SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司

(Stock Code: 1207)

Annual Report 2018

Contents

Corporate Information

Board of Directors

Peng Xinkuang	*(Chairman)*
Liu Feng	*(Chief Executive Officer)*
Chen Donghui	
Chen Chao	
Zhu Qiang	
Qin Wenying	
Jiang Qi	
Zhuo Fumin*	
Chan, Charles Sheung Wai*	
Ma Lishan*	
Han Gensheng*	

* *Independent Non-executive Directors*

Authorized Representatives

Peng Xinkuang
Liu Feng

Company Secretary

Pang Ka Fai Angus

Legal Adviser

Norton Rose Fulbright Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Principal Bankers

Hong Kong:	Agricultural Bank of China
	China CITIC Bank International Limited
PRC:	Industrial and Commercial Bank of China
	Agricultural Bank of China
	China Construction Bank
	Shanghai Pudong Development Bank
	Xiamen International Bank
	China Minsheng Bank
	China Merchants Bank

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business in Hong Kong

Suite 1001, 10th Floor
One Pacific Place
88 Queensway
Hong Kong

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Code

1207

Internet Web Site

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Introduction of the Group

SRE Group Limited (the "Company") and its subsidiaries (the "Group") is an integrated real estate developer focusing on real estate investment and development business in first and second-tier cities in the PRC, particularly in Shanghai, which is geographically the base for the Group's property development business. The Group is committed to actively expanding the project by virtue of integration development of "Real Estate + Industry + Finance". The Group adheres to the dual drive model of real estate development and real estate investment. Continuous efforts will be made on the real estate development in the areas which have already been entered, mainly providing mid and high-end products and ensuring the quality first while speeding up the turnover rate at the same time. The Group also focuses on investment opportunities in the high-growth regions along the "One Belt, One Road".

The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 10 December 1999.

Summary of Results

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Revenue	**1,551**	1,620	3,403	1,419	1,141
Gross profit/(loss)	**474**	384	612	(1,093)	243
Profit/(loss) before income tax	**207**	878	684	(2,168)	450
Income tax (expense)/credit	**(108)**	(158)	(341)	185	(336)
Profit/(loss) for the year	**99**	720	343	(1,983)	114
Non-controlling interests	**15**	(30)	(111)	83	(198)
Profit/(loss) attributable to owners of the Company	**114**	691	232	(1,900)	(84)
Proposed dividends	**–**	–	–	–	–
Earnings/(loss) per share					
– Basic (RMB)	**0.01**	0.03	0.01	(0.28)	(0.01)
– Diluted (RMB)	**0.01**	0.03	0.01	(0.28)	(0.01)

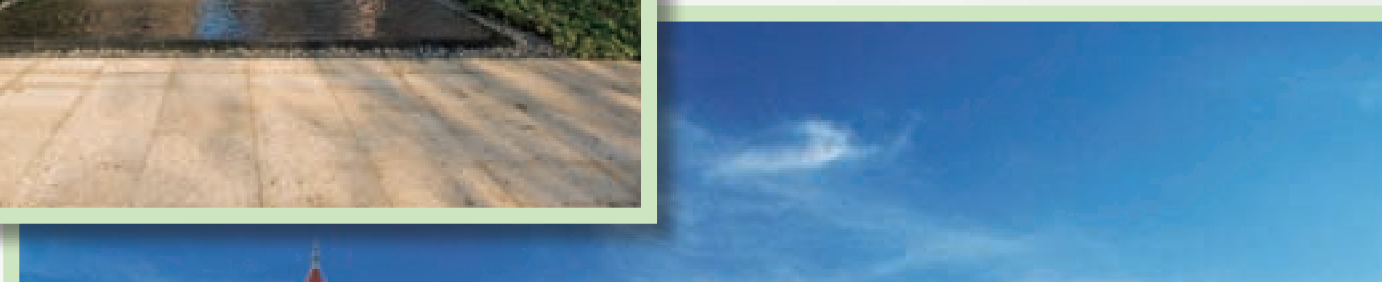
	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Total assets	**20,890**	22,385	22,711	29,155	29,447
Total liabilities	**13,072**	14,571	15,659	22,420	21,871
Net assets	**7,818**	7,814	7,052	6,735	7,576
Cash and bank balances (including restricted cash)	**701**	1,453	1,513	2,555	1,664
Shareholders' funds	**7,445**	7,380	6,674	6,403	7,129

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Return on equity (%)	**2%**	9%	3%	(31%)	(1%)
Current ratio (times)	**0.96x**	1.28x	1.17x	1.24x	2.10x
Total liabilities to net assets ratio (times)	**1.67x**	1.86x	2.22x	3.33x	2.89x
Net debt to shareholders' funds ratio (times)*	**1.66x**	1.78x	2.12x	3.10x	2.83x

* Net debt to shareholders' funds ratio = (Total liabilities – Cash and bank balances)/Shareholders' funds

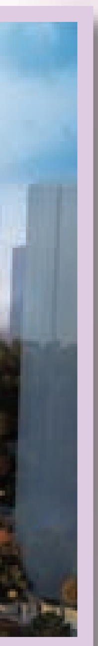
Note: The data for years 2014 to 2016 set out above are extracted from the audited consolidated financial statements of the Group for the relevant years after adjusting retrospectively for the effects of change in presentational currency from Hong Kong dollar to Renminbi adopted in year 2016, while for year 2016, adjustments are also made to reflect the results of discontinued operation in those years on a line by line basis instead of as a single line item. The adjustments made on the results of discontinued operation is not a standard presentation method under Hong Kong Financial Reporting Standards.

Shanghai
Project

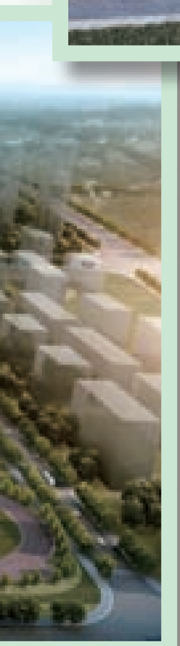


Chengdu
Project

Shenyang
Project



Changsha
Project



Jiaxing
Project


Overseas
Project

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I would like to present the annual report of SRE Group Limited for the year ended 31 December 2018 to you.

Business Review

In 2018, the real estate regulation and control was normalized; local real estate regulatory policies were extensively introduced with equal stresses on enhancement and coverage expansion; domestic structural de-leverage was steadily advanced; the property market funding was tight; channels were narrowed; and financing costs were significantly improved. In 2018, the growth of commercial housing sales in the industry declined as compared with last year. The sales area and amount increased slightly as compared with last year, and the return from housing enterprises was generally facing greater pressure. Facing the pressure of the external environment, the Group maintained its strategic strength, adhering to the dual drive model of real estate development and real estate investment. In terms of sales, the Group seized the favorable opportunity of the market, continued to take advantage of its high-quality branded projects, and increased marketing efforts. As for operations, the Group has strengthened its cost control, optimized procedures, kept up with the progress of projects, and pursued a stable stream of profit and cash flow. In terms of investment, the Group was more cautious in making new investments and managed to catch the right moment to exit the non-strategic projects. In 2018, the Cambodian Residential Project was launched, while the Group grasped the market opportunity to realize return in cash by disposing of some assets at a higher price; the Shanghai project in the Beijing, Shanghai and Shenzhen Asset Package was transferred at a high premium; the Changsha Project attracted additional investment at a premium; sale and purchase agreement of the Caolu asset package was signed at a premium; and also The UK Projects were partially withdrawn, enabling the Group to successfully implement the "real estate + industry" model.

In 2018, the Group's major projects available for sale were Shanghai Xiangzhang Garden, Shanghai Albany Oasis Garden, Jiaxing Project, Shanghai Huating Project, Chengdu Albany Oasis Garden, Shenyang Albany Garden and the Atelier. In 2018, the Group together with its joint ventures and associates had contracted sales amounting to approximately RMB3.266 billion, with a total gross floor area of approximately 87,239 m^2.

Project	**Monetary Amount of Sales Contracts Signed** (RMB'000)	**Contractual Gross Area** (m^2)
Shanghai Xiangzhang Garden	1,809,000	37,061
Shanghai Albany Oasis Garden	760,090	9,398
Jiaxing Project	258,937	25,243
Shanghai Huating Project	129,947	1,270
Chengdu Albany Oasis Garden	128,958	6,036
Shenyang Albany Garden	113,943	7,318
Other projects	64,891	913
Total	3,265,766	87,239

In 2018, the Group recorded a net revenue of approximately RMB1.551 billion (2017: RMB1.620 billion). Gross profit for 2018 amounted to approximately RMB474 million (2017: RMB384 million).

Revenue	**2018 (RMB'000)**	2017 (RMB'000)
Revenue from sale of properties	**1,280,765**	1,394,541
Revenue from property leasing	**161,785**	153,370
Revenue from property management	**18,311**	14,888
Revenue from construction of infrastructure for an intelligent network	**4,985**	8,890
Other revenue	**99,611**	62,949
Less: Tax and surcharges	**(14,148)**	(14,165)
Total revenue	**1,551,309**	1,620,473

Development Projects

Our development projects mainly included Shanghai Rich Gate I, Shenyang Albany Garden, Chengdu Albany Oasis Garden, Changsha Fudi Albany Project, Jiaxing Project, Dalian Oasis City Garden and the Atelier.

Progress of Relocation

Shanghai Rich Gate I (Qinhai Oasis Garden)

As at the end of 2018, contracts were signed for 911 certificates of households (including certificates of individuals) in aggregate, representing a signing rate of 90%; 757 certificates of households (including certificates of individuals) were relocated in aggregate, representing a relocating rate of 75%; contracts were re-signed for 702 certificates of households (including certificates of individuals) in aggregate, representing a re-signing rate of 70%. 19 certificates of enterprises were relocated and settled, accounting for 49% of the total 39 certificates. The first batch of expropriation compensation notices were issued four months in advance before the proposal of project. As at the end of the year, expropriation compensation notices were issued to 168 households, effectively promoted the expropriation work.

Shenyang Albany Garden

In 2018, relocation contracts were signed with 38 households. The signing rate of households was approximately 99%, while signing rate of enterprises and schools was 96%.

Changsha Fudi Albany Project

As of the end of 2018, the project positioning and planning plan has been completed and is currently undergoing approval. There were 99 households in the land area of the project. Signing rate reached 100% for the year; 100% households were demolished; completion rate of tomb relocation of 72.5%.

Dalian Oasis City Garden

The project is located in Wafangdian City and is divided into 9 sections. As of the end of 2018, the Steel Square and the Auto Square have been demolished; contracts for the mobile base station has been signed off; compensation agreements for transfer of land has been signed; the relocation work has been completed and the cost for relocation was well controlled.

Shanty Town Renovation Project in Zhangjiakou

Shanty Town Renovation Project in Zhangjiakou, located in Qiaoxi District, Zhangjiakou, Hebei Province, covers an area of approximately 215 mu and involves residents of 930 households. As of the end of 2018, signing rate was approximately 60.3% in aggregate and 60.1% of relocating was completed.

Progress of Construction

Chengdu Albany Oasis Garden

In 2018, for Phase II of Chengdu Albany Oasis Garden, construction of Blocks No. 3, 4, 5 and 6 were completed in advance, among which, Blocks No. 5 and 6 launched successfully while interior refined decoration for Blocks No. 3 and 4 were started.

Shenyang Albany Garden

In January 2018, Block No. 8 of Section B of Phase II of Shenyang Albany Garden received the certificate of completion and was delivered to the property owners. Section A of Phase III received the certificate of completion in June 2018 and Section B of Phase III is currently pending planning proposal approval, with plot ratio-based area of approximately 21,600 m^2, including the residential area of approximately 206,000 m^2 and commercial area of approximately 10,000 m^2.

Jiaxing Project

The saleable area of Jiaxing Project Lanwan Phase II is approximately 53,000 m^2, including residential gross floor area of approximately 43,000 m^2. The project obtained a construction permit in 2018 and is currently undergoing a basement project.

75 Howard Project in the USA

75 Howard Project in the USA is located in the CBD of the northeast corner of San Francisco, adjacent to the Harbour Bridge. The project has a total saleable area of approximately 20,000 m^2 and is planned to be 120 high end apartments. A groundbreaking ceremony for the project was successfully held in 2018, reported by mainstream media such as Forbes, and is currently undergoing pile foundation engineering work.

The Atelier in the UK

The Atelier in UK is located at Kensington, London, with 43 saleable units and saleable area of 3,259 m^2. The basement project has been completed in the 2018 project and is expected to be delivered smoothly in 2019.

Land Bank

As at 31 December 2018, the Group owned a land bank with a total gross floor area of approximately 2.11 million m^2 in Shanghai, Shenyang, Chengdu, Changsha, Jiaxing, Dalian, London, San Francisco, etc. The Company stays abreast of industry development dynamics, explores its own resources and advantage and is committed to discovering assets which are underestimated or with growth potential.

Commercial Property Operation

In 2018, the Group expanded its marketing and investment channels, increased the introduction of well-known brands, and controlled ineffective cost expenditure to continuously improve operating income.

Oasis Central Ring Centre

As a landmark of the Shanghai Central Ring business district, the Oasis Central Ring Centre, with its high quality Grade 5A office buildings well equipped with all sorts of ancillary facilities, has attracted an increasing number of enterprises to move in. In 2018, the occupancy rate of Oasis Central Ring Centre reached 100%, and the operating revenue was RMB42.38 million.

Shenyang Rich Gate Shopping Mall

Shenyang Rich Gate Shopping Mall is committed to building into a one-stop integrated center with business, leisure and life elements, accommodating for shopping, leisure & entertainment, and food & beverage needs and requirements. The project continued to make tremendous efforts in attracting tenants. In 2018, the leased area reached 77,000 m^2 in aggregate, and the operating income reached RMB39.35 million.

41 Tower Hill Project in the UK

The project is located at the east side of the City of London. It is a freehold property with a site area of approximately 7,000 m^2, and comprises an existing office building and an adjoining car park. Currently, the office building has a floor area of 15,509 m^2 and gross floor area of 21,189 m^2. The office building is leased to Société Générale for a term of about 3 years expiring in March 2020. At present, the direction of the modification has been determined, and it is planned that slight renovation and modification will be made to the project.

12 Moorgate Project in the UK

The project is located in the core district of the City of London, which is a global financial and insurance center. It is a freehold property developed in 1998 with 6 floors and one basement. The property has a rentable area of 3,151 m^2 for office use. At present, a lease intention has been made with the new tenant.

Development of Investment Projects

Cambodian Residential Project

The project is located in the Sen Sok District, west of the Cambodian capital, Phnom Penh. It is adjacent to Russian Boulevard, the only main road that runs through the east and west and connecting the airport to the urban area, and is about 4.5 kilometers from the Phnom Penh Airport and the Prime Minister's Office. The project has a total area of 16,327 m^2, saleable area of approximately 90,000 m^2, including residential of approximately 80,000 m^2 and ancillary commercial of approximately 10,000 m^2. The project was signed at the beginning of 2018, and achieved high turnover as sales were launched in the same year when the project was acquired.

Exit from Investment after Making a Profit

Shanghai Project of Beijing, Shanghai and Shenzhen Asset Package

The project is a commercial project located in Shanghai of the Beijing, Shanghai and Shenzhen Asset Package. It is situated in the prime business district of Plaza 66, West Nanjing Road, Jingan District. The project was acquired at the end of 2016 and tendering for sale was completed in February 2018. The sale price was at a premium of approximately RMB300 million over the listed price. As at the end of 2018, all funds have been recovered and transfer has been completed.

Caolu Project

In July 2016, the Company acquired the debenture of Caolu assets package with RMB205 million. After the acquisition, the Group continued to negotiate with the actual controller for cooperation and contact potential buyers for the debenture. At the end of 2018, it was transferred at RMB308 million with a price premium, demonstrating on successful implementation of the "real estate – financial" model.

The UK Projects

The UK Projects were acquired in 2016. In 2018, after several rounds of negotiations with the partners, the partial exit was successfully achieved.

