–
Decrease in deferred income	**–**	(325)
Cash generated from operations	**135,491**	146,688
Income tax paid	**(30,579)**	(45,928)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**104,912**	100,760

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Additions of investment properties		**(37,197)**	(27,912)
Consideration received from prior year disposal of subsidiaries		**40,000**	–
Decrease in pledged bank deposits		**–**	13,483
Deposits paid for acquisition of a subsidiary		**–**	(5,954)
Net of cash inflow on disposal of subsidiaries	33	**49,224**	21,274
Purchase of financial assets at fair value through profit or loss		**–**	(135,568)
Purchase of property, plant and equipment		**(467)**	(15,690)
Proceeds from disposal of investment property		**–**	20,833
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	135,756
Proceeds from disposal of an associate		**–**	37,701
Capital injected in a joint venture		**(3,658)**	–
Interest received		**10,066**	7,629
Proceeds from disposals of property, plant and equipment		**–**	102
NET CASH GENERATED FROM INVESTING ACTIVITIES		**57,968**	51,654
FINANCING ACTIVITIES			
(Repayment to) advances from shareholder's subsidiaries		**(282,139)**	395,620
Interest paid		**(139,257)**	(155,103)
Repayment to non-controlling shareholders of subsidiaries		**–**	(120)
New borrowings raised		**315,190**	174,149
Repayment of borrowings		**(195,550)**	(736,677)
Proceeds from issue of new shares		**–**	230,000
NET CASH USED IN FINANCING ACTIVITIES		**(301,756)**	(92,131)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(138,876)**	60,283
Effect of foreign exchange rate changes		**124,355**	(54,672)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**64,501**	58,890
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**49,980**	64,501
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**49,980**	64,501

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

China City Infrastructure Group Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 October 2002.

The shares of the Company have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 25 June 2003. The Directors of the Company consider Linkway Investment Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, a substantial shareholder of the Company.

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively, the "Group") are property investment, property development, hotel business and property management in the People's Republic of China (the "PRC").

In prior years and up to 15 December 2017, the Group was also engaged in the construction of natural gas pipeline and operation of exclusive concession rights in the PRC (collectively "Natural Gas Business"). Details are set out in Note 12.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSS that are Mandatorily Effective for the Current Year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSS that are Mandatorily Effective for the Current Year (continued)

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

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to the contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared with HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following sources which arise from contracts with customers:

- Property development – sales of properties;
- Hotel business; and
- Provision of property management services.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 3 and 7 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are Mandatorily Effective for the Current Year (continued)

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

Summary of effects arising from initial application of HKFRS 15

The application on HKFRS 15 has no material impact on the Group's retained earnings at 1 January 2018. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018
	HK$'000	*HK$'000* *(Note)*	*HK$'000*
Current Liabilities			
Deposits received for sale and lease of properties	175,668	(175,668)	–
Contract liabilities	–	175,668	175,668

Note: As at 1 January 2018, deposits received for sales and lease of properties of approximately HK$175,668,000 previously included in deposits received for sales and lease of properties were reclassified to contract liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSS that are Mandatorily Effective for the Current Year (continued)

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

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Deposits received for sale and lease of properties	–	122,908	122,908
Contract liabilities	122,908	(122,908)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are Mandatorily Effective for the Current Year (continued)

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and lease receivables and (3) general hedge accounting.

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

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement ("HKAS 39").

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables from property development, property management services, hotel business and lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

ECL for other financial assets at amortised cost, including loan receivables, loan interest receivables, other receivables and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

The directors considered that the measurement of ECL has no material impact to the Group's retained earnings at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSS in Issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

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

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

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

HKFRS 16 Leases ("HKFRS 16")

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases ("HKAS 17") and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs in Issue but not yet effective (continued)

HKFRS 16 Leases ("HKFRS 16") *(continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Other than certain requirements which are also applicable to lessors, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$42,118,000 as disclosed in note 36. A preliminary 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 low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$812,940 and refundable rental deposits received of HK$6,872,072 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are detailed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for the current accounting period of the Group and the Company. Note 2 to the financial statements provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

Basis of preparation

As at 31 December 2018, the Company and its subsidiaries (collectively referred to as the "Group") recorded borrowings due within one year of approximately HK$333,502,000. In view of these circumstances, the directors of the Company have given consideration to the future liquidity of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The directors of the Company believe that the Group has adequate resources, as:

(a) The Group is able to generate cash inflows from future sales of properties.

(b) One of the shareholders has confirmed in writing that she will not demand repayment of the amounts totalling approximately HK$366,724,000 due to her and due to companies controlled by her until the Group is financially and operationally in a position to do so.

(c) The Group is currently actively negotiating with several banks in both Hong Kong and the PRC for renewal of banking facilities.

The directors of the Company therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note (4).

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

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.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. A subsidiary is an entity over which the Group has control. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above. When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity attributable to owners of the Company therein.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangement of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amounts of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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 joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5.

Under the equity method, an investment in an associate or a joint venture is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains an interest in the former associate or a joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate or a joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or a joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate or joint venture is disposed of.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy set out in “Impairment losses on tangible and intangible assets”).

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy set out in “Impairment losses on tangible and intangible assets”).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from Contracts with Customers (Upon Application Of HKFRSs 15 In Accordance with Transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance 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 is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from Contracts with Customers (Upon Application of HKFRSs 15 in Accordance with Transitions in Note 2) (continued)

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Incremental costs of obtaining a contract

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.

The Group recognises such costs (such as sales commission) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

For contracts entered into with customers on sales of properties, the relevant properties specified in the contracts are based on customer's specification with no alternative use.

Taking into consideration of the relevant contract terms, the legal environment and relevant legal precedent, the Group concluded that the Group does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Revenue from sales of properties is therefore recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable.

The Group receives a fixed amount of the contract value as deposits from customers when they sign the sale and purchase agreement. Such deposits would be recognized to sales of properties when the contract value has been fully paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from Contracts with Customers (Upon Application of HKFRSs 15 in Accordance with Transitions in Note 2) (continued)

Incremental costs of obtaining a contract *(continued)*

Rental income from operating leases is recognised in the consolidated statement of profit or loss on a straight-line basis over the terms of the relevant lease.

Hotel operation income is recognised upon the provision of services and the utilisation of the hotel facilities by guests.

Management service income is recognised when management services are provided.

Interest income from bank deposits and loan receivables is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Revenue recognition (Prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

Revenue from sales of natural gas and gas appliances are recognised when the gas or goods are delivered and title has been passed.

Connection revenue generated from gas pipeline connection is recognised when the outcome of a contract can be estimated reliably and the stage of completion at the end of the reporting period can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the proportion of contract cost incurred for work performed to date over the estimated total contract costs. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (Prior to 1 January 2018) (continued)

Revenue from sales of properties is recognised when the risks and rewards of the properties transferred to the purchasers, which is when the construction of the relevant properties have been completed and properties have been delivered to the purchasers pursuant to the sale agreements, and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in current liabilities.

Rental income from operating leases is recognised in the consolidated statement of profit or loss on a straight-line basis over the terms of the relevant lease.

Hotel operation income is recognised upon the provision of services and the utilisation of the hotel facilities by guests.

Management service income is recognised when management services are provided.

Interest income from bank deposits and loan receivables is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

The Group transfers a property from inventories to investment property when there is a change of intention to hold the property to earn rentals or land for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognised in profit or loss.

The Group transfers a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the Statement of Financial Position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid lease payments

Prepaid lease payments represent up-front prepayments made for the land use rights and are expensed in the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

A prepaid lease payment is derecognised upon termination. Any gain or loss arising on the termination of the lease is determined as the difference between the proceeds received or refunded and the carrying amount of the lease and is recognised in profit or loss.

Inventories

Inventories include consumables and spare parts which are stated at the lower of cost and net realisable value.

Inventory of properties

Inventory of properties include properties under development and properties held for sale, which are included in current assets at the lower of cost and net realisable value.

The costs of properties under development consist of construction expenditures, amounts capitalised in respect of amortisation of land use rights, borrowing costs directly attributable to construction of such properties and other direct costs. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less costs expected to be incurred to completion and selling and marketing costs. On completion, the properties, together with related land use rights, are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle, which are classified as properties held for development under non-current assets.

No depreciation is provided on properties under development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables from property management services arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significant reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

***Financial assets** (continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest earned on the financial asset.

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, loan receivables, stakeholder's accounts, pledged bank deposits, and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables from property management services and lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instruments as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instruments' external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (continued)

(i) Significant increase in credit risk (continued)

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables from property management services and lease receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis.

- Past-due status; and

- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (continued)

(v) Measurement and recognition of ECL (continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables from property management services, lease receivables and loan receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into AFS financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity instruments held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan receivables, trade and other receivables, stakeholder's accounts, pledged bank deposits, and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables from property management services, lease receivables and loan receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable from property management services, lease receivable or loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities

Financial liabilities (including trade and other payables, and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-marketing vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits or loss.

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible and intangible assets other than goodwill (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to be reversed in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to cover or settle the carrying amount of its assets and liabilities.

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

Current tax and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Exchange differences arising from the settlement of monetary items, and from the retranslation of monetary items, are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interest in associates.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of a control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals, that is, partial disposal of associates or joint arrangements that do not result in the Group losing significant influence or joint control. The proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme for Hong Kong employees and state-managed retirement benefits schemes for employees in the People's Republic of China (the "PRC") are recognised as expenses as they fall due. The Group's obligations under state-managed retirement benefits schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash at banks and cash on hand, demand deposits with banks and other financial institutions, short-term, highly liquid investments that are readily convertible to cash and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A related party is a person or that is related to the Group:

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

(i) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

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

(iii) both entities are joint ventures of the same third party;

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

(v) the entity has a post-employment benefit plan for the benefits 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); or

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

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

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Depreciation and amortisation

The Group depreciates property, plant and equipment over their estimated useful lives after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from the disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of their useful lives.

(b) Estimated impairment on property, plant and equipment

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the higher of fair value of the property, plant and equipment less costs to sell or the value-in-use calculations. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise. At 31 December 2018, no impairment loss was recognised for property, plant and equipment (2017: HK$Nil).

(c) Provision of ECL for trade receivables and other receivables

The Group uses provision matrix to calculate ECL for the trade receivables and other receivables. The provision rates are based on internal credit rating as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and other receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivable are disclosed in note 21.

(d) Estimated impairment on goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances results in downward revision of future cash, a material impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill was approximately HK$48,605,000 (2017: approximately HK$79,605,000), net of accumulated impairment loss of HK$126,000,000 (2017: HK$95,000,000). Details of the recoverable amount calculation are disclosed in Note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(e) Fair value of investment properties

Investment properties are carried in the consolidated statement of financial position at 31 December 2018 at their fair value of approximately HK$1,988,636,000 (2017: approximately HK$2,100,000,000). The fair value was based on a valuation on these properties conducted by an independent professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss.

(f) Estimated impairment of inventory of properties

The Group determines the net realisable value of inventory of properties based on estimation of future selling price less costs to be incurred in relation to the sale, with reference to the prevailing market condition, valuations and estimated unit selling price from independent property valuers and internally available information and exercised considerable judgement.

(g) Recognition of current taxes and deferred taxes

There were transactions and calculations for which the ultimate tax determination was uncertain during the ordinary course of business. As detailed in the Group's accounting policies, 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. Where the final tax outcomes of these matters are different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provisions in the periods in which such determination is made.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Categories of financial instruments

	2018 **HK$'000**	2017 *HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**–**	467,305
Financial assets at amortised cost	**394,040**	–
	394,040	467,305
Financial liabilities		
Amortised cost	**1,295,447**	1,924,567

The Group's major financial instruments include borrowings, trade and other receivables, trade and other payables, amounts due to non-controlling shareholders of subsidiaries, amounts due to shareholder's subsidiaries/amounts due to related parties and convertible notes. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Currency risk management

Certain assets and liabilities of the Group are denominated in foreign currencies, which exposes the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets **2018** **HK$'000**	**Liabilities** **2018** **HK$'000**	Assets 2017 *HK$'000*	Liabilities 2017 *HK$'000*
Renminbi ("RMB")	**304,867**	**555,523**	340,714	1,117,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB against HK$.