Major Transactions

1. On 19 April 2018 (after trading hours), SRE Jiaye Real Estate Development (Shanghai) Co., Ltd. (上置嘉業房地產發展(上海)有限公司), an indirect wholly-owned subsidiary of the Company, entered into the Loan Receivable Transfer Agreement with Shanghai Dai Yong Industrial Co., Ltd. (上海戴永實業有限公司), pursuant to which SRE Jiaye Real Estate Development (Shanghai) Co., Ltd. agreed to sell, and Shanghai Dai Yong Industrial Co., Ltd. agreed to acquire, the loan receivables at the consideration of RMB330,000,000 which shall be settled by Shanghai Dai Yong Industrial Co., Ltd. by stage payments in cash. Further details are set out in the announcement of the Company dated 19 April 2018.

2. On 3 May 2018, Sinopower Investment Limited (華通投資有限公司) (a direct wholly-owned subsidiary of the Company), Ronghe International Group Limited (榮和國際集團有限公司) (an independent third party) and Profit Concept Investments Limited (潤斯投資有限公司) (an indirect wholly-owned subsidiary of the Company on 3 May 2018) entered into the Agreement, pursuant to which Sinopower Investment Limited agreed to sell, and Ronghe International Group Limited agreed to purchase, the shares and the loan for a total consideration of approximately £29,475,967.30. Further details are set out in the announcement of the Company dated 3 May 2018.

3. On 15 May 2018 (after trading hours), Shangzhi Asset Management (Shanghai) Co., Ltd. (上置資產管理(上海)有限公司) (a connected person of the Company at the subsidiary level), Shanghai Yidong Investment Management Co., Ltd. (上海意動投資管理有限公司) (an indirect wholly owned subsidiary of the Company), the Company and Shanghai Lake Malaren Hospital Investment Co., Ltd. (上海美蘭湖醫院投資有限公司) (an indirect non-wholly owned subsidiary of the Company) entered into the Capital Injection Agreement, pursuant to which Shangzhi Asset Management (Shanghai) Co., Ltd. has agreed to contribute RMB150 million to the registered capital of Shanghai Lake Malaren Hospital Investment Co., Ltd.. Further details are set out in the announcements of the Company dated 15 May 2018 and 4 June 2018.

4. On 28 June 2018 (after trading hours), Shanghai Jinxin Real Estate Co., Ltd. (上海金心置業有限公司) (a non-wholly owned subsidiary of the Company) entered into the Agreements with, among others, Shanghai Xiangfu Real Estate Development Co., Limited (上海湘府房地產開發有限公司) (a connected person of the Company) pursuant to which, among other things, Shanghai Xiangfu Real Estate Development Co., Limited agreed to sell and Shanghai Jinxin Real Estate Co., Ltd. agreed to purchase 33 units of relocation and resettling properties situated at 2,289 Wan Yuan Road, Minhang District, Shanghai, with a total gross floor area of 2,547.04 square meters, at the purchase price of RMB127,554,308.37. The acquisition is for the purpose of relocating and resettling the incumbent residents affected by the development of the Daxing Project by Shanghai Jinxin Real Estate Co., Ltd.. Further details are set out in the announcement of the Company dated 28 June 2018.

5. On 5 December 2018 (after trading hours), Shanghai Oasis Garden Real Estate Co., Ltd. (上海綠洲花園置業有限公司) (a subsidiary of the Company), China Aviation Trust Co., Ltd. (中航信託股份有限公司) and a joint venture entered into a transfer agreement pursuant to which Shanghai Oasis Garden Real Estate Co., Ltd. agreed to sell and China Aviation Trust Co., Ltd. agreed to purchase the interest at a consideration of RMB500 million. Further details are set out in the announcement of the Company dated 5 December 2018.

The Group's Awards

1. Blocks 3 and 10 of Oasis Central Ring Centre in Shanghai won the title of "2018 Building Contributing Tax of RMB100 Million in Putuo District".

2. Shanghai Jinwu Real Estate Co., Ltd. won the first prize of Contribution to Regional Development of Putuo District, Shanghai in 2018.

3. Jiaxing Project won the "Amber House in Jiaxing Lake" at the 2018 Jiaxing Real Estate Annual Festival.

4. Shanghai Lake Malaren Obstetrical and Gynecological Hospital won the title of "Top 50 Civilization Window" at the first Import Expo.

5. Shanghai Lake Malaren Obstetrical and Gynecological Hospital won the "Excellent Service Award" by the Mother and Baby Union.

6. Shanghai Lake Malaren Obstetrical and Gynecological Hospital won the "Golden Rose Wedding Industry Innovation Award" at the 2018 China-Shanghai the Second International Wedding Fashion Week.

Business Outlook

Looking forward to the future development of the property market, "Houses are for living in, not for speculation" has become a market consensus, and it is expected that the market regulation policy will not relax, the refined adjustment of "Targeted policy for specific city "will continue, and the level of increase in housing prices will gradually be stabilized. At the same time, with the reserve requirement ratio cuts at the beginning of the year, it is expected that the financial environment in 2019 will be relaxed, but it is estimated that more funds will flow to the non-real estate sector, real estate financing will still be difficult, and financing costs will still be higher. Market adjustment of the first and second-tier cities will gradually spread to the third and fourth-tier cities. In particular, some cities are affected by the gradual exit of monetized resettlement compensation, but it is expected that market in general will be stabilized during the adjustment. In general, 2019 will still be another difficult year for real estate enterprises, but opportunities will be created under difficulties. In 2019, the Group will further adhere to the dual drive model of real estate development and real estate investment. In terms of project development, the Group have to improve development and operational efficiency; in terms of real estate investment, capacity building and implementation of all aspects of financing, investment, management and withdrawal have to be strengthened.

Acknowledgement

I would like to take this opportunity to express my gratitude to the colleagues in the Board and the management team, and convey my respect to all front-line staff members. We will face various challenges in the new year, but we firmly believe that under the guidance of the strategies and with the unremitting efforts of all staff, the SRE Group will surely enjoy a brighter future.

Peng Xinkuang
Chairman

28 March 2019

Management Discussion and Analysis

Financial Review

Revenue and profit attributable to shareholders

In 2018, the Group recorded net revenue of approximately RMB1,551 million (2017: RMB1,620 million), which represents a decrease by approximately 4% compared with that of 2017. Profit attributable to owners of the Company in 2018 was approximately RMB114 million while profit attributable to owners of the Company in 2017 was approximately RMB691 million. The decrease was mainly attributable to the decrease in gains arising from the Group's exit from investments as a result of the regulation and control of domestic macro-economy and property industry in China during the year. Despite the decrease in profit attributable to the owners of the Company, as the Group strengthened its cost control during the year, the Group recorded an increase in gross profit from real estate development and a decrease in administrative expense during the year as compared with the corresponding period of last year.

Dividend

The Board has resolved not to recommend the payment of a final dividend in respect of the year ended 31 December 2018 (2017: Nil).

Financial Resources and Liquidity

As at 31 December 2018, cash and bank balances (including cash and cash equivalents and restricted cash) amounted to approximately RMB701 million (2017: RMB1,453 million). Working capital (net current assets) of the Group as at 31 December 2018 amounted to approximately RMB-345 million (2017: RMB1,976 million), representing a decrease of 117% as compared with the preceding year, and the current ratio was approximately 0.96x (2017: 1.28x).

As at 31 December 2018, the Group's total liabilities to total equity decreased to 1.67x (2017: 1.86x). As at 31 December 2018, the Group's gearing ratio was approximately 47% (2017: 48%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balance of approximately RMB701 million) over total capital (total equity and net borrowings).

Employees

As at 31 December 2018, the Group had 482 (2017: 517) employees in Hong Kong and the People's Republic of China. Total staff costs of the Group, excluding Directors' remuneration, for the year 2018 amounted to approximately RMB82 million (2017: RMB211 million). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of each individual employee.

Charges on Assets and Contingent Liabilities

As at 31 December 2018, bank borrowings of approximately RMB3,504 million (2017: RMB3,740 million) were secured by pledge of the Group's certain assets including leasehold land, investment properties, property, plant and equipment, properties held or under development for sale, or by pledge of equity interests in certain subsidiaries or bank deposits.

The Group provided guarantees in respect of the mortgage facilities granted by certain banks to the purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates when the relevant mortgage loans are granted by the banks and end when the purchasers pledge related property ownership certificates as security to the banks offering the mortgage loans. The Group entered into guarantee contracts of principal amounts totaling approximately RMB375 million and these contracts were still effective as at the close of business on 31 December 2018.

The Group did not incur any material losses during the year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The Directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty as the principal of each of the mortgage loan is normally below 70% of sales price of the respective property at date of the sales agreement, and therefore no provision has been made in connection with the guarantees.

The Group also provided guarantee to joint ventures of the Group. As at 31 December 2018, the Group provided guarantee totalling approximately RMB3,259 million (2017: approximately RMB2,826 million).

Information on Business Review

The Group is committed to supporting the environmental sustainability. Being an integrated real estate developer, the Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group. These include regulations on air and noise pollution and discharge of waste and water into the environment. The Group recognizes that our employees, customers and business partners are the keys to our sustainable development. The Group is committed to establishing a close and caring relationship with our employees, providing high quality services to our customers and enhancing cooperation with our business partners.

Details of properties under development for sale:

Project	Location	Land Usse	GFA(sqm)	Expected Date of Completion	Completion Rate of Construction	Group's Holding Proportion
Shenyang Albany Garden	South Heping Street, Heping District, Shenyang, Liaoning Province, the PRC	Phase IIIB/ C Residential	206,851	2021	0%	97.5%
		Phase IIIB/ C Commercial	9,458	2022	0%	97.5%
		Phase IIIB/C Facility	5,100	2022	0%	97.5%
		Phase IIIB/ C Underground	62,010	2021	0%	97.5%
Chendu Albany Oasis Garden	No.555, Ganghua Road, Hongguang Town, Pi County, Chengdu, Sichuan Provience, the PRC	Phase II Section 2 Residential	74,945	2019	99%	100%
Jiaxing Project	No.1, Linghu Road, Nanhu District, Jiaxing, Zhejiang Province, the PRC	Phase II Residential	42,662	2020	5%	100%
		Phase II Commercial	10,556	2020	5%	100%
		Phase II Facility	2,115	2020	5%	100%
		Phase II Underground	20,029	2020	80%	100%
Shanghai Rich Gate I	Daxing Street, Huangpu District, Shanghai, the PRC	Residential	72,660	2023	0%	51%
		Commercial	9,244	2023	0%	51%
		Office	48,600	2023	0%	51%
		Underground	44,000	2023	0%	51%
Changsha Fudi Albany Garden	Pengjia Lane, Laodaohe Street, Kaifu District, Changsha, Hunan Province, the PRC	Phase I Residential	126,287	2021	0%	49.5%
		Phase I Commercial	3,418	2021	0%	49.5%
		Phase I Facility	2,217	2021	0%	49.5%
		Phase I Underground	34,988	2021	0%	49.5%
		Phase II Residential	194,867	2022	0%	49.5%
		Phase II Commercial	5,851	2022	0%	49.5%
		Phase II Facility	6,580	2022	0%	49.5%
		Phase II Underground	50,219	2022	0%	49.5%

Project	Location	Land Usse	GFA(sqm)	Expected Date of Completion	Completion Rate of Construction	Group's Holding Proportion
Dalian Oasis City Garden	West of West Outer Ring Street and South of North Ring Road, Xincheng District, Wafangdian City, Dalian, Liaoning Province, the PRC	Phase I Residential	84,748	2022	0%	51%
		Phase I Commercial	20,234	2022	0%	51%
		Phase I Underground	50,985	2022	0%	51%
		Phase II Residential	100,500	2023	0%	51%
		Phase II Facility	3,600	2023	0%	51%
		Phase II Underground	42,260	2023	0%	51%
		Phase III Residential	43,050	2025	0%	51%
		Phase III Commercial	50,723	2025	0%	51%
		Phase III Underground	47,040	2025	0%	51%
		Phase IV Residential	129,500	2026	0%	51%
		Phase IV Underground	46,820	2026	0%	51%
		Phase V Residential	70,219	2029	0%	51%
		Phase V Commercial	32,750	2029	0%	51%
		Phase V Underground	46,504	2029	0%	51%
Shanghai Albany Oasis Garden	No.699, Zhongxing Road, Jingan District, Shanghai, the PRC	Phase IV Residential	40,000	2025	0%	40%
		Phase IV Commercial	40,000	2025	0%	40%
		Phase IV Office	100,500	2025	0%	40%
		Facility	24,292	2025	0%	40%
Shanghai Malaren World	No.8, Meilanhu Road, Baoshan District, Shanghai, the PRC	Phase II Commercial	62,890	2021	0%	72.63%
		Phase II Facility	736	2021	0%	72.63%
		Phase II Underground	29,257	2021	0%	72.63%
Shanghai Shengnan International Garden	Yongfa Road, Pudong New District, Shanghai, the PRC	Residential	58,178	Not yet decided	0%	100%
The Atelier	45-43 Sinclair Road, London, United Kindom	Residential	6,397	2019	70%	92.91%
75 Howard	75 Howard Street, San Francisco, the USA	Residential	27,236	2021	15%	70%
		Commercial	456	2021	15%	70%
		Underground	3,452	2021	15%	70%
Napa	Devlin Road, Napa, San Francisco, the USA	Hotel	27,247	Not yet decided	0%	78.53%
Romduol	Bourei Muoy Roy Khnang villages, Tuek Thla Commune, Sen Sok District, Phnom Penh City, Cambodia	Residential	82,360	2022	0%	100%
		Commercial	5,061	2022	0%	100%
		Facility	3,267	2022	0%	100%
		Underground	26,284	2022	0%	100%

Details of completed investment properties:

Project	Location	Land Use	GFA (sqm)	Holding Proportion of SRE
Shenyang Richgate	No.118, Harbin Road, Shenhe District, Shenyang City, Liaoning Province, the PRC	Commercial	245,252	100%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shanghai, the PRC	Retail	32,143	97%
Oasis Central Ring Center	Lane 1678, Jinshajiang Road, Putuo District, Shanghai, the PRC	Retail	6,499	97%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shanghai, the PRC	Car Park	57,045	97%
Unit 2605, 2606, 26(3A), 2803, 2806 and 28(3A) of Universal Mansion	No. 172 Yuyuan Road, Jing'An District, Shanghai, the PRC	Office	732	100%
Transportation Hub of Lake Malaren	No. 1088, Luofen Road, Baoshan District, Shanghai, the PRC	Commercial	29,389	72.63%
Retail Street of Lake Malaren	Lane 989, Luofen Road and Lane 555, Luofen Road, Baoshan District, Shanghai, the PRC	Commercial	72,943	72.63%
41 Tower Hill	41 Tower Hill, London, EC3N 4SG	Office/Car Park	21,189	51.1%
12 Moorgate	12 Moorgate London EC2R 6DA	Office	3,151	51.1%

Environmental, Social and Governance Report

1. About this Report

SRE Group Limited (the "Company") hereby releases the environmental, social and governance report ("ESG report") on the Company and its subsidiaries (the "Group" or "we") to introduce to stakeholders the concepts and practices of sustainable development and social responsibility of the Group in two areas, namely environmental and social issues.

The Group has adopted policies and procedures to assess and improve the functions of risk management and internal control, and the Board will review the design, implementation and monitoring of the Group's risk management and internal control systems. For details, please refer to the Corporate Governance Report.

1.1. Reporting Scope

The Report covered the period from 1 January 2018 to 31 December 2018. It covers real estate development and property leasing, which are the principal businesses of the Group, as well as the commercial properties. Key performance indicators in the environmental area disclosed during the Reporting Period include the Group's commercial properties namely Lake Malaren Golf Course in Shanghai (referred to as the "Golf Course") and Lake Malaren Obstetrical and Gynecological Hospital (referred to as the "Obstetrical and Gynecological Hospital"),and Shenyang Rich Gate Shopping Mall (referred to as the "Shenyang Rich Gate Shopping Mall").

Compared to the "ESG report" published in the 2017 Annual Report of SRE Group Limited, in 2018, the Group's commercial property, Crown Plaza Lake Malaren, was converted to property leasing and the Group was no longer responsible for the operation and management of the property, and therefore the property is not included in the disclosure of key performance indicators in the environmental report of the ESG report during the Reporting Period. In addition, the Group has conducted a comprehensive analysis in terms of environmental impact and maturity of the key performance indicators systems, so as to incorporate the Group's commercial property operation project Shenyang Rich Gate Shopping Mall into the disclosure of key performance indicators in the environmental report of the 2018 ESG Report[1].

1.2. Reporting standards and principles

The Group prepared the 2018 ESG Report according to the requirements of the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Report is in full compliance with the "Comply or explain" disclosure requirements and explained the unapplicable disclosure rules.

- "Materiality" principle: The Group determines important ESG issues by stakeholders' participation and importance evaluation;
- "Quantitative" principle: The Report provides quantitative key performance indicators in the environmental aspects of the Group;
- "Balance" principle: The Report presented the Group's environmental and social performance in an unbiased manner;
- "Consistency" principle: The disclosure methodology for disclosing key performance indicators in environment remains consistent with that of the previous year and the scope of disclosure is adjusted.

1. The operating characteristics of Shenyang Rich Gate Shopping Mall is different from that of Crown Plaza Lake Malaren. As such, the key performance indicators in the environmental area of 2018 are not comparable to the key performance indicators in the environmental area of 2017 and the Report only discloses relevant data of 2018.

1.3. ESG Governance

The Group established a sound ESG management system. The board of directors supports the commitments made by the Group in performing enterprise social responsibilities and assumes all responsibilities to the environmental, social and governance strategies of the Group and the reporting of them. The Board regularly reviews the Group's ESG performance and approves the Group' s annual ESG report.

The Senior Management is responsible for assessing and determining the Group's ESG risk to ensure that the Group has in place an appropriate and effective ESG risk management and internal control system and reporting risks and opportunities associated with ESG to the Board and provides confirmation of the effectiveness of the ESG system.

In order to carry out the overall management of ESG, the Group has set up an ESG working group, comprising the asset operation department, the quality management department, the comprehensive and administrative department, the cost and contract department, the financial department as well as other departments, which is responsible for implementing the Board's ESG strategies and policies, performing ESG management and reporting progress to the Senior Management.

1.4. Stakeholder Engagement

We always believe that the effective involvement and continued support of the stakeholders are crucial to the long-term success of our Group. We actively establish a communication mechanism for stakeholders to express their views and suggestions on our sustainable performance and future development strategies.

The stakeholders of the Group come from a wide range of parties, including consumers, employees, shareholders, suppliers, government regulators, non-governmental organizations and local communities, and the opinions and recommendations of the stakeholders are also within the areas in this Report.

- We strictly comply with the requirements of regulatory and governmental authorities and conduct compliance operations;

- We standardize our corporate governance, protect our corporate reputation and communicate with our shareholders and investors through the shareholders' general meeting and regular financial reports;

- We established a communication platform through satisfaction surveys, customer service and customer activities to understand the needs of our customers and improve the quality of our services;

- We communicate with our suppliers by way of on-site communication and daily meetings, so as to create an atmosphere of mutual trust and co-operation;

- We provide our employees with a good workplace, and listen to the employees' views through staff satisfaction surveys, etc;

- We adopt environmental friendly office measures to enhance the efficiency of our resources and protect the environment;

- We actively participate in community activities, promote community development and engage in public service.

1.5. Materiality Assessment

After discussion with our management, combined with the communication results of stakeholders and the actual operation, we recognized the following material ESG and related issues that have a material impact on our Group, including:

2. Quality services

Quality products and services are the foundation of the long-term stability and development of an enterprise. We always insist on a product strategy of refining our products to meet the needs of the market and customers with a view to offering professional and personalized services.

2.1. Strict operation standards

The Group strictly complies with relevant national and industry laws and regulations, including the Law of the People's Republic of China on the protection of Consumer Rights and Interests, the Urban Real Estate Administration Law of the People's Republic of China, the Regulations on the Administration of Urban Real Estate Development and Operation of Real Estate, the Regulations on Quality Control of Construction Work, the Standards on Construction Safety Inspection and the Regulations on the Technical of Fire Safety at Construction Work. In order to improve the quality control requirements of the project, the Group established the following systems to standardize the construction management:

I. Guidelines on Inspection and Operation of Key Points of Project Quality

II. Key Points for Quality Control of Construction Project

III. Assessment of Project Works

IV. Administrative Measures for the Construction of Construction Files

V. Project Management Regulations

VI. Guidelines on On-site management

VII. Administration on Project Completion and Delivery Management

VIII. Operational Guidelines for Safety Civilization Construction Inspection

We continue to improve our safety management system, improve safety management performance, require safety management objectives be set at each construction site, establish a safety work responsibility system, set safety rules and regulations, and assign dedicated safety personnel to meet the requirements, and take into account safety measures in the design of the construction organization. We also conduct three-level safety education on the site staffs, conduct annual safety training on the management staff, and conduct pre-work safety records, and regularly inspect special work certificate and establish a work-related accident management record.

We require project companies to carry out, at least once a month, a site safety and civil engineering inspection by a leading organization led by the project manager, the main contractor and the person in charge of the supervision unit. The inspection project covers all corners of the construction site, including civil construction, construction of elevators, tower hoists, scaffolding, base pits, water and electricity installation, fire safety and other 78 dangerous sources. We will list the inspection items as a list and reflect the inspection results on a scoring basis, and the supervision unit will issue a suspension notice to the site where the score is unsatisfactory until the construction unit has been rectified and passed the inspection before resuming operation.

During the construction process, we actively carried out inspection of the construction project, required each project company to submit a monthly report on the construction work and a half-yearly construction report, strictly monitored the progress of the project, and specified the implementation of various guidelines and management measures to ensure the quality of the construction of each construction project.

Upon completion of the project, each project company will report to the government authorities for completion inspection and acceptance, and the "completion acceptance team", comprising the design units, the construction main contractor, each construction subcontractor and supervision unit, will be responsible for supervising relevant department for acceptance. We have established stringent acceptance standards for completion inspection. The guide on the acceptance of houses sets regulations on the criteria on the delivery of houses on a total of 99 sub-items under 43 items, including the public space, the entrance space, the decoration and components, doors and windows, the kitchen space, the items in the living room, the sanitation and the readings of meters, to guarantee the quality of houses. At the same time, an "inspection and acceptance team" comprising property companies, marketing department and engineering department, will examine various basic conditions prior to the delivery of the project in accordance with the local administration requirements of the project and the agreement with the property company. Each project is implemented with reference to the completion acceptance requirements of the local construction department.

2.2. Customer protection

We actively protect the legal interests of our customers and write the relevant requirements into the Customer Information Management System. We require the office of all operation divisions to define a confidential level for each reported customer's information. All divisions shall follow the confidential levels and perform the responsibilities to clients' information when referring to such information from different divisions and it shall pass relevant reviews. It requires all operation divisions not to keep the clients' information in paper in any forms. Under particular circumstances, it shall print only after being approved by the responsible person of the operation division. For electronic information about clients, it shall set corresponding authorities. When others are found divulging or may divulge clients' information, the employees shall be obliged to prevent and the management shall be obliged to take remedial measures immediately to prevent or reduce losses.

The Golf Course won the titles of "Top Ten Golf Clubs" and "Top Ten Lawns of Golf Clubs" by the China Golf Association for its excellent lawn quality and maintenance techniques as well as its caring and personalized services for consecutive years.

We conduct annual surveys of satisfaction of clients, so as to better serve the clients.

During the Reporting Period, the Golf Course conducted a detailed investigation into every aspect of the service process, collected the customers' comments and opinions on the service sectors such as fitting rooms, starting stations, driving ranges, training ranges, tentacles and pitches, and submitted them to the respective authorities for rectification after the aggregation of the segment. The Obstetrical and Gynecological Hospital has set up a special customer satisfaction survey system and special posts to better ensure that customers' complaints can be resolved immediately. Subsequently, a commissioner will be designated to follow up and conduct in-depth investigation on the person in charge. This has greatly increased the efficiency of the feedback mechanism and effectively reduced complaints. The Obstetrical and Gynecological Hospital clearly sets out the importance of customer service through the "Customer Satisfaction Management System", through which the publicity of maternal and child education and the provision of pre-natal education courses are conducted, so as to create a good environment for the treatment and rehabilitation of clients as far as possible.

Case: Golf training camp for the parents and children in the Golf Course

In April 2018, in order to enrich customers' spare time life and improve service experience we conducted training activities for parents and children, and invited customers to participate with their children, to make parents and children grow together and experience a wonderful family life.

Case: Maternal and Infant Knowledge Publicity in The Obstetrical and Gynecological Hospital

In order to facilitate the better delivery of the "expectant moms", The Obstetrical and Gynecological Hospital regularly conducts maternal and child training for guests, including weight management during pregnancy, postpartum rehabilitation and newborn touch, etc., to create a comfortable, warm and home-like medical experience for guests.

2.3. Strict brand management

We adopt a rigorous brand management and promotion strategy and strictly comply with relevant laws and regulations including the Advertising Law of the People's Republic of China. We have established a press release system to regulate the contents of the external promotional scripts and materials of each operating entity, and to standardize the promotional materials, all publicity materials must be subject to internal review and approval before they can be released. We will regulate this process in the notice on strengthening the relevant work of brand management.

Meanwhile, to strengthen the protection of commercial secrets of the Group, raise the confidentiality awareness of employees and protect the benefits and commercial secrets of the Company, the Group formulated the Measures on Confidentiality of SRE Group according to the Anti-Unfair Competition Law of the People's Republic of China and other relevant laws and regulations, which requires employees to sign the confidential agreement to understand the confidential contents, the rights and obligations, the period of the agreement and the responsibilities on breaching the contract when signing the employment contract with the Company.

3. Caring for Employees

Based on the firm human resources infrastructure and teams management, the Group follows the guidance of system improvement and cultural construction, systematically balance the common development wishes of the Company and the staff and guide the staff actively integrating personal pursuits into the long-term development of the enterprise to build a simple, transparent, sunshine and active working atmosphere. The Group improves the satisfaction and sense of belonging of the staff through continuous improvement of the performance appraisal and remuneration and welfare systems and the improvement of the working environment as well as diversified staff activities.

3.1. Employment

According to the requirements of the Labour Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and other laws and regulations, we have established the following systems:

I. Measures on the Recruitment of SRE Group Limited

II. Dismissal Process of Employees of SRE Group

III. Measures on Attendance and Holidays of SRE Group Limited

IV. Measures on Performance Assessment of Staff of SRE Group

V. Measures on Positions and Levels of SRE Group

VI. Remuneration System of SRE Group

to standardize the management of the employment of employees and safeguard the rights and interests of employees. We place great emphasis on communication and communication with our staff and encourage them to express their views freely.

➢ ***Recruitment, promotion and dismissal***

The recruitment shall be open, fair and impartial. The members of the recruitment group shall be objective and impartial and shall not have discriminations or prejudices against the interviewees. Following the principles of advance planning, wide hunting and strict enrollment, matching the staff with the position as well as fairness and transparency, it implements a recruitment process with the orientation of human resources, attract talents through a wide range of recruitment channels, unifying the quality of the talents. We set the "Hunt for Talent Prize" to encourage the staff to recommend peers or talents with partnership experiences. We also established a talent pool. The materials about the approval on the recruitment are classified based on the year, profession, department and other indexes and filed for management. The resumes of those not recruited are adopted into the talent pool.

Based on the current conditions of operation and management and key demands for strategic development, we set the position order as management and professional technology order, converting our staff from a single management channel to dual-track career development paths for management and professional and technical personnel.

We have formulated a complete Dismissal Process so that the interests of the employees and the Company will not be infringed.

➢ ***Remuneration management***

We formulated a standard remuneration system, which composes the total cash remuneration and the medium-and long-term incentives. The Group follows the principles of "two equalities" and "three matchings". The "two equalities" refer to internal equality and external equality. The "three matchings" refer to that the individual remuneration matches the relative value of the position, the individual remuneration matches the ability, performance and potential and the total remuneration matches the benefits of the Group.

➢ ***KPI management***

In our performance evaluation, we adhered to the principle of "fairness, objectivity and fairness, open communication and compulsory distribution". In accordance with the established rules, we assessed the decision-making ability, leadership, accountability and steady and innovation awareness of our employees in a fair and open manner, and actively promoted the improvement of the performance of the Group and performance of our employees, so as to drive the Group to achieve its strategic objectives.

In 2018, we increased the weighting of the function of cost and the human resources and adjusted the mandatory distribution ratio and performance ratio at the performance level, so that the performance management system could further serve the enterprise.

➢ ***Working hours and holidays***

We adopt a standard working hour system. When the staff has to work overtime for working demands, such staff shall apply to the responsible person of the department and fill in the Approval for Working Overtime for Staff. It will come into effect after being signed and approved by the responsible person of the department. The staff of the Group enjoys statutory holidays. The specific provisions will be adjusted according to relevant laws and policies of the state or the place where the Company is located. The holidays include statutory holidays, marital leaves, maternity leaves, breastfeeding leaves, sick leaves, medical treatment leaves, funeral leaves, work-related injuries leaves and annual paid leaves.

➢ ***Diversification***

We uphold the principle of equal employment, and all departments, organizations and individuals strictly comply with various laws and regulations of the country and local governments, and do not discriminate against any individual employees at all stages of recruitment, labor, salary, training, promotion and compensation due to their personal characteristics such as race, gender, skin color, age, family background, national traditions, religion, body qualities and original nationality.

➢ ***Other treatment and welfare***

Besides statutory holidays, annual paid leaves and other social insurances and the housing provident fund, the Group also provides the staff with annual check-ups, heatstroke prevention subsidies, meals subsidies, transportation subsidies, communication subsidies, birthday welfare and other welfare for the staff. The Group actively organizes the employees to carry out various athletic competitions for their mental and physical health and encourages the employees to actively participate in physical fitness activities.

Case: Staff Fun Golf Game

In August 2018, the Golf Course staff fun game is in full swing at the Masters Course. Staff and management conducted a two-day fun competition and selected the all-around champion, the furthest distance award, the nearest hole award and other awards.

3.2. Health and Safety

We provide employees with a safe, healthy and environmentally friendly working environment and provide them with relevant education and training to cultivate their health, safety and environmental awareness.

We abides by Law on the Prevention and Control of Occupational Diseases of the People's Republic of China and other laws and regulations on health and safety. In the Employee Manual, the Group requires the employees to implement rules and regulations on safe production carefully, perform their own safety duties in a practical way, follow management and cooperate in completing safety inspection. They shall have the obligation to prohibit others' unsafe behaviors and report hidden dangers. The employees shall have the right to refuse commands against rules on safety production.

We identify possible risks on the health and safety of the employees under the office environment, such as fire hazard, accidental injury and elevator faults. We take targeted solutions, strengthen the training and education on employees and offers regular physical examination for employees. We formulated the emergency procedures for personal injuries and Rescue Plan in Fire Emergency, takes scientific first aid measures for wounded personnel to protect the physical health of employees. To test the feasibility of the rescue plan, we carried out training for each rescue team so that it could be ready in a timely manner in an emergency and ensure the safety of personnel and significant materials during the rescue process.

To avoid damages to customers caused by lightning incidents at the Golf Course and implement the principle of "safety enjoys top priority", it requires all employees of the Company to understand the specific operation processes of the lightning warning. The two lightning warning equipment on the Golf Course divides the lightning forecast into three levels with alarms. Additional lightning rods have also been built up in the southern and northern courses. The Group has also established operation process for warnings at all levels at the course.

The Obstetrics and Gynecology Hospital also established emergency response plans for each risk point in its operations, and regularly conducts safety training for employees, including self-cleaning, emergency response plan education, and fire protection knowledge education.

Case: Golf Course Heatstroke Prevention Training

Prior to the approach of summer, due to the operational characteristics of the Golf Course, in order to safeguard the health of our employees at work and to prevent accidents, we arranged first-aid training for all our heads of departments and outdoor staff in the prevention of heat cooling and cardiac pulmonary resuscitation. All staff of the outdoor department are involved.

3.3. Development and Training

We create an equal and fair working environment for employees. For the fostering and selection of talents, we consistently improve the overall quality of the team through consistent training on employees and inspiring the potential of employees. We consistently improve the construction of talent teams to maintain the leading advantages in labor performance and the comprehensive benefits of human resources and fully guarantee and promote the achievement of the strategic goals of the Company.

In order to facilitate new employees' understanding of the working process of their positions and help them work in role rapidly and undertake working tasks, we formulated the Measures on the Training of New Employees to standardize the training of new employees. We introduce all the relevant policies to new employees, demonstrate the corporate culture and long-term plans, increase employees' confidence in work, help them understand the development path and set the targets for occupational development by providing a high-quality training project. Meanwhile, the Group lays stress on the overall development of its employees by actively organizing staff training for quality development.