The following table shows the sensitivity analysis of a 5% increase/decrease in RMB against HK$, the effect on the profit or loss and other comprehensive income for the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
Decrease/increase in other comprehensive income	**12,529**	38,831
Increase/decrease in profit or loss	**4**	3

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, carrying out fund raising activities and matching the maturity profiles of financial assets and liabilities.

Liquidity risk Management

As at 31 December 2018, the Group recorded current liabilities of approximately HK$745,725,000. In view of these circumstances, the directors of the Company believe the Group have adequate resources to meet its financial obligations as they fall due after considering the following sources of funds, including but not limited to, the current assets of approximately HK$826,531,000 consisting of cash inflows mainly generated from sales of properties remaining and facilities provided by banks and investors in the next twelve months.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities based on the earliest date on which the Group is required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interests are at floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

				2018				
	Average interest	Within 1 month or on demand *HK$'000*	1-3 months *HK$'000*	3 months-1 year *HK$'000*	1-5 years *HK$'000*	Over 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
Trade and other payables	N/A	192,854	–	–	–	–	192,854	192,854
Borrowings	7.79%	266,934	7,673	109,581	685,163	132,528	1,201,879	949,090
Convertible notes	14.97%	–	–	24,150	–	–	24,150	22,260
		459,788	7,673	133,731	685,163	132,528	1,418,883	1,164,204

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk management (continued)

				2017				
	Average interest rate	Within 1 month or on demand *HK$'000*	1-3 months *HK$'000*	3 months-1 year *HK$'000*	1-5 years *HK$'000*	Over 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
Trade and other payables	N/A	281,635	–	–	–	–	281,635	281,635
Amounts due to shareholder's subsidiaries	8.96%	578,605	7,128	32,075	393,670	–	1,011,478	961,533
Borrowings	10.76%	305,636	1,970	40,792	184,255	–	532,653	496,366
Convertible notes	14.97%	–	–	1,150	24,150	–	25,300	20,446
		1,165,876	9,098	74,017	602,075	–	1,851,066	1,759,980

Credit risk and impairment provision

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of respective financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets except that the credit risks associated with loan receivables is mitigated because they are secured over properties. There is no significant changes in the quality of that collateral as a result of deterioration or changes in the collateral policies of the entity during both reporting periods.

Trade receivables from property development business, property investment business, property management services and hotel operation

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances from property management services and lease receivables individually or based on provision matrix.

Other receivables and bank balances

The Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on other receivables and bank balances based on 12m ECL.

The credit risk on other receivables is limited because the counterparties have no historical default record and the directors expect that the general economic conditions will not significantly changed for the 12 months after the reporting date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment provision (continued)

Other receivables and bank balances *(continued)*

Based on the Group's internal credit rating, no material impairment loss allowance is recognised for loan receivables, loan interest receivables, other receivables, stakeholder's accounts, pledged bank deposits and bank balances.

The Group is exposed to concentration of credit risk on:

- Liquid funds which are deposited with several banks with high credit ratings; and

- Sales deposits received from properties pre-sold which are deposited with several independent intermediaries.

The Group's concentration of credit risk by geographical locations is in The Republic of China as all trade receivables from property management services, lease receivables and loan receivables are arisen in The Republic of China for both years.

Other than above, the Group does not have any other significant concentration of credit risk.

The tables below is the internal credit policy of the Group:

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment provision (continued)

Other receivables and bank balances *(continued)*

The tables below detail the credit risk exposures of the Group's financial assets and lease receivables which are subject to ECL assessment:

2018	Notes	**External credit rating**	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amounts** *HK'000*
Trade receivables	21	N/A	(Note)	Lifetime ECL (provision matrix)	42,959
Other receivables	21	N/A	Low Risk	12 month ECL	339,972
Bank balances and cash	22	AA+	N/A	12 month ECL	49,980

Note:

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its property investment operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Trade receivables from property management services of HK$259,000 and lease receivables of HK$222,000 are assessed based on provision matrix within lifetime ECL (not credit impaired).

During the year ended 31 December 2018, no material impairment allowance on trade receivables is provided based on the provision matrix.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk management

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk.

Management of the Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration of refinancing, renewal of existing position, alternative financing and hedging. Based on these scenarios, management of the Group calculates the impact on profit or loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

The Group's cash flow interest rate risk mainly concentrates on the Group's RMB denominated borrowings, which will be impacted by the fluctuation of benchmark interest rate published by the PRC government.

The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk. However, management of the Group will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below, which includes interest rate exposure on variable interest-bearing liabilities and deposits, has been determined based on the exposure to interest rates for all non-derivative instruments at the end of the reporting date. For non-bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points increase or decrease is used, which represents management's assessment of the possible change in interest rates.

If interest rates have been 100 basis points higher/lower and all other variables held constant, the Group's loss for the year ended 31 December 2018 would increase/decrease by approximately HK$7,979,000 (2017: loss for the year would increase/decrease by approximately HK$2,343,000).

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values measurement

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of each reporting period across the three levels of the fair value hierarchy defined in HKFRS 7 Financial Instruments: Disclosures, with the fair value of each financial instrument recognised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuation techniques in which no significant input is based on observable market data

At 31 December 2018 and 2017, there were no financial instruments carried at any level of the fair value hierarchy.

(ii) Fair values of financial instruments carried at other than fair value

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

Estimation of fair value

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(i) Bank balances and cash, pledged bank deposits, trade and other receivables, trade and other payables, amounts due to shareholder's subsidiaries, amounts due to related parties and amounts due to non-controlling shareholders of subsidiaries

The directors consider that the carrying amounts approximate their fair value.

(ii) Borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Interest rates used for determining fair value

The Group uses the appropriate market yield curve or benchmark rate as of 31 December 2018 plus an appropriate constant credit spread to calculate the fair value of its interest bearing debts.

(iv) Convertible notes

Appropriate valuation methods and assumptions with reference to market conditions existing at the end of each reporting period to determine the fair value of the liability portion of the convertible bonds. The basis for determining the are used fair value is disclosed in Note 28.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may raise new debts, adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debts.

Management of the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total net borrowings divided by total equity.

Management considers the gearing ratio at the end of reporting period as follows:

	2018 ***HK$'000***	2017 *HK$'000* (restated)
Borrowings, net of cash and cash equivalents	**899,110**	431,865
Amounts due to shareholder's subsidiaries	**–**	961,533
Convertible notes	**22,260**	20,446
Total net borrowings	**921,370**	1,413,844
Total equity	**1,261,363**	1,612,334
Total net borrowings to total equity ratio	**0.73**	0.88

Amounts due to shareholder's subsidiaries of approximately HK$366.7 million was reclassified under borrowings as at 31 December 2018 as those companies are no longer the shareholder's subsidiaries of the Group.

The decrease in the gearing ratio during the year resulted primarily from the repayment of borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION

The accounting policies of the operating segments are the same as the Group's accounting policies in the preparation of the Group's consolidated financial statements.

The Group's operating segments are identified based on the components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. Specifically, segment information reported externally was analysed on the basis of the types of goods supplied and services provided by the Group's operating divisions, which is the same information reported to the chief operating decision maker.

The Group's continuing operating segments are as follows:

– Property Development Business Segment, which engages in development of property projects in the PRC

– Property Investment Business Segment, which engages in leasing of investment properties in the PRC

– Hotel Business Segment, which engages in operation of a hotel in the PRC

– Property Management Business Segment, which engages in provision of property management and other services in the PRC

During the year ended 31 December 2017, the Group disposed of its equity interest in a subsidiary engaging in Natural Gas Business and the disposal was completed on 15 December 2017. Natural Gas Business is classified as discontinued operation. The remaining four operating segments, namely Property Development Business, Property Investment Business, Hotel Business and Property Management Business are classified as continuing operations of the Group for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION (continued)

Segment revenues and results

The following is an analysis of the Group's revenues and results by reportable segments.

For the year ended 31 December 2018

	Continuing Operations				
	Property Development Business *HK$'000*	Property Investment Business *HK$'000*	Hotel Business *HK$'000*	Property Management Business *HK$'000*	Total *HK$'000*
TOTAL REVENUE AND EXTERNAL SALES	191,940	39,569	34,050	28,034	293,593
RESULT					
Segment operating results	(17,549)	29,613	(20,520)	13,195	4,739
Fair value loss in respect of investment properties revaluation	–	(28,863)	–	–	(28,863)
Gain on disposal of subsidiaries					7,644
Share of result of a joint venture					(1,331)
Unallocated corporate income					16,323
Unallocated corporate expenses					(27,805)
Finance costs					(138,824)
Loss before tax					(168,117)
Income tax expenses					(8,233)
Loss for the year					(176,350)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the year ended 31 December 2017

	Continuing Operations					Discontinued Operation	
	Property Development Business *HK$'000*	Property Investment Business *HK$'000*	Hotel Business *HK$'000*	Property Management Business *HK$'000*	Subtotal *HK$'000*	Natural Gas Business *HK$'000*	Total *HK$'000*
TOTAL REVENUE AND EXTERNAL SALES	558,419	25,967	36,214	8,290	628,890	28,208	657,098
RESULT							
Segment operating results	(143,694)	19,517	(9,373)	(1,263)	(134,813)	1,129	(133,684)
Fair value loss in respect of investment properties revaluation	–	(56,992)	–	–	(56,992)	–	(56,992)
Gain on disposal of subsidiaries					96,661	–	96,661
Gain on disposal of an associate					19,800	–	19,800
Share of result of an associate					(4,318)	–	(4,318)
Unallocated corporate income					12,649	–	12,649
Unallocated corporate expenses					(37,832)	–	(37,832)
Finance costs					(185,553)	(7,653)	(193,206)
Loss before tax					(290,398)	(6,524)	(296,922)
Income tax credit					6,513	1,187	7,700
Loss for the year					(283,885)	(5,337)	(289,222)

Segment profit represents the profit earned by each segment without allocation of finance costs and central administration costs including staff costs, directors' emoluments and other expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

	Continuing Operations								Discontinued Operation			
	Property Development Business		Property Investment Business		Hotel Business		Property Management Business		Natural Gas Business		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS												
Goodwill	48,605	79,605	-	–	-	–	-	–	-	–	48,605	79,605
Inventory of properties	393,484	1,285,390	-	–	-	–	-	–	-	–	393,484	1,285,390
Investment properties	-	–	1,988,636	2,100,000	-	–	-	–	-	–	1,988,636	2,100,000
Property, plant and equipment	1,029	5,555	175	228	102	11,278	95	103	-	–	1,401	17,164
Other assets	207,160	354,646	26,418	19,609	5,295	5,815	3,345	4,600	-	–	242,218	384,670
Segment assets	650,278	1,725,196	2,015,229	2,119,837	5,397	17,093	3,440	4,703	-	–	2,674,344	3,866,829
Unallocated corporate assets											193,491	141,431
Consolidated assets											2,867,835	4,008,260
LIABILITIES												
Segment liabilities	579,394	1,142,730	265,651	383,520	132,759	202,821	14,762	9,416	-	–	992,566	1,738,487
Unallocated corporate liabilities											613,906	657,439
Consolidated liabilities											1,606,472	2,395,926
OTHER INFORMATION												
Additions to property, plant and equipment	260	2,845	7	223	143	2,996	25	39	-	8,925	435	15,028
Depreciation and amortisation	834	999	49	32	8,871	9,309	29	35	-	11,296	9,783	21,671
Write-off property, plant and equipment	-	6	-	–	-	21	-	–	-	–	-	27
Additions to investment properties	-	–	37,197	27,912	-	–	-	–	-	–	37,197	27,912

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets, other than bank balances and cash which are used for corporate financing and other financial assets, are allocated to operating segments. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities, other than convertible notes and other financial liabilities, are allocated to operating segments. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

6. SEGMENT INFORMATION (continued)

Geographical information

The Group operates in two principal geographical areas – Hong Kong and the PRC.