Case: Internal Training of "New Logic in the Real Estate Industry after the 19th National Congress"

In January 2018, the seventh phase of the "SRE Gathering" of the SRE Group (the first issue of 2018) "The New Logic of the Real Estate Industry after the 19th National Congress" was officially opened, a total of 20 colleagues from the headquarter, the business units and China Minsheng Bund,the brother units, of the SRE Group participated in the internal sharing training.

We provide internal and external training to our employees on various vocational skills, and we have developed different internal training series, including “SRE Gathering”, “Corporate Culture Training” and “ SRE Plan”, based on different focus points:

- SRE Gathering: Combine industry trends to share the frontier dynamics of the real estate industry and enhance employees’ sensitivity;
- Corporate Culture Training: Strengthen emotional ties, optimize working atmosphere, and strengthen employee’s sense of belonging through corporate culture construction;
- SRE Plan: Improve professional competence through general training such as workplace etiquette and time management.

Each department of the Group also organizes its own special training and internal sharing activities to help employees improve their professional quality and strengthen their professional capabilities. In combination with the Group’s business, we have also organized staff and leadership to participate in external training, improve management capabilities, and enable employees to access the latest industry trends. In addition, we actively organize employee activities to enhance corporate cohesion.

Case: Hui-Hang Road staff activities

Faced with the opportunities and challenges in business in 2018, we carried out the quality development of “Beyond Self, Fighting 2018” for staffs, aiming to further motivate employees’ work enthusiasm, enhance their convictions, rally people’s hearts, and strengthen corporate culture and team building.

Case: The Obstetrics and Gynecology Hospital Business Training

The clinics of The Obstetrics and Gynecology Hospital regularly carry out business training, and comprehensively enhance the business ability of medical staff through the implementation of the “service concept” and “medical behavior norms” and other general-level courses at the hospital level. In addition, the Obstetrics and Gynecology Hospital regularly conducts simulated disease emergency drills to strengthen the emergency response capacity of medical staff and improve service level.

3.4. Labor Standards

The Group strictly abides by the Regulation on Provision on the Prohibition of Using Child Labor and Regulations of the State Council on employee's working hours and other relevant laws and regulations. The Group resolutely eliminates child labors and forced labors. In order to further strengthen relevant work, the Group appoints third-party companies to conduct background surveys on every employee and prepare reports for filing to prevent academic and age fraud and further eliminate the employment of child labors.

We established the standard working time and the application for working overtime to prevent breaching labor standards. We also made further provisions in the Measures on Attendance and Holidays of SRE Group Limited to safeguard the interests of employees in a practical way.

4. Serving the Society

The Group requires itself to shoulder social responsibilities to be assumed as a listed company and requires all employees to fulfill the commitment to clients, closely connecting capital aggregation of the Company with social value accumulation, prosperity of the Company with prosperity of the state. It emphasizes the improvement of its value in the society as a whole and returns the society through actively participating in public welfare undertakings to make positive contributions to the progress of the country and the harmony of the society.

4.1. Compliant Operation

We abide by the Group Law of the People's Republic of China, the Bidding Law of the People's Republic of China, the Regulation on the Management of Construction, Tendering and Biding of Project Construction, the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Prohibiting Commercial Briberies, the Anti-Money Laundering Law of the People's Republic of China and other laws and regulations and actively calls for and requires leaders at all levels and employees consciously keeping the person conduct of law-abiding, integrity, honesty, self-disciplined and dedication. It established a complete anticorruption mechanism through ideological education, institutional prevention and behavior restriction.

In order to maintain the normal production and operation order, promote all work in an orderly way and improve the inspection and reporting work, the Group formulated the System on the Management of Inspection and Reporting of SRE Group, Notice on Strengthening the Company's Integrity Management, providing that all staff of the Group and companies and persons with business relationship with the Group can use the special email the Group for inspection and reporting, to report all problems affecting the normal operation of the Group. The Group monitors the behaviors of the Group and its subsidiaries and companies it invested in violation of laws and regulations of the state and relevant management systems of the Company as well as behaviors jeopardizing the normal benefits of the Company, those such key processes as bidding and tendering, procurement of materials, financial capitals management, significant investment management, selection and appointment of employees, project visas management, commercial operation management, relocation management and marketing management in particular.

The Group requires all staff to sign the Integrity Agreement to improve the professional quality and professional ethics of the staff and prevent operation and ethical risks. Meanwhile, to implement relevant laws and regulations on anti-commercial briberies, safeguard fair competition and the legitimate interests of parties involved and prevent inequitable conducts, the Group includes the Performance Guarantee and the Integrity Agreement into the bidding documents and requires Party A and Party B to jointly abide by integrity commitments.

In 2018, the Group issued the "Code of Conduct for the Integrity of SRE Group Limited", which put forward relevant requirements for employees' external communication, daily work and ethics, strengthened the integrity education of the Group's employees, formed a loyal, pragmatic, honest and efficient working style.

4.2. Partnership

We continuously provide products and services with high cost performance and quality in the market. It consistently adheres to the concept of product responsibility for sustainability and conducts full cooperation with suppliers. Through the meticulous management and control of the full value chains in property development, it creates value for clients through client services in the design, construction, promotion and even the whole process.

We standardize our tender procurement procedures by adopting the following systems:

I. Details on the Operation of Invited Bidding of SRE Group

II. Measures on Bidding and Procurement of SRE Group

III. Details on the Operation of Easy Bidding

IV. Procurement Management and Supervision System of the Lake Malaren Assets Package

V. Guidelines for the Management of Supplier of the SRE Group and the Attachments thereto

VI. SRE Group Cost Management Method

We standardized the tender process, clearly specified the division of responsibilities and responsibilities for inviting tenders, and formulated a series of model tendering procedures, and assessed the common form and tender evaluation criteria in accordance with the types of construction, supply and installation, equipment supply, supervision and design. We actively controlled the supply chain and included the Safety Responsibility Agreement in the tender documents, the performance bond and the clean-up agreements, and provide construction subcontractors with environmental, health and safety (EHS) requirements, so as to deepen and instill the concept of sustainable development of safety and environmental protection into all business segments.

In order to regulate the procurement organizations and responsibilities of the Lake Malaren Assets Package and clarify the responsibilities of the procurement personnel, new renovation projects of fixed assets, low-value consumables, materials for items, raw materials, etc. will be managed in a centralized manner, and a self-owned supplier base is intended to establish, with a view to further strengthening the management and restriction of the environmental and social risks the suppliers are faced with.

We maintain a good communication with our suppliers and listen to their voices, forming a harmonious and good cooperative relationship. We set up a dedicated email address for suppliers to communicate and report complaints, and designate person to conduct regular check and track responses.

In 2018, we have standardized the management of our suppliers throughout their entire life cycle, including access to treasury, register management and performance assessment, and strengthened the management of power management and responsibility for cost management and procurement contract positions.

4.3. Community Investment

The Group formulates Measures on Charitable & Public Welfare Activities of SRE Group to standardize the charitable and public welfare activities. Based on the relations between business activities of the Company and community interests determined by regular appraisal and in combination with its business characteristics, the Group provides various public welfare activities with brand characteristics in diversified forms to promote social development and progress in many ways and fulfill due social responsibilities of an enterprise citizen.

Case: Shenyang Rich Gate Shopping Mall "Cool Heroes Supply Station"

Shenyang Rich Gate Shopping Mall is committed to launching a love refrigerator with built-in summer drinks. Traffic police, sanitation workers, couriers, food delivery staff and other municipal workers can take it with themselves, and send a cool message to the workers who hold the job. Sending a caring and hard work to those who are actively contributing to the city.

Case: Traditional Chinese Medicine Doctors in The Obstetrics and Gynecology Hospital

In order to better fulfill corporate social responsibility, the Obstetrics and Gynecology Hospital regularly organizes "Traditional Chinese Medicine Clinics" activities, and provides free clinics for residents in the surrounding communities, and special lectures to popularize health knowledge.

5. Environmental Protection

We pay close attention to the impact of corporate operations on the environment, seriously implement our environmental protection management system and measures, and strive to enhance our resources and energy efficiency and fulfill our environmental responsibilities as a corporate citizen. We always follow the principles of being responsible for natural environment and adjusting measures to local conditions with meticulous design. We also integrate land-saving, energy saving, water-saving, material-saving, interior environmental technologies, green construction and operation management with the positioning of projects to strive to reduce the effects of the operation activities on the environment.

In the course of our operations, we strictly comply with the following laws and regulations, and we will adhere to the attitude of being responsible for the environment in every detail of our daily operations:

I. the Environmental Protection Law of the People's Republic of China

II. the Energy Conservation Law of the People's Republic of China

III. the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution

IV. the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste

V. the Law of the People's Republic of China on the Prevention and Control of Water Pollution

VI. The Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise

5.1. Emissions

➢ ***Waste Water, Gas Emission and Noise***

We set requirements on emissions on the general contractor of construction in the Measures on the Assessment of Project Management to prevent environmental pollution from the source. We also adopted requirements on the control of dusts, noises and water pollution on the field in the Guideline on Safe and Civilized Construction and Inspection.

The emission of waste gas by the Group is mainly from fuel combustion in the construction of buildings and the operation of properties, the emission of dusts from the construction and the emission of kitchen fumes. The Group adopts various measures to prevent and control the emission of waste gas. For example, the Golf Club installed fumes purification equipment based on the operation size. Fumes are emitted through the special smoke channel at high altitudes.

The discharge of waste water by the Group is mainly from industrial waste water and domestic waste water from the operation of properties. The Group strictly abides by the Law of the People's Republic of China on the Prevention and Control of Water Pollution and adopts corresponding control and prevention measures on waste water. The Golf Course adopted separate systems for the discharging of rainwater and waste water. The waste water with oil from kitchens will be handled by oil separators or oil-water separators to meet the Standard on the Quality of Water to be Discharged into Urban Sewers before emission. The Obstetrics and Gynecology Hospital conducts special monitoring on various indicators of waste water discharge and issues monthly monitoring reports to prevent excessive discharge of waste water.

Details of the waste water discharged by the Group during the reporting period are set out in the table below.

Indicator	Emission Volume	Unit
Waste water	157,165.40	Tonne
COD[1]	12.07	Tonne
N-NH3[1]	0.99	Tonne
Residual chlorine[1]	0.06	Tonne

Note:

1. All domestic waste water arising from the operation of Shenyang Rich Gate Shopping Mall are discharged to the municipal pipe network. As a result, we cannot monitor its emission volume of COD, N-NH3 and residual chlorine. To ensure the accuracy of data, the three indicators of COD, N-NH3 and residual chlorine only cover Golf Courses and The Obstetrics and Gynecology Hospital.

➢ *Greenhouse gas*

The emission of greenhouse gases by the Group is mainly the greenhouse gases direct emissions caused by the consumption of fuels and the greenhouse gas energy indirect gas emissions caused by the consumption of electricity in the construction and operation. The Group adopted various active measures to promote green production and strengthen energy saving and emission reduction to reduce the emission of greenhouse gases by the Group.

Details of the greenhouse gas emissions of the Group during the reporting period are set out in the table below.

Indicator [1]	Emission Volume	Unit
Scope 1: Greenhouse gas direct emissions	793.55	tCO_2e
Scope 2: Greenhouse gas energy indirect emissions	19,149.97	tCO_2e
Total greenhouse gas emissions	19,943.52	tCO_2e
Greenhouse gas emissions intensity	112.52	tCO_2e/revenue of RMB1 million

Note:

1. Greenhouse gas (GHG) is measured in terms of carbon dioxide and is calculated in accordance with the National Development and Reform Commission's Guidelines on the Measures and Reporting of Convertible Gas Emissions by China Chemical Production Enterprises.

➢ *Wastes*

The discharge of solid wastes by the Group mainly includes non-hazardous waste such as earthwork and construction waste from the construction and domestic wastes, kitchen wastes, and hazardous waste from Golf Courses and The Obstetrics and Gynecology Hospital. For the waste caused by the construction process, we require the general contractor to strictly comply with the laws and regulations of the state and industry for compliance disposal, and incorporate the garbage cleanup as an assessment item for safe and civilized construction management into the "Engineering Management Assessment Measures", requiring the construction unit to clean up construction waste in a timely manner. We collect wastes and entrust them with relevant qualified units designated by the city's environmental sanitation department.

Both Golf Courses and The Obstetrics and Gynecology Hospital established a hazardous waste management process. The Golf Course identifies the waste generated according to the "Hazardous Waste List" and entrusts hazardous wastes such as used pesticide bottles to qualified units for recycling. The Obstetrical and Gynecological Hospital has formulated a strict system for treatment of medical wastes, and has developed a series of "systems for the management of medical wastes". Strict requirements have been put in place in respect of each step of the process, including registration, collection, handing over, transferring, storing, and handing over to qualified third parties for processing. In addition, the hospital has also established the Responsibilities of the Responsible Person of the Department for Medical Wastes, Requirement on Rewards and Punishments for Management of Medical Wastes in the Hospital, as well as the Prescribed Plan for the Occurrence of Loss of Medical Wastes in the Hospital, thus developing a comprehensive system for the management of medical waste.

Details of the hazardous wastes and non-hazardous wastes discharged by the Group during the reporting period are set out in the table below.

Indicator	Emission Volume	Unit
Medical wastes	6.99	Tonne
Waste and discarded pesticide bottles	0.30	Tonne
Total hazardous wastes	**7.29**	**Tonne**
Total hazardous waste intensity	**0.04**	**Tonne/revenue of RMB1 million**
Domestic wastes	2,526.60	Tonne
Kitchen oil and grease	0.60	Tonne
Kitchen wastes	21.60	Tonne
Total non-hazardous wastes	**2,548.80**	**Tonne**
Total non-hazardous wastes intensity	**14.38**	**Tonne/revenue of RMB1 million**

5.2. Use of Resources

The Group strictly abides by the Energy Conservation Law of the People's Republic of China and other relevant laws and regulations and implements the responsibilities to the environment in all details in routine operation to enhance the saving awareness of employees and popularize the awareness on green operation in a practical way. It requires all staff participating in water-saving, electricity saving and energy-saving work to ensure that everyone is responsible for saving and makes their own contributions.

The main energy consumption of the Group is electricity consumption in the construction and operation while the water consumption is mainly the domestic water in the construction and operation. Except some water used by Golf Course from surface water, the water we used come from municipal water and there are no issue in sourcing water. In order to implement the scientific outlook on development and strengthen energy-saving management in a practical way and promote the establishment of green industrial chains, the Group actively monitors the energy and water saving in the construction process of the general contractor and project companies and adopted it in the Measures on the Assessment of Project Management.

Golf courses and The Obstetrical and Gynecological Hospital also strengthen the monitoring of energy consumption in their own operations.

- The Golf Course has formulated the "Energy Management System" to regulate the use of green water, and promoted sprinkling irrigation, micro irrigation, trickle irrigation and other water-saving irrigation methods, and conduct regular observable analysis of the water usage;

- The Obstetrical and Gynecological Hospital has formulated the "Water-saving Management System for the Hospital", "Electricity-saving Safety Management System for the Hospital" and "Environmental Sanitation Management System for the Hospital", which encourage all departments to advocate water conservation, electricity conservation and rational use of resources.

In addition, we are actively creating green office spaces and adopting green office measures, including:

- Save electricity consumption on office equipment and set the energy-saving model when they are not in use. Newly purchased electric equipment must meet the stipulated energy labels and turn off electric equipment during non-working hours;

- Save water in bathrooms: strengthen routine maintenance and management of water equipment and prevent water running for long time;

- Encourage employees to conduct e-offices, choose telephone and email communication methods, and encourage employees to use video conferencing systems to reduce unnecessary travel and reduce vehicle emissions;

- Standardize the procurement of office products, approve and issue process, control the quantity of office products issued, encourage recycled use, and establish the system for waste paper collection.

In 2018, we carried out the official car reform in accordance with the requirements of the "Workplace Management Measures of SRE Group", "Notice on Further Improving Income and Savings", and used quota subsidies to encourage employees to use public transportation. Auction a part of high-displacement old official vehicles, arrange work reasonably, minimize the use of motor vehicles, and reduce greenhouse gas emissions.

Details of consumption of resources of the Group during the reporting period are set out in the table below.