The Group's revenue from external customers by location of operations from continuing operations and information about its non-current assets by location of assets are detailed as below:

	Revenue from external customers		Non-current assets	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**–**	–	**293**	718
The PRC	**293,593**	628,890	**2,041,011**	2,197,118
	293,593	628,890	**2,041,304**	2,197,836

Information of major customers

Revenues from external customers are attributed to regions on the basis of the customers' location. The Group has no customer (2017: one) which contributed more than 10% of the revenue of the Group. The customer was under property development segment and the relevant revenue was approximately HK$275,788,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. REVENUE AND OTHER OPERATING INCOME

An analysis of revenue and other operating income is as follows:

	2018	2017
	HK$'000	*HK$'000*
Continuing operations		
(a) Revenue		
Sales of properties	**191,940**	558,419
Rental income	**39,569**	25,967
Hotel operation income	**34,050**	36,214
Property management income	**28,034**	8,290
Total revenue	**293,593**	628,890
(b) Other operating income		
Interest income	**10,066**	7,629
Compensation for compulsory land acquisition (note)	**22,885**	–
Gain on disposal of property, plant and equipments	**–**	102
Net foreign exchange gain	**15,651**	707
Net gain on trading of financial assets at fair value through profit or loss	**–**	188
Gain on deregistration of subsidiaries	**–**	8,037
Over provision of other PRC tax in prior years	**–**	1,146
Sundry income	**902**	149
Total other operating income	**49,504**	17,958

note:

An indirectly wholly owned subsidiary of the Company, Water Property Hubei Group Limited* entered into the Land Resumption Agreement (the "Resumption Agreement") with the Government of Wuhan on 10 May 2018. Under the Resumption Agreement, as for the third phase of Wuhan metro Line 8, land resumption was required for the works projects. The portions of land held by the Water Property Hubei Group Limited were adversely affected by the actions of the Government and the amount of compensation of approximately HK$22,885,000 in respect of the land resumption was made.

* *For identification purpose only*

7. REVENUE AND OTHER OPERATING INCOME (continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	2018 **HK$'000**	2017 HK$'000
Segment revenue		
Sales of properties		
Commercial properties	**119,278**	155,572
Residential properties	**72,662**	402,847
Hotel services	**34,050**	36,214
Provision of property management services	**28,034**	8,290
Revenue from contracts with customers	**254,024**	602,923
Rental income from property investment business	**39,569**	25,967
Total revenue	**293,593**	628,890

Performance obligation for contracts with customers

a) Property development – sales of properties

Sales of properties of the Group includes sales of residential and commercial properties which were self-developed by the Group in prior year.

For contracts entered into with customers on sales of properties, the relevant properties specified in the contracts are based on customer's specification with no alternative use.

Taking into consideration of the relevant contract terms, the legal environment and relevant legal precedent, the Group concluded that the Group does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Revenue from sales of properties is therefore recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable.

The Group receives a fixed amount of the contract value as deposits from customers when they sign the sale and purchase agreement. Such deposits would be recognized to sales of properties when the contract value has been fully paid.

In the comparative period, revenue from sales of properties was recognised upon the later of the signing of the sale and purchase agreement and the completion of the properties, which was taken to be the point in time when the risks and rewards of ownership of the property had passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition were included in the consolidated statement of financial position and no interest expense was accrued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. REVENUE AND OTHER OPERATING INCOME (continued)

Performance obligation for contracts with customers (continued)

b) Hotel services

Provision of hotel services represents rental of rooms in a leased property called "Future City Hotel" and provision of surrounding services, such as beverage and laundry services. Revenue from hotel services is recognized when the relevant services are provided.

c) Property management services

Revenue from provision of property management services is recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

8. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Continuing operations		
Interest expense on bank loans, and other borrowings wholly repayable within five years	**135,860**	178,157
Effective interest expense on convertible notes *(Note 28)*	**2,964**	11,084
	138,824	189,241
Less: amounts capitalised in the cost of qualifying assets *(Note 20)*	**–**	(3,688)
	138,824	185,553

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follow:

(a) Directors' emoluments and retirement benefits

For the year ended 31 December 2018

Name of Director	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
EXECUTIVE DIRECTORS				
Mr. Li Chao Bo *(Chairman and Chief Executive Officer) (note a)*	300	3,850	18	4,168
Ms. Wang Wenxia *(Vice Chairman and Chief Executive Officer) (note a)*	92	2,100	7	2,199
Mr. Ji Jiaming *(note b)*	220	2,780	18	3,018
NON-EXECUTIVE DIRECTOR				
Mr. Zhang Guiqing *(note c)*	120	–	–	120
INDEPENDENT NON-EXECUTIVE DIRECTORS				
Mr. Ng Chi Ho, Dennis *(note d)*	120	–	–	120
Mr. Ji Yehong *(note e)*	100	–	–	100
Mr. Wang Jian	100	–	–	100
	1,052	8,730	43	9,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments and retirement benefits (continued)

For the year ended 31 December 2017

Name of Director	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
EXECUTIVE DIRECTORS				
Mr. Li Chao Bo *(Chairman)*	300	3,850	18	4,168
Ms. Wang Wenxia *(Vice Chairman and Chief Executive Officer)*	220	3,900	18	4,138
Mr. Ji Jiaming *(note b)*	98	1,241	9	1,348
NON-EXECUTIVE DIRECTOR				
Mr. Zhang Guiqing *(note c)*	45	–	–	45
INDEPENDENT NON-EXECUTIVE DIRECTORS				
Mr. Ng Chi Ho, Dennis *(note d)*	95	–	–	95
Mr. Ji Yehong *(note e)*	57	–	–	57
Mr. Chan Pok Hiu *(note f)*	43	–	–	43
Mr. Wong Chi Ming *(note g)*	21	–	–	21
Mr. Wang Jian	100	–	–	100
	979	8,991	45	10,015

The executive, non-executive and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Note:

(a) Ms. Wang Wenxia has resigned as vice chairman, executive director and chief executive officer of the Company and Mr. Li Chao Bo has been appointed as chief executive officer of the Company with effect from 31 May 2018.

(b) Mr. Ji Jiaming has been appointed as an executive director of the Company with effect from 21 July 2017.

(c) Mr. Zhang Guiqing has been appointed as an non-executive director of the Company with effect from 16 August 2017.

(d) Mr. Ng Chi Ho, Dennis has been appointed as an independent non-executive director of the Company with effect from 16 March 2017.

(e) Mr. Ji Yehong has been appointed as an independent non-executive director of the Company with effect from 5 June 2017.

(f) Mr. Chan Pok Hiu has resigned as an independent non-executive director of the Company with effect from 5 June 2017.

(g) Mr. Wong Chi Ming has resigned as an independent non-executive director of the Company with effect from 16 March 2017.

(b) Directors' termination benefits

During the year ended 31 December 2018, no termination benefits were paid to the directors (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2018, no consideration was paid for making available the services of the directors of the Company (2017: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2018, there was no loans, quasi-loans or other dealings entered into by the Company or subsidiaries undertaking of the Company, where applicable, in favour of directors (2017: Nil).

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

No significant transactions, arrangements or contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).

(f) Five highest paid employees

The five highest paid individuals for the year ended 31 December 2018 included three (2017: three) directors of the Company. The emoluments of the remaining two (2017: two) individuals are as follows:

	2018	2017
	HK$'000	*HK$'000*
Salaries and other benefits	**2,689**	1,155
Retirement benefit schemes contributions	**18**	22
	2,707	1,177

Their emoluments were within the following bands:

	2018	2017
	HK$'000	*HK$'000*
HK$Nil to HK$1,000,000	**1**	2
HK$1,500,001 to HK$2,000,000	**1**	–
	2	2

(g) During the year, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals of the Group (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. INCOME TAX EXPENSE (CREDIT)

	2018 HK$'000	2017 HK$'000
Continuing operations		
The tax expenses (credit) comprises:		
Current tax:		
Hong Kong Profits Tax	**–**	–
PRC Enterprise Income Tax ("EIT")	**1,395**	4,870
Land Appreciation Tax ("LAT") in the PRC	**14,340**	34,440
Current tax expenses for the year	**15,735**	39,310
Deferred tax credit for the year *(Note 31)*	**(7,502)**	(45,823)
	8,233	(6,513)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The Group's PRC EIT is calculated based on the applicable tax rates on assessable profits, if applicable. PRC LAT is levied at the applicable tax rate on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

10. INCOME TAX EXPENSE (CREDIT) (continued)

The tax expenses for the year can be reconciled to the loss before tax from continuing operations per the consolidated statement of profit or loss as follows:

	2018 *HK$'000*	2017 *HK$'000*
Loss before tax from continuing operatings	(168,117)	(290,398)
Tax at PRC EIT rate of 25% (2017: 25%)	(42,029)	(72,600)
Tax effect of expenses not deductible for tax purposes	67,575	150,204
Tax effect of income not taxable for tax purposes	(37,197)	(93,836)
Tax effect on temporary difference not recognised	(7,502)	(45,890)
Effect of different tax rates of subsidiaries operating in Hong Kong	13,046	21,169
LAT	14,340	34,440
Tax expenses (credit) for the year	8,233	(6,513)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

	2018 **HK$'000**	2017 *HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Cost of inventory of properties sold	**116,812**	502,866
Staff costs, including directors' emoluments	**35,879**	45,378
Retirement benefits scheme contributions, including contributions for directors	**2,048**	2,150
Total staff costs	**37,927**	47,528
Auditors' remuneration	**1,070**	1,350
Depreciation of property, plant and equipment	**10,342**	11,268
Gain on disposal of property, plant and equipment	**–**	(102)
Loss on disposal of investment property*	**–**	21,351
Impairment loss of other receivables*	**–**	506
Net gain on trading of financial assets at fair value through profit or loss	**–**	(188)
Impairment loss of goodwill*	**31,000**	53,000
Written-off of property, plant and equipment	**–**	48
Operating lease rental expenses in respect of rented premises	**28,757**	22,325

	2018 **HK$'000**	2017 *HK$'000*
Gross rental income from investment properties	**39,569**	25,967
Less: Direct operating expenses from investment properties that generated rental income during the year	**(6,187)**	(1,766)
	33,382	24,201

* Those expenses for the year are included in "other operating expenses".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. DISCONTINUED OPERATION

On 23 November 2017, the Group entered into a sales and purchase agreement with Genview International Limited to dispose of the entire equity interest in Create Capital Development Limited and its subsidiaries at a total consideration of HK$65 million. The principal business and assets of Create Capital Development Limited is Natural Gas Business, details of which are disclosed in Note 33. The disposal was completed on 15 December 2017. The results of the discontinued operation included in the loss for the year are set out below.

(a) Loss for the year from discontinued operation:

	Period from 1.1.2017 to 15.12.2017 *HK$'000*
Revenue	**28,208**
Cost of sales	**(20,073)**
Other operating income	**27**
Other operating expenses	**–**
Administrative expenses	**(5,572)**
Selling and distribution expenses	**(1,461)**
Loss from operations	**1,129**
Finance costs	**(7,653)**
Loss before tax from discontinued operation	**(6,524)**
Income tax credit	**1,187**
Loss for the year from discontinued operation	**(5,337)**
Attributable to:	
Owners of the Company	**(4,686)**
Non-controlling interests	**(651)**
	(5,337)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. DISCONTINUED OPERATION (continued)

(b) Loss for the year from discontinued operation includes the following:

	Period from 1.1.2017 to 15.12.2017 *HK$'000*
Amortisation of intangible assets	4,777
Depreciation of property, plant and equipment	6,519
Staff costs	4,561
Operating lease rental expenses in respect of rental premises	121

(c) Cash flows from discontinued operation:

	Period from 1.1.2017 to 15.12.2017 *HK$'000*
Net cash inflows from operating activities	10,191
Net cash outflows from investing activities	(14,852)
Net cash inflows from financing activities	5,235
Net cash inflows	574

13. DIVIDENDS

The directors do not recommend the payment of a dividend for the years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. LOSS PER SHARE

(a) From continuing and discontinued operations

The calculation of the basic and diluted loss per share from continuing and discontinued operations attributable to the owners of the Company is based on the following:

	2018 **HK$'000**	2017 *HK$'000*
Loss		
Loss for the purpose of basic loss per share from continuing and discontinued operations	**(174,883)**	(286,915)
Effect of dilutive potential ordinary shares: Interest on convertible loan notes (net of income tax)	**2,475**	4,703
Loss for the purpose of diluted loss per share from continuing and discontinued operations	**(172,408)**	(282,212)

(b) From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following:

	2018 **HK$'000**	2017 *HK$'000*
Loss		
Loss for the purpose of basic loss per share from continuing operations	**(174,883)**	(282,229)
Effect of dilutive potential ordinary shares: Interest on convertible loan notes (net of income tax)	**2,475**	4,703
Loss for the purpose of diluted loss per share from continuing operations	**(172,408)**	(277,526)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. LOSS PER SHARE (continued)

(c) From discontinued operation

	2018 HK$'000	2017 HK$'000
Loss for the purpose of basic loss per share from discontinued operations	–	(4,686)
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes (net of income tax)	**2,475**	4,703
Profit for the purpose of diluted earning per share from discontinued operations	**2,475**	17

Number of shares

	2018	2017
Number of ordinary shares/weighted average number of ordinary shares for the purpose of basic loss per share	**3,082,278,542**	2,657,138,698
Effect of dilutive potential ordinary shares:		
Convertible notes	**46,000,000**	46,000,000
Weighted average number of ordinary shares for the purpose of diluted loss per share	**3,128,278,542**	2,703,138,698

For the years ended 31 December 2018 and 2017, the computation of diluted loss per share has not assumed for the conversion of the Company's outstanding convertible notes and share options since their exercise would result in a decrease in loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Pipelines HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvement of hotel operation HK$'000	Construction in progress HK$'000	Total HK$'000
COST								
At 1 January 2017	29,523	124,690	15,299	10,454	18,290	58,388	11,605	268,249
Additions	20	–	120	2,854	4,004	–	8,692	15,690
Disposals	–	–	–	–	(955)	–	–	(955)
Derecognised on disposal/deemed disposal subsidiaries	(39,786)	(128,802)	(15,760)	(1,636)	(4,243)	–	(13,951)	(204,178)
Transfers	8,650	(1,716)	–	–	–	–	(6,934)	–
Write-off	–	–	(68)	(1,791)	(48)	–	–	(1,907)
Exchange difference	1,593	5,828	706	716	1,191	4,221	588	14,843
At 31 December 2017 and 1 January 2018	–	–	297	10,597	18,239	62,609	–	91,742
Additions	–	–	–	467	–	–	–	467
Write-off	–	–	–	(348)	–	–	–	(348)
Derecognised on disposal of subsidiaries	–	–	–	(1,915)	(9,271)	–	–	(11,186)
Exchange difference	–	–	–	(560)	(760)	(3,557)	–	(4,877)
At 31 December 2018	**–**	**–**	**297**	**8,241**	**8,208**	**59,052**	**–**	**75,798**
DEPRECIATION AND IMPAIRMENT								
At 1 January 2017	2,752	6,525	2,673	8,586	11,903	42,397	–	74,836
Provided for the year	1,148	4,296	686	1,272	1,852	8,533	–	17,787
Derecognised on disposal/deemed disposal subsidiaries	(4,044)	(11,229)	(3,132)	(1,218)	(1,985)	–	–	(21,608)
Eliminated on disposals	–	–	–	–	(955)	–	–	(955)
Write-off	–	–	(68)	(1,743)	(48)	–	–	(1,859)
Exchange difference	144	408	138	502	638	3,480	–	5,310
At 31 December 2017 and 1 January 2018	–	–	297	7,399	11,405	54,410	–	73,511
Provided for the year	–	–	–	1,125	1,116	8,101	–	10,342
Write-off	–	–	–	(348)	–	–	–	(348)
Derecongised on disposal of subsidiaries	–	–	–	(945)	(4,291)	–	–	(5,236)
Exchange difference	–	–	–	(448)	(488)	(3,459)	–	(4,395)
At 31 December 2018	**–**	**–**	**297**	**6,783**	**7,742**	**59,052**	**–**	**73,874**
CARRYING AMOUNTS								
At 31 December 2018	**–**	**–**	**–**	**1,458**	**466**	**–**	**–**	**1,924**
At 31 December 2017	–	–	–	3,198	6,834	8,199	–	18,231

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rate per annum:

Leasehold land and buildings	Over the shorter of 50 years or the remaining terms of leases
Pipelines	Over the shorter of 30 years or the remaining operation period of the relevant company
Machinery and equipment	8%-10%
Furniture and fixtures	16%-20%
Motor vehicles	20%-30%
Leasehold improvements for hotel operation	14%

16. INVESTMENT PROPERTIES

	Investment properties in the PRC *HK$'000*
At fair value	
1 January 2017	2,028,090
Addition	27,912
Disposal	(42,184)
Fair value change recognised in profit or loss	(56,992)
Exchange difference	143,174
At 31 December 2017 and 1 January 2018	2,100,000
Addition	37,197
Fair value change recognised in profit or loss	(28,863)
Exchange difference	(119,698)
At 31 December 2018	1,988,636

The Group's investment properties are held under medium term leases and are situated in the PRC.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

Details of the pledged investment properties at 31 December 2018 and 2017 are set out in Note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES (continued)

Fair value measurement of the Group's investment properties

The fair value of the Group's investment properties at 31 December 2018 and 2017 has been arrived at on the basis of a valuation carried out on the respective dates by Peak Vision Appraisals Limited, independent qualified professional valuers not connected to the Group, who have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

The valuation of investment properties in Wuhan (Future City Shopping Centre) and Hangzhou were arrived at with the adoption of a combination of direct comparison method and investment method. Direct comparison method assumes the property is capable of being sold in its existing state with the benefit of immediate vacant possession and makes reference to comparable sales evidence as available in the relevant markets. Investment method takes into account the current rents passing and the reversionary income potential of the property.

Additional valuation method is adopted for the best estimation of the current market situation and the properties condition. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy at 31 December 2018 and 2017 are as follows:

	Level 1 ***HK$'000***	**Level 2** ***HK$'000***	**Level 3** ***HK$'000***	**Fair value at 31 December 2018** ***HK$'000***
Investment properties in the PRC	**–**	**–**	**1,988,636**	**1,988,636**

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Fair value at 31 December 2017 *HK$'000*
Investment properties in the PRC	–	–	2,100,000	2,100,000

There were no transfer into or out of Level 3 during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES (continued)

Fair value measurement of the Group's investment properties (continued)

The following table gives information about how the fair values of the major investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

2018

Investment Properties held by the Group	**Valuation technique(s)**	**Significant unobservable inputs**		**Relation of unobservable inputs to fair value**
Future City Shopping Centre in Wuhan	Investment method	(1)	Reversionary yield: 5%	An increase in the reversionary yield would result in a decrease in fair value.
		(2)	Estimated market rental unit rate per square metre/month RMB: 214 to 217	An increase in the market rental unit rate would result in an increase in fair value.
Commercial part of Mei Lai International Centre in Hangzhou	Investment method	(1)	Reversionary yield: 5%	An increase in the reversionary yield would result in a decrease in fair value.
		(2)	Estimated market rental unit rate per square metre/month RMB: 120 to 172	An increase in the market rental unit rate would result in an increase in fair value.

2017

Investment Properties held by the Group	Valuation technique(s)	Significant unobservable inputs		Relation of unobservable inputs to fair value
Future City Shopping Centre in Wuhan	Combination of direct comparison method and investment method	(1)	Reversionary yield: 4.94%	An increase in the reversionary yield would result in a decrease in fair value.
		(2)	Estimated market rental unit rate per square metre/month RMB: 201 to 333	An increase in the market rental unit rate would result in an increase in fair value.
Commercial part of Mei Lai International Centre in Hangzhou	Combination of direct comparison method and investment method	(1)	Reversionary yield: 4.75%	An increase in the reversionary yield would result in a decrease in fair value.
		(2)	Estimated market rental unit rate per square metre/month RMB: 114 to 135	An increase in the market rental unit rate would result in an increase in fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. GOODWILL

	2018	2017
	HK$'000	*HK$'000*
Cost		
At beginning of the year	**174,605**	210,516
Derecognised on disposal of subsidiaries *(Note 33)*	**–**	(37,601)
Exchange differences	**–**	1,690
At end of the year	**174,605**	174,605
Impairment		
At beginning of the year	**95,000**	42,000
Impairment loss recognised in the year	**31,000**	53,000
At end of the year	**126,000**	95,000
Carrying amounts		
At end of the year	**48,605**	79,605

Impairment testing on Goodwill

Goodwill is assessed for impairment annually irrespective of whether there is any indication of impairment.

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units ("CGUs"). At the end of the reporting period, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of:

	2018	2017
	HK$'000	*HK$'000*
Property Development Business	**48,605**	79,605
	48,605	79,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. GOODWILL (continued)

Impairment testing on Goodwill (continued)

For the purpose of impairment testing, the recoverable amounts of the CGUs are determined by value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cash flow projections covering periods until the expiry of the relevant operation period. The cash flow projections for the first five years are based on financial budgets approved by management.

Property development business

The recoverable amount of property development have been determined based on a value-in-use calculation represented by management based on cash flow projections. These cash flows projections for 5-year period are made based on property development plan of the assessed entity and assuming that selling price is similar to comparable market price of neighbour properties and expected market share of the assessed entity. The discount rate applied to the cash flow projections are based on the weighted average cost of capital, which is 13.52% (2017: 13.56%). The cash flow projections during the budget period are based on the expected gross margin of 15% (2017: 34%) and expected completion date of different projects. Based on these projections, the recoverable amount of this CGU will be less than the carrying amount of CGU, and accordingly the Group recognised an impairment loss of HK$31,000,000 for the goodwill during the year ended 31 December 2018, which was included in the other operating expense in the consolidated statement of profit or loss.

Natural gas business

The recoverable amount of natural gas business have been determined based on a value-in-use calculation represented by the management using cash flow projections. The cash flows projections was based on the income pattern consistent with the track record of the respective entities, taking into account the stage of the development of the respective gas projects and expectation of future in the market. The growth rates are based on management's estimation of the respective entity's projected market share and industry growth forecast. On 15 December 2017, the Group derecognised the goodwill allocated to the natural gas businesses CGU upon completion of the disposal of the Natural Gas Business.

The directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amounts of goodwill to exceed the recoverable amount of respective CGUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. INTEREST IN A JOINT VENTURE

	2018	2017
	HK$'000	*HK$'000*
Unlisted cost of investments in a joint venture	**3,658**	–
Share of post-acquisition profits and other comprehensive income	**(1,331)**	–
Exchange adjustments	**(188)**	–
	2,139	–

As at 31 December 2018, particulars of the joint venture were as follows:

Name of joint venture	**Form of business structure**	**Country of incorporation and principal place of operation**	**Percentage of ownership interest and voting rights**	**Principal activity**
Citic Zheng Ye Assets Management Company Limited* ("Citic Zheng Ye")	Incorporated	PRC	24% (2017:–)	Assets Management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. INTEREST IN A JOINT VENTURE (continued)

Summarised financial information for the joint venture

Set out below are summarised financial information for Citic Zheng Ye, extracted from its management accounts for the year ended 31 December 2018:

	2018
	HK'000
Non-current assets	**70**
Current assets	**9,167**
Non-current liabilities	**-**
Current liabilities	**(325)**
Revenue	**-**
Loss for the period	**(5,544)**

Reconciliation of the above summarized financial information to the carrying amount of the investment in a joint venture recognized in the consolidated financial statements:

	HK'000
Equity attributable to the owners of Citic Zheng Ye	8,912
Proportion of the Group's ownership interests	24%
Carrying amount of the Group's investments in Citic Zheng Ye	2,139

Reference is made to the announcement of the Company dated on 19 April 2018, in which a subsidiary of the Group entered into the Cooperation Agreement with Independent third parties in relation to set up Citic Zheng Ye, a Joint venture private equity fund management company in the PRC. The Group is committed to contribute RMB12,000,000 (equivalent to approximately HK$15,000,000), representing 24% of the equity interests of Citic Zheng Ye. As at 31 December 2018, the amount of approximately RMB3,000,000 (equivalent to approximately HK$3,700,000) was paid. The remaining balance will be settled before 1 May 2048.

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. INVENTORIES

	2018 HK$'000	2017 HK$'000
Consumables and spare parts	**136**	380
	136	380

None of the inventories of the Group was carried at net realisable value at the end of the reporting period.

20. INVENTORY OF PROPERTIES

	2018 HK$'000	2017 HK$'000
At beginning of the year	**1,285,390**	1,714,654
Construction costs incurred	**93,443**	14,015
Capitalisation of interest *(Note 8)*	**–**	3,688
Recognition as cost of sales	**(116,812)**	(502,866)
Derecognised on disposal of subsidiaries *(Note 33)*	**(776,476)**	–
Exchange difference	**(92,061)**	55,899
At end of the year	**393,484**	1,285,390

	2018 HK$'000	2017 HK$'000
Properties under development	**–**	614,973
Properties held for sale	**393,484**	670,417
	393,484	1,285,390

The inventory of properties are located in the PRC.

Details of the pledged inventory of properties at 31 December 2018 and 2017 are set out in Note 35.

The amounts which are expected to be realised within the Group's normal operating cycle in more than twelve months after the reporting date are classified under current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**42,959**	51,830
Less: Allowance for credit losses	**–**	–
	42,959	51,830
Prepayments and deposits *(note a)*	**42,885**	63,020
Other receivables *(note b)*	**297,087**	345,303
	382,931	460,153

notes:

(a) Included in prepayments and deposits are amounts of approximately HK$9,431,000 (2017: approximately HK$11,254,000) for the repair and maintenance deposit to the government and amounts of approximately HK$7,155,000 (2017: approximately HK$9,401,000) for utility deposits. The remaining balance represents the prepayment for construction work and other prepaid expenses.

(b) Included in other receivables are receivables from a property agent related to property development business of approximately HK$31,710,000 (2017: HK$109,055,000). The other receivables also include approximately HK$119,801,000 (2017: approximately HK$164,140,000), being other loan receivables due from independent third parties bearing interest ranging from 7% to 9% (2017: 7% to 9%) per annum. Furthermore, the amount due from Pu Tian, the disposed subsidiary, of approximately HK$98,677,000 (2017: Nil) is included in the other receivables.

On 15 December 2017, the Group completed the disposal of the entire equity interest in a subsidiary, Create Capital Development Limited. Pursuant to the sales and purchase agreement, the total cash consideration was HK$65,000,000. As at 31 December 2017, HK$25,000,000 was settled. The remaining HK$40,000,000 consideration was settled on 12 March 2018.

As at 31 December 2018 and 1 January 2018. trade receivables from contracts with customers amounted to approximately HK$26,713,000 and HK$33,717,000 respectively.

An aging analysis of trade receivables (net of allowance for credit losses) based on invoice dates at the end of the reporting period is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 90 days	**42,446**	24,842
91 to 180 days	**144**	4,490
Over 180 days	**369**	22,498
	42,959	51,830

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. TRADE AND OTHER RECEIVABLES (continued)

The directors consider that the carrying amounts of trade and other receivables approximate their fair values.

Rental income from investment properties is received in accordance with the terms of the relevant lease agreements, normally within 1-3 months from the issuance of invoices to customers.

The following table shows the amounts of receivable which are past due but not impaired as the balances related to debtors with sound repayment history and there has not been a significant change in credit quality and the amounts are still considered recoverable.

An aging analysis of trade receivables past due but not impaired is as follows:

	2018	2017
	HK$'000	*HK$'000*
Overdue by:		
1-30 days	**–**	4,490
31-60 days	**–**	–
61-180 days	**144**	17,694
Over 180 days	**369**	4,804
	513	26,988

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. BANK BALANCES AND CASH

	2018 HK$'000	2017 HK$'000
Bank balances and cash	**49,980**	64,501

These bank balances carry interest at market rates which range from 0.01% to 0.3% (2017: 0.01% to 0.3%) per annum.

23. TRADE AND OTHER PAYABLES

The following is an aging analysis of the Group's trade payables based on the invoice dates at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Within 90 days	**2,645**	35,077
91 to 180 days	**372**	5,954
Over 180 days	**40,857**	48,996
Trade payables	**43,874**	90,027
Interest payables	**57,320**	93,039
Accrued expenses and other tax payables	**7,563**	26,378
Consideration payables *(note a)*	**4,860**	5,001
Other payables *(note b)*	**79,237**	67,190
	192,854	281,635

Trade payables principally comprise amounts outstanding for purchase of hotel consumables, construction materials and construction work of properties under development and investment properties.

The average credit period of trade payables is three to six months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The directors consider that the carrying amounts of trade and other payables approximate their fair value.

notes:

(a) The consideration payable represents the amount payable for acquisition of additional interests in subsidiaries.

(b) The other payables included approximately HK$4,090,000 (2017: approximately HK$12,388,000) of deposits received from contractors for construction work and approximately HK$14,569,000 (2017: approximately HK$20,798,000) of deposit received from tenant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. CONTRACT LIABILITIES

The following is an analysis of the Group's contract liabilities:

	2018 *HK'000*	2017 *HK'000*
Deposits received for sale of properties	**122,908**	–
Current	**122,908**	–
Non-current	**–**	–
	122,908	–

Amounts previously included under "deposits received for sale and lease of properties" were reclassified to "contract liabilities" as at 31 December 2018.

25. DEPOSITS RECEIVED FOR SALE AND LEASE OF PROPERTIES

The amounts which are expected to be realised within twelve months after the reporting date are classified under current liabilities as they are within the Group's normal operating cycle.

	2018 *HK$'000*	2017 *HK$'000*
Deposits received for sale of properties	**–**	175,668
Deposits received for lease of investment properties	**12,852**	11,944
	12,852	187,612
Less: Amounts shown under current liabilities	**–**	(175,668)
Amounts shown under non-current liabilities	**12,852**	11,944

Considerations in respect of properties sold are received in accordance with the terms of the related sales and purchase agreement. The portions received on or before the date of delivery of the properties to customers are recorded as deposits received for sale of properties. The remaining balances are normally settled within 1-3 months from date of delivery of the properties to the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

26. AMOUNTS DUE TO SHAREHOLDER'S SUBSIDIARIES

These amounts are unsecured, interest bearing at 9-15% per annum and repayable within two years. The directors consider that the carrying values of these amounts approximate their fair value.

	2018 **HK$'000**	2017 *HK$'000*
Shareholder's subsidiaries		
Unsecured, bearing interest at 12-15% per annum and repayable within one year	–	571,427
Unsecured, bearing interest at 9% per annum and repayable after one year but not exceeding two years	–	390,106
	–	961,533
Less: Amount due within one year shown under current liabilities	–	(571,427)
	–	390,106

Amounts due to shareholder's subsidiaries of approximately HK$366.7 million was reclassified under borrowings as at 31 December 2018 as those companies are no longer the shareholder's subsidiaries of the Group.

27. BORROWINGS

	2018	2017
	HK$'000	*HK$'000*
Bank loans	**416,925**	320,162
Other loans	**532,165**	176,204
	949,090	496,366
Analysed as:		
Secured	**518,173**	425,294
Unsecured	**430,917**	71,072
	949,090	496,366
Carrying amounts represent repayable		
On demand or within one year	**333,502**	333,113
After one year, but not exceeding two years	**439,431**	89,157
After two years, but not more than five years	**62,500**	74,096
After five years	**113,657**	–
	949,090	496,366
Less: Amounts due on demand or within one year shown under current liabilities	**(333,502)**	(333,113)
	615,588	163,253

Included in the Borrowings are fixed rate borrowings as follows:

	2018	2017
	HK$'000	*HK$'000*
Fixed rate borrowings repayable:		
– Within one year	**294,556**	197,518
– More than one year, but not exceeding two years	**261,827**	–
	556,383	197,518

Bank loans and other loans carry interest at the prevailing market rates or fixed rates. Fixed rate borrowings carry interest at rates ranging from 5% to 24% (2017: 6.675% to 24%) per annum, while the variable rate borrowings carry interest at rates ranging from 5.46% to 6.37% (2017: 5.46% to 6.37%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. BORROWINGS (continued)

During the year ended 31 December 2017, subsidiaries of the Group had overdue loan payment of approximately RMB157,464,000 (equivalent to approximately HK$189,716,000). As a result, an amount of approximately RMB66,000,000 (equivalent to approximately HK$79,518,000) of non-current borrowings was reclassified to current liabilities from non-current liabilities as at 31 December 2017.

The directors consider that the carrying amounts of borrowings approximate their fair value.

The Group's borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2018	2017
	HK$'000	*HK$'000*
Currency – RMB	**949,090**	496,366

28. CONVERTIBLE NOTES

Convertible notes due on 13 November 2017

On 13 November 2007, the Company issued convertible notes with an aggregate principal amount of HK$180,050,000 ("2017 Notes"), due on 13 November 2017 and bearing interest at 3% per annum payable semi-annually in arrears. The 2017 Notes were issued as part of the consideration for the acquisition of the entire issued share capital of China Environmental Water Holdings Limited. The 2017 Notes were convertible into fully paid ordinary shares with a par value of HK$0.01 each of the Company at an initial conversion price of HK$0.15, subject to adjustment.

The conversion price of 2017 Notes was adjusted from HK$0.15 to HK$0.045 effective from 12 October 2009 upon the completion of placement. The conversion price was further adjusted from HK$0.045 to HK$0.3781 effective from 24 October 2011 upon the completion of share consolidation and open offer on 17 September 2011 and 24 October 2011 respectively.

On 13 November 2017, all of the convertible notes due on 13 November 2017 with principal amount of HK$81,550,000 were converted into 215,683,681 ordinary shares at the conversion price of HK$0.3781 each.

28. CONVERTIBLE NOTES (continued)

Convertible notes due on 28 June 2019

On 28 June 2016, the Company issued convertible notes with an aggregate principal amount of HK$73,000,000 ("2019 Notes"), due on 28 June 2019 and bearing interest at 5% per annum payable annually in arrears. The 2019 Notes were issued to China Financial International Investments Limited ("CFIIL"), one of the substantial shareholders of the Company. The 2019 Notes are convertible into fully paid ordinary shares with a par value of HK$0.1 each of the Company at an initial conversion price of HK$0.50, subject to adjustment. The proceeds have been fully utilized in repayment of debts of the Group.

On 30 June 2017, part of the convertible notes due on 28 June 2019 with principal amount of HK$50,000,000 was converted into 100,000,000 ordinary shares at the conversion price of HK$0.5 each.

At initial recognition, the equity component of the convertible loan notes was separated from the liability component. The equity element is presented in equity as convertible notes equity reserve.