Energy [1]	Indicator	Emission Volume	Unit
Direct energy	Gasoline	367.57	MWh
	Diesel	186.23	MWh
	Natural gas	3,276.10	MWh
Total direct energy consumption		**3,829.89**	**MWh**
Indirect energy	Electricity	9,951.31	MWh
	Thermal	29,815.18	MWh
Total indirect energy consumption		**39,766.49**	**MWh**
Total energy consumption		**43,596.38**	**MWh**
Energy consumption intensity		**245.97**	**MWh/revenue of RMB1 million**
Water consumption		**562,038.00**	**Tonne**
Water consumption intensity		**3,171.04**	**Tonne/revenue of RMB1 million**

Notes:

1. The total energy consumption is calculated based on the amount of electricity purchased, natural gas consumption, diesel consumption, gas consumption and the default values of fossil fuel related parameters in Appendix 1 of the "Guidelines for the Accounting and Reporting of Greenhouse Gas Emissions of Public Building Operating Enterprises" issued by the National Development and Reform Commission and the default value of Appendix 2 fuel density.

2. Key Performance Indicators A2.5, The consumption of packaging materials used in finished products and the amount of production per unit of are not applicable to the Group and are therefore not disclosed in the report.

5.3. The Environment and Natural Resources

The Golf Course use pesticides and fertilizers in its routine operation. To protect the biodiversity surrounding the area and prevent the effects on the environment and natural resources, the Golf Courses strive to minimize issues on environmental protection and has formulated a series of management measures, including:

- Environment-friendly pesticides shall be adopted;
- Strictly control the issuing and collection of pesticides and fertilizers;
- Store the bottles and bags for pesticides in different categories and deliver them to professional agencies for handling;
- Regularly collect water and soil samples from the course and deliver them to professional inspection departments for testing and handle problems in time after being found, and apply the same as scientific reference for rational fertilizing in the coming year;
- Strengthen the publicity and promotion of environmental protection and raise the environmental protection awareness of the staff.

Directors and Senior Management

Directors

Executive Directors

Mr. Peng Xinkuang, aged 43, was appointed as an Executive Director and the Chief Executive Officer of the Group on 4 December 2015. He was also a member of the Investment Committee of the Company. Mr. Peng had been re-designated as the Chairman of the Board, the chairman of the Investment Committee of the Company and appointed as the chairman of the Nomination Committee of the Company, and ceased to be the Chief Executive Officer of the Group on 24 October 2017. Mr. Peng is currently a chairman of the board of China Minsheng Jiaye Investment Co., Ltd.. Mr. Peng has extensive experience in the real estate development fields, including primary land development, region comprehensive development, new urbanization construction etc. Mr. Peng obtained an executive master of business administration degree at Central South University, and is now pursuing a doctor's degree in finance business administration from Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University. Mr. Peng had held various positions in the past, including the positions as the chairman of Meixi Lake Investment (Changsha) Co., Ltd. (梅溪湖投資(長沙)有限公司), an executive director and the general manager of Changsha Meixi Lake Industrial Co., Ltd. (長沙梅溪湖實業有限公司) and the chairman of Changsha Pilot Public Utilities Company (長沙先導公共設施公司). Also, Mr. Peng has also been the person-in-charge of the planning and construction department of government. He is also a director or general manager of other members of the Group.

Mr. Liu Feng, aged 50, was appointed as an Executive Director and the Chief Executive Officer of the Group and a member of the Investment Committee of the Company on 24 October 2017. Mr. Liu graduated from Fudan University with a bachelor's degree in laws in 1992 and a master's degree in laws from Fudan University in 1997. In 2003, he earned a master's degree in laws from the University of Connecticut. Mr. Liu has extensive experience in real estate investment and development. He has participated in the development and management of projects such as Hilton Sanya Yalong Bay Resort & Spa and The Ritz-Carlton Sanya Yalong Bay projects, Yazhouwan project, Yunnan Lijiang project, Shanghai North Bund project etc. Mr. Liu joined China Jin Mao Group Co., Ltd. (now known as Jinmao (China) Hotel Investments and Management Limited, a company listed on the Stock Exchange, stock code: 06139) in July 2000, and had held a number of positions including secretary to the president office, deputy general manager of the investment management department, general manager of the operational management department, chief operation officer, vice-president. During such period, Mr. Liu also served as the owner's representative of Hilton Sanya Yalong Bay Resort & Spa, The Ritz-Carlton Sanya Yalong Bay, JW Marriott Hotel Shenzhen and The Westin Beijing Chaoyang, etc. Mr. Liu has been the general manager of Sanya Yazhouwan Economic Development Co., Ltd. of China Jinmao Holdings Group Limited (a company listed on the Stock Exchange, stock code: 0817) since May 2012. He has acted as the committee member of Communist Party of China and vice-president and senior vice-president of China Jinmao Holdings Group Limited since August 2013. He is also a director of other member(s) of the Group.

Mr. Chen Donghui, aged 45, was appointed as an Executive Director on 6 June 2016. Mr. Chen holds a doctorate degree from the accounting faculty of Renmin University of China. Mr. Chen is currently the president of China Minsheng Jiaye Investment Co., Ltd.. Mr. Chen had served as a supervisor and a vice supervisor of the strategic research office of the R&D center of The People's Insurance Company of China Limited, a deputy general manager and then the general manager of the finance and accounting department of PICC Property and Casualty Company Limited and the deputy general manager of its Jiangsu branch, the general manager of the strategic financing department of China Export & Credit Insurance Corporation, and an executive director of financial sector of China Minsheng Investment Corp., Ltd.. Mr. Chen had served as the chief financial officer of China Minsheng Drawin Technology Group Limited (now known as China Minsheng DIT Group Limited), a company listed on the Stock Exchange (stock code: 726) during the period from September 2015 to May 2016 and Mr. Chen was appointed as a non-executive director of China Minsheng Drawin Technology Group Limited from 28 June 2016 to 8 May 2018. Mr. Chen has been appointed as an executive director of Yida China Holdings Limited, a company listed on the Stock Exchange (stock code: 3639) since 31 December 2016.

Mr. Chen Chao, aged 39, was appointed as an Executive Director on 4 December 2015. Mr. Chen is the chief investment officer of China Minsheng Jiaye Investment Co., Ltd.. Mr. Chen obtained a bachelor's degree in international business management from Fudan University in 2002. Mr. Chen holds the qualification of certified public accountant in the People's Republic of China. Before joining China Minsheng Jiaye Investment Co., Ltd., Mr. Chen had engaged in auditing and financial advisory work and had held various positions, including the positions as a co-director of the financial advisory department of Ernst & Young (China) and an auditing manager of KPMG (China). Mr. Chen was appointed as a non-executive director of Yida China Holdings Limited, a company listed on the Stock Exchange (stock code: 3639) since 31 December 2016.

Mr. Zhu Qiang, aged 39, was appointed as an Executive Director on 4 December 2015. He is also a member of the Investment Committee of the Company. Mr. Zhu is the vice president of China Minsheng Jiaye Investment Co., Ltd. Mr. Zhu obtained a bachelor's degree in management engineering in 2002 and a master degree in technology economics and management in 2005 from Tongji University. Mr. Zhu has over 10 years of experience in real estate investment and development and had held various positions, including the positions as a deputy general manager of Franshion Real Estate Changsha Co., Ltd. (方興地產長沙有限公司), the general manager of Changsha Meixi Lake Jinyue Properties Co., Ltd. (長沙梅溪湖金悦置業有限公司), a senior investment manager of the investment and development department of Franshion Properties (China) Limited (now known as China Jinmao Holdings Group Limited), a company listed on the Stock Exchange (stock code: 817), an investment director of the investment management department of Jinmao Group (中國金茂集團) and an industry analyst of the administration department of Yunfeng Group (雲峰集團). He is also a director of other member(s) of the Group.

Ms. Qin Wenying, aged 55, was appointed as an Executive Director on 6 June 2016. Ms. Qin graduated from Fudan University with a Bachelor's degree in Philosophy in July 1986 and obtained an advanced master of business administration degree from Fudan University in April 2004. She has been qualified as a senior human resources professional authenticated by the Ministry of Human Resources and Social Security and as a senior political scientist authenticated by the State-owned Assets Supervision and Administration Commission. Ms. Qin has over 20-year experience in establishment of human resources and corporate culture and operation management and supervision management in property development and hotel management and property management industry. Ms. Qin had held various positions in the past. In 1998, she joined Sinochem Group; from 1998 to 2010, she worked as the deputy head of the chief executive office, general manager of human resources department, vice chairman of labour union and supervisor of China Jin Mao (Group) Limited (currently known as Jinmao (China) Hotel Investments and Management Limited (stock code: 6139)); in May 2010, she was the chairman of labour union, the director of the department of Party-civilian relationship and the officer of the disciplinary and inspection department of Franshion Properties (China) Limited (currently known as China Jinmao Holdings Group Limited) (stock code: 817); in August 2014, she was the deputy general manager of the Shanghai office of China Jinmao; in August 2015, she was appointed as the secretary of the disciplinary committee of Sinochem International Corporation listed on the Shanghai Stock Exchange (stock code: 600500).

Mr. Jiang Qi, aged 36, was appointed as an Executive Director on 13 July 2018. Mr. Jiang graduated from California State Polytechnic University, Pomona in the USA with a bachelor's degree in business administration in 2007. Mr. Jiang has many years of work experience in administrative personnel management, project sites management and marketing planning. Mr. Jiang joined SRE Investment Holding Limited in 2007, and he served as assistant of general manager and deputy general manager in Shenyang Lixiang New Town Development Co., Ltd.* (瀋陽李相新城置業有限公司), a subsidiary of SRE Investment Holding Limited from July 2007 to April 2009. He also served as deputy general manager in Shanghai Shuo Cheng Real Estate Co., Ltd.* (上海碩誠置業有限公司) from May 2009 to August 2012; the person-in-charge of the preparatory working group of The Westin Haikou from August 2012 to June 2013; deputy general manager in Guo Kai Chuan Sha (Shanghai) Urban Investment Development Co., Ltd.* (國開川沙(上海)城鎮投資發展有限公司), a subsidiary of SRE Investment Holding Limited, from September 2013 to December 2017.

Independent Non-executive Directors

Mr. Zhuo Fumin, aged 67, was appointed as an Independent Non-executive Director on 30 November 2010. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983 and obtained a master degree in economics from Fudan University in 1997. Mr. Zhuo served senior positions such as the assistant officer and the head of the administrative office of the Shanghai Economic System Reform Committee. Subsequently, Mr. Zhuo held various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the chief executive officer and the vice chairman of Shanghai Industrial Holdings Limited, a company listed on the Stock Exchange (stock code: 363) and the chairman and an executive director of SIIC Medical Science and Technology (Group) Limited. Mr. Zhuo devoted to private equity investment since 2002, and was the chairman and the chief executive officer of Vertex China Investment Co., Ltd., a wholly owned subsidiary of Vertex Management Group which is a global venture capital fund management company. Mr. Zhuo co-founded SIG Capital Limited. Since 2008, Mr. Zhuo has been a partner of GGV Capital. Mr. Zhuo was previously a director of Grandhope Biotech Co. Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300238), an independent director of Focus Media Holding Limited, a company listed on NASDAQ (former stock code: FMCN, currently privatized), and an independent non-executive director of Shenyin Wanguo (H.K.) Limited (now known as Shenwan Hongyuan (H.K.) Limited), a company listed on the Stock Exchange (stock code: 218). Currently, Mr. Zhuo is an independent director of Daqo New Energy Corp., a company listed on the New York Stock Exchange (stock code:

DQ) and a non-executive director of Besunyen Holdings Company Limited, a company listed on the Stock Exchange (stock code: 926). He also serves as an independent director of China Enterprise Company Limited, a company listed on the Shanghai Stock Exchange (stock code: 600675). Mr. Zhuo was appointed as an independent director of Arcplus Group Plc, a company listed on the Shanghai Stock Exchange (stock code: 600629) since September 2015, an independent director of Focus Media Information Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 2027) since January 2016 and an independent non-executive director of Sinopharm Group Co. Ltd., a company listed on the Stock Exchange (stock code: 1099) since March 2016. Mr. Zhuo was appointed as an independent director of Shanghai Shine-link International Logistics Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 603648) since September 2016.

Mr. Chan, Charles Sheung Wai, aged 65, was appointed as an Independent Non-executive Director on 10 July 2012. He is also the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Chan obtained a bachelor of commerce degree at the University of Manitoba, Canada in 1977. He is a member of the Chartered Accountants of Canada as well as a member of the Hong Kong Institute of Certified Public Accountants. He started his career as an audit staff at the Canadian office of Arthur Andersen in 1977 and was admitted to partnership in 1988. He subsequently joined the China/Hong Kong office of Arthur Andersen as an audit partner in 1994. For the period from July 2002 to June 2012, he was a partner of the China/Hong Kong Office of PricewaterhouseCoopers. Mr. Chan served as a member of the Listing Committee of the Stock Exchange during the period from 1998 to 2001 and also served as a member of the Selection Committee for the first Legislative Council of the Hong Kong Special Administrative Region in 1998. From 1996 to 1999, he was a council member of the Hong Kong Society of Certified Public Accountants (the "Society"). He had also served as a member of the accounting standards committee of the Society, a member of the auditing standards committee of the Society and the chairman of the China technical committee of the Society. Mr. Chan is currently an independent non-executive director of Changyou.com Limited, a company listed on NASDAQ (stock code: CYOU). Mr. Chan formally acted as an independent non-executive director of CITIC Securities Company Limited, a company listed on the Stock Exchange (stock code: 6030) and the Shanghai Stock Exchange (stock code: 600030) since 9 May 2016. Mr. Chan resigned as an independent non-executive director of SPI Energy Co., Ltd., a company listed on NASDAQ (stock code: SPI) on 29 April 2016. Mr. Chan was appointed as an independent non-executive director of Maoyan Entertainment, a company listed on the Stock Exchange (stock code: 1896) on 22 August 2018, effective on 4 February 2019.

Mr. Ma Lishan, aged 67, was appointed as an Independent Non-executive Director on 31 March 2016. He is also the chairman of the Remuneration Committee and a member of the Nomination Committee and the Investment Committee of the Company. He has extensive experience in corporate operation and management. Mr. Ma graduated from Beijing Foreign Studies University in the People's Republic of China in 1975. Mr. Ma served in various managerial positions such as chairman, executive director and general manager in certain large-scale grain, edible oil, food processing corporations and Great Wall Wine under China Oil & Foodstuff Corporation. From January 1996, Mr. Ma served as an executive director of China Foods Limited* (中國食品有限公司), a company listed on the Stock Exchange (stock code: 506). From May 1997 to June 2003, Mr. Ma served as executive director and managing director of China Foods Limited. In 2000, Mr. Ma served as the vice president of China Oil & Foodstuff Corporation. From June 2008 to January 2009, Mr. Ma was an executive director of Sino Resources Group Limited (now known as Elife Holdings Limited), a company listed on the Stock Exchange (stock code: 223). From March 2008 to present, he is an independent non-executive director of Silver Base Group Holdings Limited, a company listed on the Stock Exchange (stock code: 886). From August 2009 to present, he is an independent non-executive director of Sunac China Holdings Limited, a company listed on the Stock Exchange (stock code: 1918). From September 2010 to August 2012, he was also the executive director, managing director and chairman of Hao Tian Resources Group Limited (now known as Hao Tian Development Group Limited), a company listed on the Stock Exchange (stock code: 474). He was the senior consultant in Hao Tian Development Group Limited from August 2012 to August 2016. Mr. Ma was appointed as an independent non-executive director of China Minsheng Drawin Technology Group Limited (now known as China Minsheng DIT Group Limited), a company listed on the Stock Exchange (stock code: 726) since 28 June 2016 and an independent non-executive director of Huarong International Financial Holdings Limited, a company listed on the Stock Exchange (stock code: 993) since 19 August 2016.