The carrying amount of the liability component of the convertible notes at 31 December 2018 and 31 December 2017 amounted to approximately HK$22,260,000 and HK$20,446,000 respectively.

Upon the full conversion of the outstanding 2019 Notes at the conversion price of HK$0.50 per conversion share, the outstanding 2019 Notes would be converted into 46,000,000 shares, representing approximately 1.49% of the existing issued share capital of the Company as at the date of the Annual Report and approximately 1.47% of the then issued share capital of the Company as enlarged by the allotment and issue of the conversion shares. The shareholding of the substantial shareholders of the Company, namely Mr. Li Chao Bo and CFIIL, would be decreased from 22.02% to 21.69% and increased from 18.13% to 19.33% respectively.

The diluted loss per share for the year ended 31 December 2018 assuming all outstanding 2019 Notes being converted was HK$5.51 cents and is calculated by dividing the loss attribute to the shareholders of the Company from continuing operations by the total number of shares after all outstanding 2019 Notes being converted. The calculation method of this diluted loss is not the same as those used in this annual report. According to Hong Kong Accounting Standard 33 paragraphs 43, potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted loss per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on loss per share. The conversion of 2019 Notes would have an antidilutive effect on loss per share and therefore the calculation of diluted loss per share in this annual report does not assume such conversion.

The Company has a right to redeem the whole or part of the outstanding 2019 Notes at 100% of the principal amount and accrued interest at any time before the maturity date. On the maturity date, any of the 2019 Notes not converted or redeemed during the tenure will be redeemed at 100% of its principal amount and accrued interest. The Board has given consideration to the financial and liquidity position of the Company and believes that the Company has adequate resources, including but not limited to the cash inflows from future sales of properties and fund raising activities, to meet its redemption obligations under the 2019 Notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

28. CONVERTIBLE NOTES (continued)

Convertible notes due on 28 June 2019 (continued)

Based on the implied internal rate of returns of the 2019 Notes, the Company's share prices as at 31 December 2018 would be equally financially advantageous for the securities holders to convert or redeem the convertible securities were HK$0.51 per share.

The effective interest rate of 2017 Notes and 2019 Notes are 7.55% and 14.97% per annum, respectively. The movements of the liability component of 2017 Notes and 2019 Notes for the year are set out below:

Carrying amount of liability components of 2017 Notes and 2019 Notes

	Total
	HK$'000
At 1 January 2017	138,486
Converted into ordinary shares on 30 June 2017 and 13 November 2017	(123,077)
Interest charged *(note 8)*	11,084
Interest paid	(6,047)
At 31 December 2017 and 1 January 2018	20,446
Interest charged *(note 8)*	2,964
Interest paid	(1,150)
At 31 December 2018	22,260

	2018	2017
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current liabilities	**22,260**	–
Non-current liabilities	**–**	20,446
	22,260	20,446

29. SHARE CAPITAL

	Number of ordinary shares *HK$0.1 each*	Amount *HK$'000*
Authorised:		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	5,000,000,000	500,000
Issued and fully paid:		
At 1 January 2017	2,306,594,861	230,659
Issue of shares by placing *(note a)*	460,000,000	46,000
Issue of shares by conversion of convertible notes *(note b)*	315,683,681	31,569
At 31 December 2017, 1 January 2018 and 31 December 2018	3,082,278,542	308,228

note a: A total of 460,000,000 shares of the Company at a subscription price of HK$0.50 per share were issued on 23 May 2017 and 29 June 2017 pursuant to the subscription agreement dated 27 April 2017 and 26 May 2017 respectively, details of which were set out in the Company's announcement dated 27 April 2017 and 26 May 2017.

note b: On 30 June 2017 and 13 November 2017, 100,000,000 shares and 215,683,681 shares of the Company were issued at a conversion price of HK$0.50 and HK$0.38 per share respectively, pursuant to the partial and full conversion of the convertible notes issued by the Company on 28 June 2016 and 13 November 2017 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 3 June 2003 for the primary purpose of providing incentives to encourage its participants to perform their best in achieving the goals of the Company and enjoy its result. The participants are any director and eligible employee of the Group; any entity in which any member of the Group holds any equity interest (the "Invested Entity"); any supplier of goods or services and customers to any member of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; any adviser or consultant to any area of business or business development of any member of the Group or any Invested Entity; any shareholders of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, as absolutely determined by the board.

The maximum number of securities which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon the exercise of all options to be granted under the Scheme of the Group must not in aggregate exceed 10% of the shares in issue on 25 June 2003, being the date on which the Company's shares were listed on the Stock Exchange. For the purpose of calculating the above, options lapsed in accordance with the Scheme shall not be counted.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The period within which the shares must be taken up under an option of the Scheme shall not be later than 10 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. HK$1 is payable on acceptance of the options within 21 days from the date of grant. The subscription price is the highest of (i) the closing price of the shares quoted in the Stock exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant which must be a business day; (ii) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a share. The Scheme is valid for 10 years from 3 June 2003. No further options may be granted pursuant to the Scheme after 2 June 2013.

The above Scheme expired during year ended 31 December 2013 and was replaced by a new share option scheme ("2013 Option Scheme") which carries the same terms as the scheme.

30. SHARE OPTION SCHEME (continued)

On 18 June 2013, the shareholders of the Company at the annual general meeting approved the adoption of the 2013 Option Scheme and the termination of the Scheme which was adopted by the Company on 3 June 2003. The 2013 Option Scheme will expire on 17 June 2023. Options granted under the Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of the Scheme.

The following table discloses details of the Company's options under the Scheme held by directors and employee/consultants and the movements during the year ended 31 December 2018:

Category	Date of grant	Exercise price *HK$*	Exercisable period *DD/MM/YYYY*	At 1 January 2018	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	Outstanding at 31 December 2018
Directors	03/11/2010	0.9602	03/11/2010 to 02/11/2020	12,795,263	–	–	–	(12,795,263)	–
Directors, employees and consultants	29/05/2013	0.6400	29/05/2013 to 28/05/2023	21,787,228	–	–	–	(18,087,228)	3,700,000
Directors, employees and consultants	22/01/2015	0.6680	22/01/2015 to 21/01/2025	54,961,684	–	–	–	(54,261,684)	700,000
Employees and consultants	16/06/2015	0.8800	16/06/2015 to 15/06/2025	5,000,000	–	–	–	–	5,000,000
Consultant	25/06/2015	0.9100	25/06/2015 to 24/06/2025	20,445,948	–	–	–	–	20,445,948
				114,990,123	–	–	–	(85,144,175)	29,845,948

The following table discloses details of the Company's options under the Scheme held by directors and employees/consultants and the movements during the year ended 31 December 2017:

Category	Date of grant	Exercise price *HK$*	Exercisable period *DD/MM/YYYY*	At 1 January 2017	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	Outstanding at 31 December 2017
Directors	03/11/2010	0.9602	03/11/2010 to 02/11/2020	12,795,263	–	–	–	–	12,795,263
Directors, employees and consultants	29/05/2013	0.6400	29/05/2013 to 28/05/2023	26,187,228	–	–	–	(4,400,000)	21,787,228
Directors, employees and consultants	22/01/2015	0.6680	22/01/2015 to 21/01/2025	59,361,684	–	–	–	(4,400,000)	54,961,684
Employees and consultants	16/06/2015	0.8800	16/06/2015 to 15/06/2025	5,000,000	–	–	–	–	5,000,000
Consultant	25/06/2015	0.9100	25/06/2015 to 24/06/2025	20,445,948	–	–	–	–	20,445,948
				123,790,123	–	–	–	(8,800,000)	114,990,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. SHARE OPTION SCHEME (continued)

The Group issues equity-settled share-based payments to directors, certain employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually be vested and adjusted for the effect of non-market-based vesting conditions. Options granted during the year 2010, 2013 and 2015 were vested at the date of grant.

The Scheme was adopted by way of Shareholders' resolution on 18 June 2013. Accordingly, the Scheme mandate limit that could be granted at the time of adoption of the Scheme was 180,872,286 shares.

On 5 June 2017, the Scheme mandate limit was refreshed to 308,227,854 shares (representing approximately 10% of the issued share capital of the Company as at 5 June 2017). As at 31 December 2018, the number of shares in respect of the options granted and remained outstanding under the Scheme was 29,845,948 (2017: 114,990,123) shares, representing approximately 0.97% (2017: 5.62%) of the issued share capital of the Company as at 5 June 2017. Under the current refreshed Scheme mandate limit, the share options which carry the rights to subscribe for 278,381,906 (2017: 89,469,363) shares (representing approximately 9.03% (2017: 4.38%) of issued share capital of the Company as at 5 June 2017) were available for granting by the Company as at 31 December 2018.

The fair value of the total options granted in the year measured as at 22 January 2015, 16 June 2015 and 25 June 2015 were approximately HK$38,390,000, HK$14,190,000 and HK$5,001,000 respectively. The following significant assumptions were used to derive the fair value using the Black-Scholes model with Binomial Tree method:

1. an expected volatility was 26.1540%, 26.3530% and 26.3745% respectively;

2. no annual dividend yield expected;

3. the estimated expected life of the options granted in range (10 years); and

4. the risk free rate was 1.7159%, 1.8573% and 1.8433% respectively.

The Black-Scholes model with Binomial Tree method requires the inputs of highly subjective assumptions, including the volatility of share price. As changes in subjective input assumptions can materially affect the fair value of the options, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. DEFERRED TAX LIABILITIES

The following are the Group's major deferred tax assets and liabilities recognised and movements thereon during the current and prior reporting periods:

	Revaluation on investment properties	Revaluation gain arising from business combination	Intangible assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	256,240	118,556	30,149	404,945
Exchange difference	16,769	–	1,391	18,160
Derecognised on disposal of subsidiaries *(Note 33)*	–	–	(30,353)	(30,353)
Credited to the consolidated statement of profit or loss for the year *(Note 10)*	(36,398)	(9,425)	(1,187)	(47,010)
At 31 December 2017 and 1 January 2018	236,611	109,131	–	345,742
Exchange difference	(13,116)	–	–	(13,116)
Derecognised on disposal of subsidiaries *(Note 33)*	–	(92,817)	–	(92,817)
Credited to the consolidated statement of profit or loss for the year *(Note 10)*	(7,216)	(286)	–	(7,502)
At 31 December 2018	216,279	16,028	–	232,307

At 31 December 2018 and 2017, the Group had no unused tax losses available for offset against future profits and no deferred tax asset has been recognised accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. DEFERRED TAX LIABILITIES (continued)

Pursuant to the PRC Enterprise Income Tax Law, dependent upon the nationality and domicile of the foreign investors, a 5% to 10% withholding tax is levied on the dividends declared to foreign investors. The requirement has become 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 rates range from 5% to 10%.

At 31 December 2018, the unrecognised deferred tax liabilities were approximately HK$5,187,000 (2017: approximately HK$5,225,000), relating to withholding tax that would be payable for undistributed profits of PRC subsidiaries, as the directors consider that the timing for reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future. The total undistributed profits of these PRC subsidiaries at 31 December 2018 amounted to approximately HK$51,867,000 (2017: approximately HK$52,253,000).

32. RETIREMENT BENEFITS SCHEME

When the Mandatory Provident Fund Schemes Ordinance ("MPFO") came into effect in Hong Kong on 1 December 2000, the Group established a mandatory provident fund scheme (the "MPF Scheme") for its employees in Hong Kong.

Prior to the introduction of the MPF Scheme, the Group had operated a defined contribution scheme registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") for its qualified employees in Hong Kong. The ORSO Scheme was discontinued in 2001 and the benefits of the employees were transferred to the MPF Scheme. The assets held under the ORSO Scheme, which were held separately from those of the Group, were also transferred directly to the MPF Scheme. For MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee.

The amounts charged to the consolidated statement of profit or loss represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes less forfeiture, if any, arising from employees leaving the Group prior to completion of their qualifying service period.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits MPF Schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the end of the reporting period, there was no significant amount of forfeited contributions available to reduce future contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. DISPOSAL OF SUBSIDIARIES

On 11 September 2018, the Group entered into a sales and purchase agreement with Chunan County Transportation Investment and Development Group Limited* to dispose of 60% equity interest in Hangzhou Pu Tian Property Development Company Limited ("Pu Tian") and its subsidiaries at a total consideration of approximately RMB43,200,000 (equivalent to approximately HK$49,655,000). The disposal was completed on 30 September 2018.

The net assets of Pu Tian at the date of disposal were as follow:

	2018 *HK$'000*
Property, plant and equipment	**5,950**
Inventory of properties	**776,476**
Prepayments, deposits and other receivables	**31,204**
Bank balances and cash	**431**
Trade and other payables	**(61,151)**
Deposits received for sale and lease of properties – current portion	**(26,374)**
Amounts due to group companies	**(98,109)**
Amounts due to shareholder's subsidiaries	**(372,508)**
Income tax payable	**(14,899)**
Deferred tax liabilities	**(92,817)**
	148,203
Release of translation reserve	**(5,065)**
Non-controlling interests	**(101,127)**
	42,011
Less: consideration	**(49,655)**
Gain on disposal	**(7,644)**

	2018 *HK$'000*
Cash consideration	**49,655**
Less: cash disposed of	**(431)**
Net cash inflow arising on the disposal	**49,224**

* *For identification purpose only.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. DISPOSAL OF SUBSIDIARIES (continued)

On 23 November 2017, the Group entered into a sales and purchase agreement with Genview International Limited to dispose of the entire equity interest in Create Capital Development Limited ("Create Capital") and its subsidiaries at a total consideration of HK$65 million. The disposal was completed on 15 December 2017.

The net assets of Create Capital at the date of disposal were as follow:

	2017 *HK$'000*
Property, plant and equipment	**182,570**
Goodwill	**37,601**
Deposit paid on acquisition of a subsidiary	**17,088**
Intangible asset – operating concession right	**121,355**
Inventories	**5,862**
Trade receivables	**2,964**
Prepayments, deposits and other receivables	**85,685**
Bank balances and cash	**3,726**
Trade and other payables	**(33,580)**
Due to group companies	**(28,582)**
Due to related parties	**(287,169)**
Due to non-controlling shareholders of subsidiaries	**(1,156)**
Bank and other borrowings	**(95,647)**
Deferred tax liabilities	**(30,353)**
	(19,636)
Release of translation reserve	**(12,903)**
Non-controlling interests	**(27,704)**
	(60,243)
Settlement of amounts due from disposal subsidiaries *(Note a)*	**28,582**
Less: consideration	**(65,000)**
Gain on disposal	**(96,661)**

	2017 *HK$'000*
Consideration	**65,000**
Less: consideration receivable *(Note b)*	**(40,000)**
Less: cash disposed of	**(3,726)**
Net cash inflow arising on the disposal	**21,274**

Note a: Pursuant to the sales and purchase agreement, the total consideration of HK$65,000,000 includes the settlement of balances between the Group and the subsidiaries to be disposed of amounting to HK$28,582,000.

Note b: The consideration receivable of HK$40 million was received during the year ended 31 December 2018.

34. DEREGISTRATION OF SUBSIDIARIES

During the year ended 31 December 2017, the Group deregistered 4 indirect wholly-owned subsidiaries, Wah Yuen (Guangzhou) Foods Company Limited* ("Wah Yuen (Guangzhou)"), Rocco Foods Enterprise Company (Guangzhou) Limited* ("Rocco (Guangzhou)"), Jiangxi Zhongshui Culture Industry Investment Development Company Limited* ("Jiangxi Zhongshui") and Beijing Sheng Long Wen Hua Company Limited ("Beijing Sheng Long").

Net (liabilities) assets of the deregistered subsidiaries at its date of deregistration are as follows:

	Wah Yuen (Guangzhou) *HK$'000*	**Rocco (Guangzhou)** *HK$'000*	**Jiangxi Zhongshui** *HK$'000*	**Beijing Sheng Long** *HK$'000*	**Total** *HK$'000*
Current assets	12,514	–	16	50	12,580
Current liabilities	(25,878)	(4,410)	–	–	(30,288)
Net (liabilities) assets disposal of	(13,364)	(4,410)	16	50	(17,708)
Release of exchange translation reserve	6,790	2,977	(27)	(69)	9,671
Loss on deregistration	(6,574)	(1,433)	(11)	(19)	(8,037)

There was no net inflow/outflow of cash and cash equivalents in respect of the deregistration of subsidiaries during the year.

35. PLEDGE OF ASSETS

At the end of the reporting period, the following assets with their respective carrying amount were pledged by the Group to secure general banking facilities granted to the Group:

	2018 ***HK$'000***	2017 *HK$'000*
Inventory of properties together with relevant land use rights situated in the PRC *(note a)*	**163,482**	168,594
Investment properties situated in the PRC	**671,670**	1,960,362
	835,152	2,128,956

note:

(a) Included in inventory of properties are properties with carrying value of approximately HK$75,904,000 (2017: HK$67,281,000) inventories which have been frozen by court due to litigations. The directors considered that there is no material impact on the Group's operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. OPERATING LEASES

The Group as lessee for office and other premises

At the end of the reporting period, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**15,261**	20,922
In the second to fifth year inclusive	**26,857**	–
	42,118	20,922

Operating lease payments represent rentals payable by the Group for certain of its office and premises. Leases are negotiated for a term of between two to seven years and rentals are fixed between two to seven years.

The Group as lessor

Property rental income earned during the year was HK$39,569,000 (2017: HK$25,967,000). The properties are expected to generate rental yield of 1.99% (2017: 1.24%) on an ongoing basis. All of the properties held have committed tenants within the next six years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**17,237**	20,455
In the second to fifth year inclusive	**5,542**	4,111
More than five years	**3,668**	4,867
	26,447	29,433

37. CAPITAL COMMITMENTS

As at 31 December 2018, the Group had no capital commitments in respect of its construction of properties, contracted but not provided in the consolidated financial statements (31 December 2017: approximately HK$62,400,000).

The Group had capital commitment in respect of its capital injection of a joint venture, contracted but not provided in the consolidated financial statements amounting to approximately RMB9,000,000, equivalent to approximately HK$10,227,000 (31 December 2017: RMB Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. CONTINGENT LIABILITIES

Contingent liabilities at the end of the reporting period are analysed as follows:

The Company has not recognised any deferred income for the guarantees given in respect of borrowing and other banking facilities as their fair value cannot be reliably measured and transaction was minimal.

As at 31 December 2018, the Group had not provided guarantees to banks for loans (31 December 2017: approximately HK$12,573,000) in respect of the mortgage loans provided by the banks to purchasers of the properties the Group developed and sold. The guarantees were issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates.

As at 31 December 2018, a subsidiary was exposed to litigations in relation to joint and several guarantees provided to certain financial institutions and independent third parties regarding loans and the interest thereon totalling approximately RMB10,015,000 (equivalent to approximately HK$11,381,000) (31 December 2017: RMB34,015,000 (equivalent to approximately HK$40,982,000)) granted to certain independent third parties. The guarantees will be released after the full repayment of the loan and interest thereon. The Group has reached an agreement with other joint guarantors and the lenders that the other joint guarantors are committed to bear the loans and the interest. Therefore, the directors consider the risk to the Company is remote and does not affect the operation of the group. As at 31 December 2018, the Group had settled approximately RMB24,000,000 (equivalent to approximately HK$27,272,000) for the guarantees provided.

The directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 31 December 2018 and 2017.

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Interest payables *HK$'000*	Borrowings *HK$'000*	Amounts due to shareholder's subsidiaries *HK$'000*	Convertible notes *HK$'000*	Total *HK$'000*
At 1 January 2018	93,039	496,366	961,533	20,446	1,571,384
Cash flows	(138,107)	119,640	(282,139)	(1,150)	(301,756)
Disposal of subsidiaries	(3,669)	–	(372,508)	–	(376,177)
Reclassification	(31,504)	366,724	(335,220)	–	–
Interest expenses	135,860	–	–	2,964	138,824
Exchange differences	1,701	(33,640)	28,334	–	(3,605)
At 31 December 2018	57,320	949,090	–	22,260	1,028,670

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

	Interest payables HK$'000	Borrowings HK$'000	Amounts due to related parties HK$'000	Amounts due to shareholder's subsidiaries HK$'000	Amounts due to non-controlling shareholders of subsidiaries HK$'000	Convertible notes HK$'000	Total HK$'000
At 1 January 2017	55,376	1,104,138	963,983	–	1,221	138,486	2,263,204
Cash flows	(149,056)	(562,528)	–	395,620	(120)	(6,047)	(322,131)
Disposal of subsidiaries	–	(95,647)	–	(287,169)	(1,156)	–	(383,972)
Deregistration of subsidiaries	–	–	–	(679)	–	–	(679)
Disposal of an associate	–	–	–	(107,325)	–	–	(107,325)
Converted into ordinary shares	–	–	–	–	–	(123,077)	(123,077)
Reclassification	–	–	(963,983)	963,983	–	–	–
Interest expenses	182,122	–	–	–	–	11,084	193,206
Interest capitalised	3,688	–	–	–	–	–	3,688
Exchange differences	909	50,403	–	(2,897)	55	–	48,470
At 31 December 2017	93,039	496,366	–	961,533	–	20,446	1,571,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) Compensation to key management personnel:

The directors of the Company considered that they are the only key management personnel of the Group and their remuneration has been set out in Note 9.

(b) Related party transactions:

(i) Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entered into the following transactions with related parties:

	Finance costs *(note i)*		**Amounts due to shareholder's subsidiaries (Interest bearing)** *(note ii)*	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Shareholder	**–**	11,084	**–**	–
Shareholder's subsidiaries	**–**	99,154	**–**	961,533
Non-controlling interests	**–**	–	**–**	–
	–	110,238	**–**	961,533

notes:

(i) For the year ended 31 December 2017, the interest paid on the convertible notes and amounts due to related parties. The interest rate ranges from 5.8%-24% p.a.