Mr. Han Gensheng, aged 64, was appointed as an Independent Non-executive Director on 12 October 2016. He is also a member of the Audit Committee of the Company. He has extensive experience in corporate management. Mr. Han graduated from Shanghai Maritime University and obtained a bachelor's degree in Ocean Transport in 1978. Mr. Han has worked in various positions since August 1978, including the director of the logistics and warehousing division of China National Chemicals Import & Export Corporation* (中國化工進出口總公司), the general manager of Sinochem International Storage & Transportation Co., Ltd.* (中化國際儲運有限公司), the vice president of America West Pacific Refinery Co., the general manager of West Rockies Inc., the general manager of petroleum division II of China National Chemicals Import & Export Corporation* (中國化工進出口總公司), the vice president and a party member of Sinochem Group, the general manager of Sinochem International Oil Co., Ltd.* (中化國際石油有限公司), the general manager of Sinochem Petroleum Exploration and Production Co. Ltd.* (中化石油勘探開發有限公司), the general manager of Sinochem Corporation and the general manager of Sinochem Europe Holdings PLC.* (中化歐洲集團公司). Mr. Han was appointed as an independent non-executive director of Yida China Holdings Limited, a company listed on the Stock Exchange (stock code: 3639) since 31 December 2016.

Senior Management

Mr. Lv Yun, aged 43, was appointed the vice president of the Group in 2016. Mr. Lv obtained a bachelor degree in business administration from Tongji University in 2000 and a master degree in finance from Shanghai University of Finance and Economics in 2012. Mr. Lv has over 12 years of experience in the aspect of investment and development in real estate, and had worked in various positions, including the deputy general manager of Changsha Company of China Jinmao Holdings Group Limited, a company listed on the Stock Exchange (stock code: 817) and the general manager of sales planning department of Jinmao Investments (Changsha) Co., Ltd* (金茂投資(長沙)有限公司). He had also worked in companies such as Forte Group Sales Planning* (復地集團營銷策劃), Cushman & Wakefield* (戴德梁行) and Eslite Real Estate* (誠品房地產).

Mr. Pang Ka Fai Angus, aged 49, was appointed as the Company Secretary of the Company on 14 June 2016. He has 27 years of experience in financial management, corporate finance and corporate secretarial work. Mr. Pang holds a master's degree of corporate governance from the Hong Kong Polytechnic University, a bachelor degree of business administration in accounting, and is a fellow member and a Chartered Governance Professional of the Hong Kong Institute of Chartered Secretaries, and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Pang is also a member of Regulatory Committee of The Hong Kong Independent Non-Executive Director Association.

Mr. Zong Shihua, aged 37, who has obtained master degree, and is a senior accountant and an auditor, is currently the chief financial officer of the Group. Mr. Zong obtained a bachelor degree in economics from Nantong University in 2003, a master degree in accounting from Shanghai Jiao Tong University in 2013, and a master degree in business administration from Fudan University in 2014. He worked as an auditor in Jiangsu Gaoshen CPA* (江蘇皋審會計師事務所) in 2003. He was a financial manager of Shanghai Zhong Rong International Business Center Co., Ltd.* (上海中融國際商城有限公司) and Shanghai Zhong Rong Property Management Co., Ltd.* (上海中融物業管理有限公司) from 2004 to 2007. He worked as the vice financial director (hosting) and chief taxation officer of Zhong Rong Group* (中融控股集團) in 2007. Mr. Zong joined China Minsheng Investment Corp., Ltd.* (中國民生投資股份有限公司) in 2015 and worked as the financial general manager of China Minsheng Bund Real Estate Development Co., Ltd.* (中民外灘房地產開發有限公司). In December 2015, he joined the Group as the general manager of the financial asset department and was appointed the chief financial officer on 1 May 2016. Mr. Zong has over 15 years of work experience in the areas of development and investment of real estate, property leasing and the development of accounting practice.

Report of the Directors

The directors of the Company (the "Directors") have pleasure in submitting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

Principal Activities

The Group are mainly engaged in real estate development and investment in Mainland China, on projects located in gateway cities of developed markets. The principal activities of its principal subsidiaries, joint ventures and associates are respectively set out in notes 46, 22 and 21 to the consolidated financial statements.

Segmental Information

Details of the Group's revenue and profit or loss by principal activity and geographical area for the year ended 31 December 2018 are set out in note 4 to the consolidated financial statements.

Results

Details of the Group's results for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income. No interim dividend was declared by the board of the Directors (the "Board"). The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

Bank Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 32 to the consolidated financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are respectively set out in the consolidated statement of changes in equity and in note 47 to the consolidated financial statements.

Distributable Reserves

As computed in accordance with the Companies Act 1981 of Bermuda, the Company does not have retained profits for distribution to shareholders as at 31 December 2018 (2017: Nil). The share premium account with balance of approximately RMB5,046 million (2017: RMB5,046 million) may be distributed when certain conditions are met.

Share Capital

There was no movement in share capital during the year. Details of the share capital of the Company are set out in note 30 to the consolidated financial statements.

Financial Summary

A financial summary of the Group is set out on page 5 of this annual report.

Business Review

The information on business review of the Group for the year ended 31 December 2018 is provided in the Chairman's Statement and Management Discussion and Analysis of this annual report.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of Listed Securities

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

Fixed Assets and Investment Properties

Details of the movement in fixed assets and investment properties of the Group are respectively set out in notes 17 and 18 to the consolidated financial statements.

Related Party Transactions

Details of the related party transactions (which also include connected transactions) of the Group for the year ended 31 December 2018 are set out in note 42 to the consolidated financial statements. Except for the connected transaction mentioned below, the related party transactions as set out in note 42 to the consolidated financial statements do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Connected Transactions

On 15 May 2018, Shangzhi Asset Management (Shanghai) Co., Ltd. (the "Investor") (a connected person of the Company at the subsidiary level), Shanghai Yidong Investment Management Co., Ltd. ("Shanghai Yidong") (an indirect wholly owned subsidiary of the Company), the Company and Shanghai Lake Malaren Hospital Investment Co., Ltd. (the "Target Company") (an indirect non-wholly owned subsidiary of the Company) entered into the Capital Injection Agreement (Note 1), pursuant to which the Investor agreed to contribute RMB150 million to the registered capital of the Target Company.

As at 15 May 2018, the Target Company was held as to approximately 57.14% by Shanghai Yidong and approximately 42.86% by the Investor. Upon completion of the Capital Injection (Note 2), the equity interest held by Shanghai Yidong in the Target Company will be diluted from approximately 57.14% to 40%. Therefore, the Capital Injection contemplated under the Capital Injection Agreement constituted a deemed disposal of the Group's equity interest in the Target Company under Rule 14.29 of the Listing Rules. The Target Company would remain as a non-wholly owned subsidiary of the Company and its financial results would continue to be consolidated into the financial statements of the Group.

Each of the grant of the Call Option (Note 3) and the Put Option (Note 4) was treated as a transaction by the Company pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules. As the exercise of the Call Option or the Put Option by the Investor was not at the discretion of Shanghai Yidong or the Company, the transaction would be classified on the grant of the Call Option and the Put Option (as the case would be) as if it had been exercised according to Rule 14.74 of the Listing Rules. On 15 February 2019, the Investor issued the exercise notice of Put Option to Shanghai Yidong, requiring Shanghai Yidong to repurchase 60% equity interest of the Target Company held by the Investor before 26 March 2019, with a total consideration of RMB324 million. Currently, Shanghai Yidong has completed the payment of repurchase amount and the share transfer procedures is in progress.

The Investor was a substantial shareholder of the Target Company, an indirect non-wholly owned subsidiary of the Company. Accordingly, the Investor was a connected person of the Company at the subsidiary level. Each of the Capital Injection, the grant of the Call Option and the grant of the Put Option constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rules 14.22 and 14A.81 of the Listing Rules, the Capital Injection was required to be aggregated with the First Capital Injection (Note 5) and the grant of the Call Option as they were all entered into within a 12-month period. As one or more of the applicable percentage ratios in respect of the Deemed Disposal (Note 6) (i.e. the Capital Injection), when aggregated with the First Capital Injection and the grant of the Call Option (with reference to the Maximum Call Option (Note 3) Interest), exceed(s) 5% but was/were less than 25%, the Deemed Disposal constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules and was subject to the reporting and announcement requirements.

Since (i) the Investor was a connected person of the Company at the subsidiary level; (ii) the Board had approved the Capital Injection Agreement and the transactions contemplated thereunder; and (iii) the independent non-executive Directors had confirmed that the terms of the Capital Injection Agreement were fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole (despite the Capital Injection not being in the ordinary and usual course of business of the Group), each of the Capital Injection (as aggregated with the First Capital Injection and the grant of the Call Option) and the grant of the Put Option was only subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. Further details of the Deemed Disposal were disclosed in the announcements of the Company dated 15 May 2018 and 4 June 2018.

On 28 June 2018, Shanghai Jinxin Real Estate Co., Ltd. (the "Purchaser") (a non-wholly owned subsidiary of the Company) entered into the Agreements (Note 7) with, among others, Shanghai Xiangfu Real Estate Development Co., Limited (the "Vendor") (a connected person of the Company) pursuant to which, among other things, the Vendor agreed to sell and the Purchaser agreed to purchase the Target Properties (Note 8) at the Purchase Price of RMB127,554,308.37. The Acquisition (Note 9) was for the purpose of relocating and resettling the incumbent residents affected by the development of the Daxing Project by the Purchaser.

As at 28 June 2018, the Vendor was an associate of Zhongchong Group Co., Ltd., which was an indirect substantial shareholder of the Purchaser. As such, the Vendor was a connected person of the Company. Accordingly, the Acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition were more than 0.1% but less than 5%, the Acquisition was subject to the reporting and announcement requirements but was exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Further details of the Acquisition were disclosed in the announcement of the Company dated 28 June 2018.

Notes:

		Definitions
(1)	"Capital Injection Agreement"	a capital injection agreement dated 15 May 2018 and entered into among the Investor, Shanghai Yidong, the Company and the Target Company in relation to the Capital Injection
(2)	"Capital Injection"	the capital injection of RMB150 million (for illustration purpose only, equivalent to approximately HK$186,000,000 using the exchange rate of RMB1: HK$1.24) by the Investor to the registered capital of the Target Company as contemplated under the Capital Injection Agreement
(3)	"Call Option"	Shanghai Yidong has warranted and guaranteed to the Investor that the audited operating net profit of the Target Company shall not be less than (i) RMB6 million for the financial year ended 31 December 2018; (ii) RMB8 million for the financial year ended 31 December 2019; and (iii) RMB10 million for the financial year ended 31 December 2020 (the "Guaranteed Amounts").

Definitions

Pursuant to the Capital Injection Agreement, in the event that the audited operating net profit of the Target Company is less than 90% of the relevant Guaranteed Amount for the corresponding financial year, the Investor shall have the right, exercisable by the Investor in its sole discretion, to either:

(i) require Shanghai Yidong to transfer to it (the "Call Option"), as compensation and at a nominal consideration of RMB1, certain percentage of equity interest in the Target Company in proportion to the shortfall in operating profit, subject to a maximum percentage of 4% equity interest in the Target Company (the "Maximum Call Option Interest"); or

(ii) dispose of its equity interest in the Target Company.

(4)	"Put Option"	Pursuant to the Capital Injection Agreement, despite the provisions under the Call Option, the Investor shall have the right, exercisable in its sole discretion, to require Shanghai Yidong to acquire from it (the "Put Option") all of its equity interest in the Target Company within a period specified by the Investor and at a consideration to be agreed between the Investor and Shanghai Yidong (the "Put Option Exercise Price") (which shall be no less than the aggregate amount of actual contributions by the Investor to the registered capital of the Target Company and subject to the maximum amount of RMB380 million (the "Put Option Maximum Exercise Price")) upon the occurrence of certain specified events, including: (i) the Target Company having recorded additional loss exceeding a certain threshold; (ii) the actual net profit of the Target Company being less than 70% of the relevant Guaranteed Amount for the corresponding financial year; (iii) material changes in management personnel or principal business of the Target Company without the consent of the Investor; or (iv) early termination of the Capital Injection Agreement by the Investor pursuant to the terms therein by reason of breaches by Shanghai Yidong, the Company or the Target Company of its obligations under the Capital Injection Agreement ("Early Termination by Investor").
(5)	"First Capital Injection"	In March 2018, the Investor (Shangzhi Asset Management (Shanghai) Co., Ltd. (上置資産管理(上海)有限公司), a third party independent of the Company and its connected persons at the relevant time), has subscribed for and contributed RMB150 million to the registered capital of the Target Company(Shanghai Lake Malaren Hospital Investment Co., Ltd. (上海美蘭湖醫院投資有限公司))
(6)	"Deemed Disposal"	the deemed disposal of approximately 17.14% equity interest in the Target Company by Shanghai Yidong to the Investor as a result of the Capital Injection
(7)	"Agreements"	the Sale and Purchase Agreement and the Supplemental Sale and Purchase Agreement
(8)	"Target Properties"	33 units of relocation and resettling properties situated at 2,289 Wan Yuan Road, Minhang District, Shanghai with a total gross floor area of 2,547.04 square meters
(9)	"Acquisition"	the acquisition of the Target Properties by the Purchaser from the Vendor pursuant to the Agreements

Directors

The directors who held office during the year and as of the date when the annual report was published are:

Executive Directors

Mr. Peng Xinkuang
Mr. Liu Feng
Mr. Chen Donghui
Mr. Chen Chao
Mr. Zhu Qiang
Ms. Qin Wenying
Mr. Jiang Qi *(appointed on 13 July 2018)*
Mr. Shi Janson Bing *(resigned on 13 July 2018)*

Independent Non-executive Directors

Mr. Zhuo Fumin
Mr. Chan, Charles Sheung Wai
Mr. Ma Lishan
Mr. Han Gensheng

The Company had received confirmation from each of the Independent Non-executive Directors of their independence pursuant to Rule 3.13 of the Listing Rules and considered all Independent Non-executive Directors to be independent.

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Bye-laws of the Company, Mr. Peng Xinkuang, Mr. Chen Donghui, Mr. Chen Chao, Ms. Qin Wenying and Mr. Jiang Qi will retire at the forthcoming annual general meeting of the Company, and being eligible, will offer themselves for re-election.

Biographical details for the Directors are set out on pages 50 to 53 of this annual report.

Change in Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, change in the information of the Directors since the disclosure made in the Interim Report 2018 and up to the date of this annual report of the Company is set out below:

Name of Director(s)	Detail(s) of Change
Mr. Chan, Charles Sheung Wai	Appointed as an independent non-executive director of Maoyan Entertainment, a company listed on the Stock Exchange (stock code: 1896) on 22 August 2018, effective on 4 February 2019.

Directors' Emoluments

The fixed annual remuneration of the Executive Directors is determined by the Remuneration Committee of the Company. Each Executive Director is also entitled to an annual management bonus under the relevant service contract, the amount of which is to be determined by the Board from time to time, provided that the aggregate management bonus payable to all Executive Directors for a financial year shall not be more than 10% of the Company's net profit after taxation and non-controlling interests as shown in the audited consolidated financial statements of the Company for the relevant year.

Details of Directors' emoluments are set out in note 11 to the consolidated financial statements.

Directors' Service Contracts

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

Directors' Interest in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director, or an entity connected with a Director, of the Company had a material interest (direct or indirect), subsisted at the end of the financial year or at any time during the year ended 31 December 2018.

Directors' Rights to acquire Shares or Debentures

Save as disclosed in the section of Share Option Scheme of this report, 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 debt securities (including debentures) of, the Company or any other body corporate.

Directors' and Chief Executives' Interests in Shares, Underlying Shares and Debentures

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the 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 Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Long position in shares of the Company (the "Shares") and underlying Shares

Name of Director	Personal interests	Family interests	Corporate interests	Total	Approximate percentage of shareholding
Peng Xinkuang	112,000,000 *(Note 1)*	–	–	112,000,000	0.54%
Zhu Qiang	84,000,000 *(Note 1)*	–	–	84,000,000	0.41%
Qin Wenying	84,000,000 *(Note 1)*	–	–	84,000,000	0.41%
Chen Donghui	56,000,000 *(Note 1)*	–	–	56,000,000	0.27%
Chen Chao	56,000,000 *(Note 1)*	–	–	56,000,000	0.27%
Zhuo Fumin	–	160,000 *(Note 2)*	–	160,000	0.0008%

Notes:

(1) This refers to the underlying Shares covered by share options granted, such options being unlisted physically settled equity derivatives.