(ii) The amounts are unsecured and interest bearing. No guarantees have been given.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

(a) General information of subsidiaries

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

Name of subsidiary	Place of incorporation/ establishment/ operation	Paid-up capital/ registered capital	Percentage of issued capital/registered attributable to the Group 2018	2017	Proportion of voting power held 2018	2017	Principal activities
Directly held:							
China Water Property Investment Limited 中國水務地產投資有限公司	British Virgin Islands	USD10,000	**100%**	100%	**100%**	100%	Investment holdings
Green City Development Limited 綠色城市開發有限公司	British Virgin Islands	USD1	**100%**	100%	**100%**	100%	Investment holdings
Green Environmental Resources Limited 綠色環境資源有限公司	British Virgin Islands	USD1	**100%**	100%	**100%**	100%	Investment holdings
Top Rainbow Investment Limited	British Virgin Islands	USD50,000	**100%**	100%	**100%**	100%	Investment holdings
Indirectly held:							
China Water Property Corporate Finance Limited 中國水務地產企業財務有限公司	Hong Kong	HK$10,000	**100%**	100%	**100%**	100%	Investment holdings
First Supreme Limited	British Virgin Islands	USD1	**100%**	100%	**100%**	100%	Investment holdings
Hense Investments Limited 康士投資有限公司	British Virgin Islands	USD1	**100%**	100%	**100%**	100%	Investment holdings
Land Silver Limited	British Virgin Islands	USD1	**100%**	100%	**100%**	100%	Investment holdings
First Dynasty Limited	British Virgin Islands	USD1	**100%**	100%	**100%**	100%	Investment holdings
Hong Kong Walter Hotel Management Group Limited 香港沃爾特酒店管理集團有限公司	British Virgin Islands	USD1	**100%**	100%	**100%**	100%	Investment holdings
China City Infrastructure (Hong Kong) Limited (formerly known as Hong Kong Walter Hotel Management Limited) 中國城基(香港)有限公司(前稱香港沃爾特酒店管理有限公司)	Hong Kong	HK$10,000	**100%**	100%	**100%**	100%	Investment holdings
China Water Real Property Limited 中國水務房地產有限公司	Hong Kong	HK$10,000	**100%**	100%	**100%**	100%	Investment holdings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Paid-up capital/ registered capital	Percentage of issued capital/registered attributable to the Group 2018	2017	Proportion of voting power held 2018	2017	Principal activities
China Water Property Land Development Limited 中國水務地產開發有限公司	Hong Kong	HK$10,000	**100%**	100%	**100%**	100%	Investment holdings
China Water Property (Hong Kong) Group Limited 中國水務地產(香港)集團有限公司	British Virgin Islands	USD1	**100%**	100%	**100%**	100%	Investment holdings
China Water Property Development Limited 中國水務地產發展有限公司	Hong Kong	HK$1	**100%**	100%	**100%**	100%	Investment holdings
Water Property Hubei Group Limited* 水務地產湖北集團有限公司	PRC	RMB200,000,000 *(note i)*	**100%**	100%	**100%**	100%	Property development
HK Mei Lai International (Canada) Limited 香港美來國際(加拿大)有限公司	Hong Kong	HK$10,000	**100%**	100%	**100%**	100%	Investment holdings
Hangzhou Niagra Real Estates Company Limited* 杭州尼加拉置業有限公司	PRC	USD14,900,000 *(note i)*	**100%**	100%	**100%**	100%	Property development and sale of properties
Hangzhou Mei Lai Commercial Corporation Management Company Limited* 杭州美萊商業企業管理有限公司	PRC	RMB30,000,000	**100%**	100%	**100%**	100%	Provision of management services
Hangzhou Pu Tian Property Development Company Limited* 杭州普天房地產開發有限公司	PRC	RMB30,000,000 *(note ii)*	**–**	60%	**–**	60%	Property development and sale of properties
Chunan Yuehuzhuang Hotel Company Limited* 淳安悦湖莊酒店有限公司	PRC	RMB10,000,000	**–**	60%	**–**	60%	Provision of hotel operation
Wuhan Xingiaohui Commercial Property Management Company Limited* 武漢新潮薈商業管理有限公司	PRC	RMB10,000,000	**100%**	100%	**100%**	100%	Provision of management services

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Paid-up capital/ registered capital	Percentage of issued capital/registered attributable to the Group		Proportion of voting power held		Principal activities
			2018	2017	**2018**	2017	
Wuhan Kaiyue Property Development Company Limited* 武漢凱越房地產開發有限公司	PRC	RMB50,000,000	**100%**	100%	**100%**	100%	Property development and sale of properties
Wuhan Future City Hotel Management Company Limited* 武漢未來城大酒店管理有限公司	PRC	RMB5,000,000	**100%**	100%	**100%**	100%	Provision of hotel operation
Wuhan Future City Technology Incubator Company Limited* 武漢未來城科技孵化器有限責任公司	PRC	RMB1,000,000	**100%**	100%	**100%**	100%	Provision of management service
Wuhan Zhong Nan Automobile Parts And Accessories Company Limited* 武漢市中南汽車配件配套有限責任公司	PRC	RMB50,000,000	**100%**	100%	**100%**	100%	Property development and sale of properties
Wuhan Future City Property Management Company Limited* 武漢未來城物業管理有限公司	PRC	RMB500,000	**100%**	100%	**100%**	100%	Provision of management services
China Infrastructure Investments Company Limited 中國基礎設施投資有限公司	Hong Kong	HK$1	**100%**	100%	**100%**	100%	Investment holdings
China Environment Investment Limited 中國環境投資有限公司	Hong Kong	HK$1	**100%**	100%	**100%**	100%	Investment holdings
邁森融資租賃(上海)有限公司	PRC	RMB219,666,229	**100%**	100%	**100%**	100%	Investment holdings
Wuhan Chengji Commodity City Management Company Limited* 武漢城基小商品城商業管理有限公司	PRC	RMB500,000	**100%**	100%	**100%**	100%	Provision of management services
Shenzhen Huafeng Infrastructure Investments Company Limited* 深圳華峰基礎設施投資有限公司	PRC	RMB20,000,000	**100%**	100%	**100%**	100%	Investment holdings

* *For identification purpose only*

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

notes:

(i) Hangzhou Niagra Real Estates Co. Ltd and Water Property Hubei Group Limited are wholly foreign owned enterprises established in the PRC.

(ii) Hangzhou Pu Tian Property Development Co., Ltd. is a sino-foreign joint venture enterprise established in the PRC.

(iii) None of the subsidiaries had any debt securities outstanding during the year or at the end of the reporting period.

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

(b) Material non-controlling interests

The following table lists out the information relating to the consolidated results and financial position of major subsidiaries of the Group which have material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before elimination of any inter-company transactions.

	2017 *HK$'000* Yongxing Zhongtian *(note a)*
NCI percentage	–
Current assets	–
Non-current assets	–
Current liabilities	–
Non-current liabilities	–
Net assets	–
Carrying amount of NCI	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

(b) Material non-controlling interests (continued)

	2017 *HK$'000* Yongxing Zhongtian *(note a)*
Revenue	13,775
Profit and total comprehensive income for the year	(573)
Profit and total comprehensive income allocated to NCI	(172)
Net cash inflow from operating activities	6,692
Net cash outflow from investing activities	(5,025)
Net cash outflow from financing activities	(3,114)
Net cash outflow	(1,447)

notes:

(a) The Group disposed of Yongxing Zhongtian Gas Company Limited ("Yongxing Zhongtian") on 15 December 2017.

42. STATEMENT OF THE FINANCIAL POSITION OF THE COMPANY

	2018	2017
	HK$'000	*HK$'000*
ASSETS		
Non-current asset		
Interests in subsidiaries	**1,095,622**	1,117,286
Current assets		
Other receivables	**716**	509
Bank balances	**1,328**	1,050
	2,044	1,559
TOTAL ASSETS	**1,097,666**	1,118,845
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	**308,228**	308,228
Reserves *(note)*	**732,797**	755,054
TOTAL EQUITY	**1,041,025**	1,063,282
Non-current liability		
Convertible notes – due after one year	**–**	20,446
Current liabilities		
Other payables and accruals	**34,381**	35,117
Convertible notes – due within one year	**22,260**	–
	56,641	35,117
TOTAL LIABILITIES	**56,641**	55,563
TOTAL EQUITY AND LIABILITIES	**1,097,666**	1,118,845
NET CURRENT LIABILITIES	**(54,597)**	(33,558)
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,041,025**	1,083,728

The Company's statement of financial position was approved and authorised for issue by the board of directors on 21 March 2019 and are signed on its behalf by:

Li Chao Bo	**Ji Jiaming**
DIRECTOR	*DIRECTOR*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

42. STATEMENT OF THE FINANCIAL POSITION OF THE COMPANY (continued)

note: Movement in the Company's reserves

	Share premium HK$'000	Contributed surplus HK$'000	Convertible notes equity reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	1,404,662	71,463	42,534	31,507	(1,010,033)	540,133
Issue of shares	184,000	–	–	–	–	184,000
Issue of shares on conversion of convertible notes	128,654	–	(37,146)	–	–	91,508
Share options lapsed	–	–	–	(1,952)	1,952	–
Loss for the year	–	–	–	–	(60,587)	(60,587)
At 31 December 2017 and 1 January 2018	1,717,316	71,463	5,388	29,555	(1,068,668)	755,054
Share options lapsed	–	–	–	(22,542)	22,542	–
Loss for the year	–	–	–	–	(22,257)	(22,257)
At 31 December 2018	1,717,316	71,463	5,388	7,013	(1,068,383)	732,797

The contributed surplus represents the difference between the book values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the Group Reorganisation.

The Company's reserves available for distribution to its shareholders comprise of share premium, contributed surplus, convertible notes equity reserve, share options reserve and accumulated losses which in aggregate amounted to approximately HK$733 million at 31 December 2018 (2017: approximately HK$755 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for distributions or paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distributions or payment of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of retained earnings or other reserves, including the share premium account, of the Company.

43. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, on 3 January 2019, the Group entered into the conditional Sale and Purchase Agreement with Sky Climber Development Limited (the "Vendor") and Yang Zhixiong* (the "Vendor Guarantor") in relation to the acquisition of the Sale Shares by Green City Development Limited, a wholly owned subsidiary of the Group (the "Purchaser") for an aggregate consideration of HK$795,000,000, which will be satisfied by the issue of the Convertible Bonds in the principal amount of HK$431,500,000 and the issue of the Promissory Note in the principal amount of HK$363,500,000 to the Vendor or its nominee. Further details were disclosed in the Company's announcements dated 3 January 2019, 24 January 2019 and 28 February 2019.

* *For identification purpose only*

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Continuing operations					
Revenue	232,170	481,935	496,473	628,890	**293,593**
Profit (loss) from operations	154,302	(61,927)	(151,771)	(104,845)	**(29,293)**
Finance costs	(32,053)	(84,143)	(229,233)	(185,553)	**(138,824)**
Profit (loss) before tax	122,249	(146,070)	(381,004)	(290,398)	**(168,117)**
Income tax (expenses) credit	(64,349)	(35,570)	(66,323)	6,513	**(8,233)**
Profit (loss) for the year before discontinued operation	57,900	(181,640)	(447,327)	(283,885)	**(176,350)**
Discontinued operation	–	–	(6,395)	(5,337)	**–**
Profit (loss) before non-controlling interests	57,900	(181,640)	(453,722)	(289,222)	**(176,350)**
Non-controlling interests	(25,830)	2,346	1,868	2,307	**1,467**
Profit (loss) for the year attributable to owners of the Company	32,070	(179,294)	(451,854)	(286,915)	**(174,883)**
Earnings (losses) per share from continuing and discontinued operations	*HK Cents*	*HK Cents*	*HK Cents*	*HK Cents*	***HK Cents***
– Basic	1.71	(8.77)	(20.75)	(10.80)	**(5.67)**
– Diluted	1.71	(8.77)	(20.75)	(10.80)	**(5.67)**

ASSETS AND LIABILITIES

	Year ended 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	5,835,330	5,690,274	4,914,454	4,008,260	**2,867,835**
Total liabilities	(3,634,964)	(3,791,458)	(3,413,618)	(2,395,926)	**(1,606,472)**
Non-controlling interests	(259,639)	(142,363)	(129,637)	(99,830)	**–**
Equity attributable to owners of the Company	1,940,727	1,756,453	1,371,199	1,512,504	**1,261,363**

PROPERTIES PARTICULARS

Property Projects of the Group at 31 December 2018 is set out below.

	Property Projects	Type	Lease Term	Site Area (Square Metres)	Gross Floor Area (Square Metres)	Stage of Completion	Interest attributable to the Group	Anticipated Completion
1.	Future City Situated on No. 147, Luo Shi Road South, Hongshan District, Wuhan City, Hubei Province, the PRC	Residential/ Commercial/ Hotel	Medium	19,191	145,273	Completed	100%	–
2.	Future Mansion Situated on No. 378, Wu Lo Road, Hongshan District, Wuhan City, Hubei Province, the PRC	Residential	Medium	5,852	42,149	Completed	100%	–
3.	Mei Lai International Centre Situated on Southern side of intersection of Yin Bin Road and Weng Mei Road, Nanyan Street, Yuhang District, Hangzhou City, Zhejiang Province, the PRC	Commercial	Medium	16,448	114,610	Completed	100%	–
4.	Zhongshui • Longyang Plaza Situated on Land Lot No. 19C2 Located at Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	Commercial	Medium	30,625	135,173	Completed	100%	–