(2) These Shares were held by Madam He Pei Pei, the spouse of Mr. Zhuo Fumin.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Company, nor any of their close associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2018, so far as is known to any Director or chief executive of the Company, the following persons, other than a Director or chief executive of the Company, had interests of the Company or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under the section 336 of the SFO:

Long positions in the Shares

Name of Shareholder	Capacity	Number of issued ordinary Shares interested in	Approximate percentage of shareholding
China Minsheng Investment Corp., Ltd.	Interest in controlled corporation	15,435,567,128 *(Note 1, 3 & 4)*	75.06%
China Minsheng Jiaye Investment Co., Ltd.	Interest in controlled corporation	15,435,567,128 *(Note 1, 3 & 4)*	75.06%
Jiaxin Investment (Shanghai) Co., Ltd.	Interest in controlled corporation	15,435,567,128 *(Note 1, 3 & 4)*	75.06%
Jiasheng (Holding) Investment Limited	Interest in controlled corporation	15,389,659,128 *(Note 1, 3 & 4)*	74.84%
Jiashun (Holding) Investment Limited	Beneficial owner and interest in controlled corporation	15,389,659,128 *(Note 1, 3 & 4)*	74.84%
Shi Jian	Beneficial owner and interest in controlled corporation	2,902,666,119 *(Note 2, 3 & 4)*	14.11%
Si Xiao Dong	Beneficial owner and interest in controlled corporation	2,889,661,452 *(Note 2, 3 & 4)*	14.05%
SRE Investment Holding Limited	Beneficial owner and interest in controlled corporation	2,889,659,128 *(Note 2, 3 & 4)*	14.05%
Regal Glory Limited	Interest in controlled corporation	2,022,761,390 *(Note 4)*	9.84%
Starite International Limited	Interest in controlled corporation	2,022,761,390 *(Note 4)*	9.84%
Sun Lu Dong	Nominee for another person (other than a bare trustee)	2,022,761,390 *(Note 4)*	9.84%
Pau Shing Kwan	Nominee for another person (other than a bare trustee)	2,022,761,390 *(Note 4)*	9.84%

Name of Shareholder	Capacity	Number of issued ordinary Shares interested in	Approximate percentage of shareholding
Jiabo Investment Limited	Interest in controlled corporation	2,889,659,128 *(Note 3 & 4)*	14.05%
Jia Yun Investment Limited	Interest in controlled corporation and person having a security interest in shares	2,889,659,128 *(Note 3 & 4)*	14.05%
Jiazhi Investment Limited	Interest in controlled corporation	2,022,761,390 *(Note 4)*	9.84%
Zhi Tong Investment Limited Partnership	Beneficial owner	2,022,761,390 *(Note 4)*	9.84%

Notes:

(1) China Minsheng Investment Corp., Ltd. holds a 67.40% direct interest in China Minsheng Jiaye Investment Co., Ltd., which holds a 100% direct interest in Jiaxin Investment (Shanghai) Co., Ltd., which in turn holds a 100% interest in Jiasheng (Holding) Investment Limited. Jiashun (Holding) Investment Limited is a wholly-owned subsidiary of Jiasheng (Holding) Investment Limited. Therefore, China Minsheng Investment Corp., Ltd., China Minsheng Jiaye Investment Co., Ltd., Jiaxin Investment (Shanghai) Co., Ltd. and Jiasheng (Holding) Investment Limited are all deemed to be interested in all the Shares held by Jiashun (Holding) Investment Limited for the purposes of the SFO.

(2) These Shares comprise 13,006,991 Shares held by Mr. Shi Jian, 2,324 Shares held by Madam Si Xiao Dong and 2,889,659,128 Shares interested in by SRE Investment Holding Limited. As each of Mr. Shi Jian and Madam Si Xiao Dong owns more than 30% of SRE Investment Holding Limited, they are deemed to be interested in all the Shares interested in by SRE Investment Holding Limited for the purposes of the SFO.

(3) 866,897,738 Shares held by SRE Investment Holding Limited (in which Mr. Shi Jian and Madam Si Xiao Dong are deemed to be interested) are charged to Jia Yun Investment Limited (in which China Minsheng Investment Corp., Ltd., China Minsheng Jiaye Investment Co., Ltd., Jiaxin Investment (Shanghai) Co., Ltd., Jiasheng (Holding) Investment Limited, Jiashun (Holding) Investment Limited and Jiabo Investment Limited are deemed to be interested), SRE Investment Holding Limited retains the voting rights of Shares.

(4) Pursuant to a sale and purchase agreement dated 28 December 2017 entered into by, among others, SRE Investment Holding Limited and Zhi Tong Investment Limited Partnership, SRE Investment Holding Limited agreed to sell to Zhi Tong Investment Limited Partnership 2,022,761,390 Shares. Jiazhi Investment Limited is a general partner of Zhi Tong Investment Limited Partnership, and is held as to 60% by Jia Yun Investment Limited and 40% by Starite International Limited. Jia Yun Investment Limited is also a limited partner of Zhi Tong Investment Limited Partnership. Jia Yun Investment Limited is wholly-owned by Jiabo Investment Limited, which was in turn wholly-owned by Mr. Xia Shu. On the other hand, Starite International Limited is wholly-owned by Mr. Pau Shing Kwan (as nominee for and on behalf of Regal Glory Limited); and Regal Glory Limited is in turn wholly-owned by Mr. Sun Lu Dong (as nominee for and on behalf of SRE Investment Holding Limited). On 26 June 2018, all the shares held by Mr. Xia Shu in Jiabo Investment Limited were transferred to Jiashun (Holding) Investment Limited. Therefore, China Minsheng Investment Corp., Ltd., China Minsheng Jiaye Investment Co., Ltd., Jiaxin Investment (Shanghai) Co., Ltd., Jiasheng (Holding) Investment Limited, Jiashun (Holding) Investment Limited, Jiabo Investment Limited, Jia Yun Investment Limited, Mr. Shi Jian, Madam Si Xiao Dong, SRE Investment Holding Limited, Mr. Sun Lu Dong, Regal Glory Limited, Mr. Pau Shing Kwan, Starite International Limited and Jiazhi Investment Limited are all deemed to be interested in the 2,022,761,390 Shares held by Zhi Tong Investment Limited Partnership for the purposes of the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors nor the chief executives of the Company was aware of any other person (other than a Director or chief executive of the Company) or corporation who had an interest or short position in the Shares or underlying Shares which were required to be recorded in the register kept by the Company under section 336 of the SFO.

Share Option Scheme

On 3 June 2016, the Board proposed to adopt a new share option scheme (the "Scheme"), which was approved and adopted by the shareholders of the Company on 6 July 2016.

On 14 July 2016 (the "Date of Grant"), options to subscribe (the "Share Options") for a total of 1,073,717,976 new Shares were offered to certain Directors and employees of the Group (the "Grantees"). The Share Options granted to each Grantee are valid for a period of five years commencing from the Date of Grant and shall be vested in three tranches in accordance with the following vesting dates: (i) 40% of the Share Options granted to each Grantee shall be vested and exercisable from 30 August 2016 to 13 July 2021; (ii) an additional 30% (i.e. up to 70% in total) shall be vested and exercisable from 30 August 2017 to 13 July 2021; and (iii) the remaining 30% (i.e. up to 100% in total) shall be vested and exercisable from 30 August 2018 to 13 July 2021.

The exercise price of the Share Options is HK$0.2132 per Share, which represents the highest of (i) the closing price of the Shares of HK$0.212 per Share as stated in the daily quotation sheet issued by the Stock Exchange on the Date of Grant; (ii) the average closing prices of the Shares of HK$0.2132 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of the Share, which is HK$0.10.

The Share Options were granted to the following Directors:

Executive Directors	**Number of Share Options Granted**
He Binwu *(resigned on 24 October 2017)*	160,000,000
Peng Xinkuang	160,000,000
Zhu Qiang	120,000,000
Qin Wenying	120,000,000
Chen Donghui	80,000,000
Chen Chao	80,000,000
Shi Janson Bing *(resigned on 13 July 2018)*	50,000,000

The grant of the Share Options to each of the above Directors has been approved by the Independent Non-executive Directors in accordance with Rule 17.04(1) of the Listing Rules. Save as disclosed above, none of the Grantees is a Director, chief executive or substantial shareholder of the Company, or an associate of any of them.

The fair value of options granted during the period determined on the date on which the options were granted using the Binomial valuation model was divided into three trenches according to vesting period, being HK$7.80 cents per option for options vested on 30 August 2016, HK$7.99 cents per option for options vested on 30 August 2017 and HK$8.21 cents per option for options vested on 30 August 2018. The significant inputs into the model were closing share price of HK$0.2120 at the grant date, exercise price shown above, volatility of 46%, dividend yield of nil, an expected option life of 5, 4 and 3 years respectively and an annual risk-free interest rate of 0.69%. The volatility measured at the standard deviation of continuously compounded share returns is based on the average rate of comparable companies. The Binomial valuation model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

No Share Options were granted, exercised, or cancelled during 2018. 160,000,000 Share Options were lapsed during 2017. 309,115,393 Share Options were lapsed during 2018. The outstanding Share Options as at 1 January 2018 and 31 December 2018 are 913,717,976 and 604,602,583 respectively.

The following is a summary of the principal terms of the Scheme:

1. Purpose of the Scheme:

   The purpose of the Scheme is to reward the contributions made by any Directors or employees of the Group (the "Eligible Employees"), to provide incentive for the Eligible Employees to work towards enhancing the value of the Company and the Shares for the benefit of the Company and the shareholders of the Company as a whole.

2. Participants of the Scheme:

   The Board may at its discretion grant options to the Eligible Employees.

3. Grant of option under the Scheme

   An offer of the grant of an option shall be made to an Eligible Employee by letter in such form as the Board may from time to time determine, requiring the Eligible Employee to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Scheme. The offer shall remain open for acceptance for a period of 14 days from the date of grant. Subject to the terms of the offer letter, there shall be no minimum holding period for the vesting or exercise of the options.

   An option shall be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant of the option shall have been received by the Company on or before the last day for acceptance as set out in the offer letter. The remittance is not in any circumstances refundable. Once accepted, the option is granted as from the date of grant.

4. Total number of Shares available for issue under the Scheme and percentage of issued share capital as at 31 December 2018:

   As at 31 December 2018, the total number of Shares which may be issued under the Scheme must not exceed 2,056,471,372 Shares, representing approximately 10% of the issued share capital of the Company.

5. Maximum entitlement of each participant under the Scheme:

   Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of Shares issued and to be issued to that grantee on exercise of his options (including both exercised and outstanding options) during any 12 month period exceeding 1% of the total Shares then in issue.

6. The period within which the options must be exercised under the Scheme:

   The period during which an option may be exercised in accordance with the terms of the Scheme ("Option Period") shall be a period of time to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the Date of Grant.

7. The basis of determining the exercise price:

   The subscription price per Share payable on the exercise of an option is to be determined by the Board but in any event shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Date of Grant; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of the Share on the Date of Grant.

8. The remaining life of the Scheme:

Subject to early termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years commencing from the date on which the Scheme is deemed to take effect in accordance with its terms, after which time no further options will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. In particular, all options granted before the end of such period shall continue to be valid and exercisable after the end of such period in accordance with the terms of the Scheme.

Competing Interests

None of the Directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Major Customers and Suppliers

The Group's customers from whom the revenue of continuing operations derived are widely dispersed. No customer nor a single group of customers under common control of continuing operations contributed 10% or more of the Group's revenue for the years ended 31 December 2018 and 2017. During 2018, less than 30% of the Group's revenue was attributable to the Group's five largest customers combined.

During 2018, less than 30% of the Group's purchases was attributable to the Group's five largest suppliers combined.

Public Float

According to the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has complied with the public float requirement under the Listing Rules.

Audit Committee

The audited annual consolidated financial statements for the year ended 31 December 2018 has been reviewed by the Audit Committee of the Company.

Pension Scheme

Details of the Group's pension schemes are set out in the section of employee benefits of Note 15 to the consolidated financial statements.

Auditor

The consolidated financial statements for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers, Certified Public Accountants. A resolution for their re-appointment as the auditor of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting of the Company.

On 25 May 2016, the term of office of the former auditor of the Company, Ernst & Young, has expired and PricewaterhouseCoopers was appointed as the auditor of the Company on the same day.

Save as disclosed above, there has been no change in the auditor of the Company during the past three years.

Permitted Indemnity Provision

The Bye-laws of the Company provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their offices, provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 29 May 2019 to Monday, 3 June 2019 (both days inclusive), for the purpose of determining the entitlement of the shareholders of the Company to attend and vote at the forthcoming annual general meeting of the Company. No transfer of shares during the said period will be registered. In order to qualify to attend and vote at the meeting, all completed transfer forms, accompanied by the relevant share certificates, have to be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration, not later than 4:30 p.m. on Tuesday, 28 May 2019.

On behalf of the Board
Peng Xinkuang
Chairman

Hong Kong, 28 March 2019

Corporate Governance Report

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interests of all of its stakeholders. The Board and senior management are committed to maintain a high standard of corporate governance which provides a framework and a solid foundation for achieving a high standard of accountability and transparency.

Corporate Governance Practices

The Board had reviewed its corporate governance practices throughout the year ended 31 December 2018, and confirmed that the Company has complied with all principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Listing Rules except for the following deviations:

Code Provision A.2.7

Code provision of A.2.7 requires the Chairman of the Board to hold meetings at least annually with the non-executive directors (including independent non-executive directors) without the executive directors present. As the Chairman of the Board is also an Executive Director, the Company has technically deviated from this code provision.

Code Provision A.6.7

Pursuant to code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings. Mr. Han Gensheng, Independent Non-executive Director, did not attend the annual general meeting of the Company for the year 2018 due to other business engagements.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all Directors and all of them have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

Board of Directors

Throughout the year ended 31 December 2018, the Company has complied with the Board's practices and procedures as set out in the Listing Rules.

Board Composition

As at 31 December 2018, the Board consists of eleven Directors, including seven Executive Directors, namely, Mr. Peng Xinkuang, Mr. Liu Feng, Mr. Chen Donghui, Mr. Chen Chao, Mr. Zhu Qiang, Ms. Qin Wenying and Mr. Jiang Qi; and four Independent Non-executive Directors, namely, Mr. Zhuo Fumin, Mr. Chan, Charles Sheung Wai, Mr. Ma Lishan and Mr. Han Gensheng.

Save as disclosed in the above section "Directors and Senior Management", there is no financial, business, family or other material/relevant relationship amongst the Directors.

Role of the Board

The Board, which is accountable to shareholders for the long-term performance of the Company, is responsible for directing the strategic objectives of the Company and overseeing the management of the business. The Directors are charged with the task of promoting the success of the Company and making decisions in the best interest of the Company.

The Board formulates, approves and monitors Group-wide strategies and policies, evaluates the performance of the Company, and supervises the management of the Company. The management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer of the Group.

Chairman and Chief Executive Officer

The Chairman of the Company is responsible for formulating, developing and reassessing the Group's strategies and policies and for all Board matters. The Chief Executive Officer of the Group is responsible for the execution of the Group's business strategies and plans. The positions of the Chairman of the Company and the Chief Executive Officer of the Group are held by separate individuals so as to maintain an effective segregation of duties.

Independent Non-executive Directors

As at 31 December 2018, the Board has 11 members with 4 of them being Independent Non-executive Directors. This satisfies both the requirements of having at least 3 Independent Non-executive Directors under Rule 3.10(1) of the Listing Rules, as well as of having Independent Non-executive Directors representing at least one-third of the Board under Rule 3.10A of the Listing Rules. The Independent Non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The functions of Independent Non-executive Directors include:

- expressing an independent view and judgement at Board meetings;
- taking the lead to identify potential conflicts of interests if any;
- serving on Board committees if invited; and
- scrutinizing the Company's performance and monitoring performance reporting.

The Independent Non-executive Directors have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They gave the Board and the Board committees the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation.

Corporate Governance Function

The Board is collectively responsible for performing the corporate governance duties including:

(a) to develop, review and implement the Company's policies and practices on corporate governance;
(b) to review and monitor the training and continuous professional development of the Directors and senior management of the Company;
(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
(d) to develop, review and monitor the code of conduct applicable to employees and the Directors; and
(e) to review the Company's compliance with the CG Code and its disclosure in the Corporate Governance Report.

Meetings

The Board meets at least four times a year at approximately quarterly intervals. During 2018, the Board held six meetings to review the financial performance, annual and interim results, material investments, operating report, amendment to the terms of reference of the Audit Committee and the Nomination Committee of the Company and the Board Diversity Policy, adoption of the dividend policy and the Director Nomination Policy, and other significant matters of the Group. The Bye-laws of the Company provides for the convening of the Board or Board committee meetings by way of telephonic or similar communications.

The attendance records of the Directors at the Board meetings, the Board committee meetings and the annual general meeting of the Company for the financial year ended 31 December 2018 are set out below:

		Attendance/Number of Meetings (during Director's tenure)					
		Board	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**Investment Committee**	**Annual General**
Executive Directors							
Peng Xinkuang		6/6		3/3		1/1	1/1
Liu Feng		6/6				1/1	1/1
Chen Donghui		6/6					0/1
Chen Chao		4/6					0/1
Zhu Qiang		6/6				1/1	1/1
Qin Wenying		6/6					1/1
Jiang Qi	*(Note 1)*	3/3					0/0
Shi Janson Bing	*(Note 2)*	3/3					1/1
Independent Non-executive Directors							
Zhuo Fumin		5/6	2/3	2/3	2/2		1/1
Chan, Charles Sheung Wai		6/6	3/3		2/2		1/1
Ma Lishan		6/6		3/3	2/2	1/1	1/1
Han Gensheng		6/6	3/3				0/1

Notes:

1. Mr. Jiang Qi was appointed as an Executive Director on 13 July 2018.
2. Mr. Shi Janson Bing resigned as an Executive Director on 13 July 2018.

Board papers are circulated and the Company Secretary attends all regular board meetings to advise on corporate governance and statutory compliance when necessary. In addition, the Company maintains a procedure for the Directors to seek independent professional advice in appropriate circumstances.

Board Committees

The Board has established 4 committees, namely Audit Committee, Nomination Committee, Remuneration Committee and Investment Committee. These committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management. The respective terms of reference are available on the websites of the Company and the Stock Exchange. The Company has provided sufficient resources to the Board committees to perform their duties.

Audit Committee

The Company has established the Audit Committee of the Company. During the financial year ended 31 December 2018, the Audit Committee of the Company comprises three members as follows:

Independent Non-executive Directors
Mr. Chan, Charles Sheung Wai – Chairman
Mr. Zhuo Fumin – Member
Mr. Han Gensheng – Member

The major duties of the Audit Committee of the Company include:

- to consider and recommend the appointment, re-appointment and removal of external auditor;
- to approve the remuneration and terms of engagement of external auditor, any questions of resignation or dismissal of that auditor;
- to review and monitor external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services and to make recommendation of any measures for improvements to be taken;
- to review the interim and annual financial statements and the interim and annual reports before submission to the Board;
- to review the Group's financial controls, risk management and internal control and ensure that the management has discharged its duty to have effective risk management and internal control systems;
- to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response;
- to review and consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, their training programmes and budget, and the changes in the nature and extent of significant risks;
- to consider any significant or unusual items that are, or may need to be, reflected in reports and accounts and must give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group and to review and monitor the effectiveness of the internal audit function;

- to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response and to ensure that the Board will provide a timely response to the issues raised; and

- to review the Group's financial and accounting policies and practices.

The Audit Committee of the Company has explicit authority to investigate into any matter under the scope of its duties and the authority to obtain independent professional advice. It is given full access to reasonable resources and assistance from the management to discharge its duties properly.

In 2018, the Audit Committee of the Company held three meetings to, among other things, review the interim and annual results of the Group, the amendment to the terms of reference of the Audit Committee of the Company and review other significant matters. The Audit Committee of the Company had reviewed the Group's significant internal control and financial matters, and discussed with the management of the Company and the external auditors. The Audit Committee of the Company had also reviewed the audit plans and findings of the external auditors, the independence of the external auditors, the Group's accounting principles and practices, the Listing Rules and statutory compliance, financial reporting, internal control and risk management. The attendance record of each committee member is shown on page 68 in the section of Meetings of this report.

The Audit Committee of the Company had met the external auditors three times during the financial year ended 31 December 2018. There was no disagreement between the Board and the Audit Committee of the Company regarding the selection and appointment of external auditors. The Audit Committee of the Company is satisfied that the external auditors are able to meet the audit obligations of the Company.

The external auditors of the Company were invited to attend the meeting without the presence of the management to discuss with the Audit Committee of the Company issues arising from the audit and financial reporting matters.

Nomination Committee

The Company has established the Nomination Committee of the Company. During the financial year ended 31 December 2018, the Nomination Committee of the Company comprises three members as follows:

Executive Director
Mr. Peng Xinkuang – Chairman

Independent Non-executive Directors
Mr. Zhuo Fumin – Member
Mr. Ma Lishan – Member

The major duties of the Nomination Committee of the Company include:

- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

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

- to develop and review, as appropriate, the Board diversity policy ("Board Diversity Policy") and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives;

- develop and review, as appropriate, the policy for nomination of Directors setting out the process and criteria to select and recommend to the Board candidates for directorship;

- to assess the independence of the Independent Non-executive Directors, with regard to the requirements under the Listing Rules; and

- to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive.

In 2018, the Nomination Committee of the Company held three meetings. The Nomination Committee of the Company had reviewed the structure, size, composition and diversity of the Board, the amendment to the terms of reference of the Nomination Committee of the Company and the Board Diversity Policy, and adoption of the Director Nomination Policy. The attendance record of each committee member is shown on page 68 in the section of Meetings of this report.

The Company had also assessed the independence of all the Independent Non-executive Directors and considers that all of them are independent under Rule 3.13 of the Listing Rules, having taken into account (i) their annual confirmation on independence as required under the Listing Rules, (ii) the absence of involvement in the daily management of the Company and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgment.

Board Diversity Policy

The Board adopted the Board Diversity Policy on 29 August 2013 and amended it on 19 December 2018, setting out the approach to achieve diversity within the Board. In assessing the Board composition, the Nomination Committee of the Company would take into account various aspects set out in the policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional qualifications, skills, knowledge, industry and regional experience, and any other factors that the Board may consider relevant and applicable from time to time. In identifying and selecting suitable candidates for directorships, the Nomination Committee of the Company would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve board diversity, where appropriate, before making recommendation to the Board. The current Board is considered well-balanced and of a diverse mix appropriate for the business of the Group. Selection of candidates would be based on the Company's director nomination policy and would also take into account the Board Diversity Policy. The Nomination Committee of the Company would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. The Nomination Committee of the Company would also monitor the implementation of the Board Diversity Policy by conducting periodic review as appropriate and recommend revisions, if any, to the Board for consideration and approval.

The nomination procedures for the Directors can be accessed from the website of the Company.

Director Nomination Policy

The Group adopted a director nomination policy (the "Director Nomination Policy") on 19 December 2018. A summary of this policy is disclosed as below.

1. Introduction

   1.1 The Company has the Board Diversity Policy in place in compliance with the Listing Rules. This director nomination policy ("Procedures") aims at applying the principles of the Board Diversity Policy and other provisions under the Listing Rules to improve transparency around the process and criteria adopted by the Nomination Committee of the Company in selecting and recommending candidates as Directors of the Company.

   1.2 These Procedures shall be reviewed by the Nomination Committee of the Company at least annually to ensure full compliance with the Listing Rules, the Company's Bye-laws ("Bye-laws") and applicable the laws of Bermuda.

2. Applicable Bye-laws

   2.1 According to Bye-law 86.(2) of the Bye-laws, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board.

   2.2 The Board shall give due consideration to the recommendation of the Nomination Committee of the Company applying the following procedures when approving any appointment of Directors.

3. Procedures for nomination of a Director

   Any Director may nominate a person for appointment, election or re-election as a Director by the Board or at the general meeting upon first obtaining the following information:

   (a) a written consent given by the candidate ("Candidate") to be appointed, elected or re-elected (as the case may be) as a Director stating his consent for acting as a Director and the supply and disclosure of his information as required under the Listing Rules and other applicable laws and regulations;

   (b) details of the character, qualifications, background, experience and other business interests of the Candidate for the purpose of Rules 3.09, 3.10 and 3.12 of the Listing Rules, together with supporting documents evidencing the same (if applicable);

   (c) (for a Candidate who may be nominated as an Non-executive Director or Independent Non-executive Director) details assessing the Candidate's independence under Code Provisions A.3.3 (Best Recommended Practice) and A.4.3 of the CG Code, and Rule 3.13 of the Listing Rules, together with supporting documents evidencing the same (if applicable);

   (d) details of the Candidate's information, together with supporting documents evidencing the same (if applicable), as required to be disclosed under Rule 13.51(2) of the Listing Rules;

   (e) (for a Candidate who may be nominated as an Independent Non-executive Director at a general meeting) explanation from the Candidate for information required under Code Provision A5.5 of the CG Code;

   (f) (for a Candidate who may be nominated to be appointed as a member of the Audit Committee of the Company) details assessing the Candidate's independence under Code Provision C.3.2 of the CG Code, together with supporting documents evidencing the same; and

   (g) up-to-date contact details of the Candidate.

4. Criteria for nomination of a Director

   4.1 Upon obtaining the information listed in paragraph 3 above, the Nomination Committee of the Company shall review whether the Candidate is qualified to be appointed, elected or re-elected into the Board under the relevant Listing Rules and CG code provisions.

4.2 Upon fulfilment of the condition set out in paragraph 4.1, the Nomination Committee of the Company shall consider the following factors in assessing the suitability of the Candidate for directorship:

(a) reputation for integrity;

(b) accomplishment and experience in the property development sector;

(c) commitment in respect of available time and relevant interest;

(d) whether (and how) the Candidate can contribute his/her perspectives, skills and experience to the Board;

(e) the Board Diversity Policy and any measurable objectives adopted by the Nomination Committee of the Company for achieving diversity on the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service; and

(f) such other perspectives appropriate to the Company's business.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee of the Company has the discretion to nominate any person, as it considers appropriate.

4.3 Upon the Candidate's fulfilment of the above criteria, the Nomination Committee of the Company shall convene a meeting to discuss and consider the recommendation of the Candidate to the Board for appointment as a Director.

Appointment, Re-election and Removal of Directors

Pursuant to the letters of appointment, all Independent Non-executive Directors are appointed for a term of two years subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

The procedures and processes of appointment, re-election and removal of the Directors are laid down in the Bye-laws of the Company. Recommendations for appointments and re-appointments of the Directors and appointments of the members of various Board committees are made by the Nomination Committee of the Company to the Board for consideration and appointment. Any Director appointed by the Board shall hold office only until, and shall retire on, the next following annual general meeting of the Company. The Bye-laws of the Company provides that at each annual general meeting of the Company, one-third of the Directors for the time being (or, if the number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. If the Directors obliged to retire who then wish to retire and not offer themselves for re-election account for less than one-third, those who have been longest in office since their last re-election or appointment shall retire to make up for the shortfall. Each Director should retire at least once every three years. A retiring Director is eligible for re-election by the shareholders at the annual general meeting of the Company.

Mr. Peng Xinkuang, Mr. Chen Donghui, Mr. Chen Chao and Ms. Qin Wenying will be retiring by rotation pursuant to the bye-law 87 of Bye-laws of the Company at the forthcoming annual general meeting of the Company, and Mr. Jiang Qi will be retiring pursuant to the bye-law 86(2) of Bye-laws of the Company at the forthcoming annual general meeting of the Company. The retiring Directors are eligible for re-election at the forthcoming annual general meeting of the Company.

Remuneration Committee

The Company has established the Remuneration Committee of the Company. During the financial year ended 31 December 2018, the Remuneration Committee of the Company comprises three members as follows:

Independent Non-executive Directors
Mr. Ma Lishan – Chairman
Mr. Chan, Charles Sheung Wai – Member
Mr. Zhuo Fumin – Member

The major duties of the Remuneration Committee of the Company include:

- to make recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management of the Company;
- to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management;
- to make recommendations to the Board on the remuneration of Non-executive Directors;
- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- to review and approve compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- to review and approve compensation arrangements relating to dismissal or removal of the Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- to ensure that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee of the Company should consult the Chairman of the Company and/or the Chief Executive Officer of the Group about their remuneration proposals for other Executive Directors and have access to independent professional advice if necessary.

In 2018, the Remuneration Committee of the Company held two meetings. The Remuneration Committee of the Company had reviewed the Company's remuneration policies and the remuneration packages of the Directors, reviewed and recommended the remuneration of the Directors, and reviewed other significant matters. No Director should involve in deciding his own remuneration. The attendance record of each committee member is shown on page 68 in the section of Meetings of this report.

Details of the Directors' and senior management's remuneration are set out in note 11 and 42(b)(viii) to the consolidated financial statements. In addition, pursuant to the Code Provision B.1.5 of the CG Code, the annual remuneration of other members of the senior management (other than the Directors) by bands for the year ended 31 December 2018 is set out below:

	Number of employees
RMB0 to RMB1,000,000	1
RMB1,000,001 to RMB3,000,000	3

Investment Committee

The Company has established the Investment Committee of the Company. During the financial year ended 31 December 2018, the Investment Committee of the Company comprises four members as follows:

Independent Non-executive Directors
Mr. Ma Lishan – Member

Executive Directors
Mr. Peng Xinkuang – Chairman
Mr. Liu Feng – Member
Mr. Zhu Qiang – Member

The major duties of the Investment Committee of the Company include:

- to review the management's recommended investment opportunities, objectives, strategies, policies and guidelines that direct the investment of the portfolio;
- to review the management's recommended portfolio financial goals and requirements, including asset allocation, risk tolerance, investment time horizon and capital adequacy;
- to review and evaluate the performance of the investment portfolio regularly to assure adherence to policy guidelines and monitor progress toward achieving investment objectives; and
- to review the shares purchase, redemption or other share acquisition activities be conducted by the Company.

In 2018, the Investment Committee of the Company held one meeting. The Investment Committee of the Company had reviewed the Company's investments. The attendance record of each committee member is shown on page 68 in the section of Meetings of this report.

Directors' Training and Commitment

Upon appointment, each Director receives appropriate induction training and coaching to develop individual skills as required. The Directors are also provided with updates on the relevant new laws, regulations and changing commercial risks in the Group's operating environment through regular presentations and meetings. They also have the opportunity to visit the Group's operational facilities and meet with management to gain a better understanding of business operations and governance practices.

The Directors have confirmed that they have complied with the Code Provision A.6.5 of the CG Code on directors' training. During the financial year ended 31 December 2018, the Directors have participated in continuous professional development by attending seminars, in-house briefing or reading materials on the following topics to develop and refresh their knowledge and skills and provided their records of training to the Company.

Name of Directors		Topics: Legal, Regulatory and Corporate Governance	Group's Business and Industry Updates	Directors' Roles, Functions and Duties
Executive Directors				
Peng Xinkuang		✓	✓	✓
Liu Feng		✓	✓	✓
Chen Donghui		✓	✓	✓
Chen Chao		✓	✓	✓
Zhu Qiang		✓	✓	✓
Qin Wenying		✓	✓	✓
Jiang Qi	*(appointed on 13 July 2018)*	✓	✓	✓
Independent Non-executive Directors				
Zhuo Fumin		✓	✓	✓
Chan, Charles Sheung Wai		✓	✓	✓
Ma Lishan		✓	✓	✓
Han Gensheng		✓	✓	✓

Confirmation has been received from the Directors that they have provided sufficient time and attention to the affairs of the Group. Besides, the Directors have been disclosing to the Company their interests as the director and other office in other public companies and organisations in a timely manner and update the Company on any subsequent changes.

Directors' and Officers' Liabilities

The Company has arranged appropriate liability insurance to indemnify its Directors and officers for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the financial year ended 31 December 2018, no legal action was made against any of the Directors and officers in relation to duties performed for the Company.

Company Secretary

The company secretary of the Company is an employee of the Company, and is responsible for facilitating the procedures of the Board and advising the Board on corporate governance matters. During the year under review, the company secretary of the Company has taken not less than 15 hours of relevant professional training.

Directors' Responsibilities for the Financial Statements

The responsibility of the Directors is to prepare the financial statements, while the responsibility of the auditors is to express an opinion on the Group's consolidated financial statements based on their audit, for particulars please refer to the "Independent Auditor's Report" section of this report. The Board should ensure such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for the relevant financial period. In regard of this, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. Besides, the Directors are also responsible for ensuring that the Group operates an efficient financial reporting system, keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Group has employed sufficient qualified staff to assist the preparation of financial statements.

Risk Management and Internal Control

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority designed to help the business to achieve its objectives, to safeguard assets against unauthorised use or disposition, to ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and to ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

During the year ended 31 December 2018, the Board examined the effectiveness of the risk management and internal control system of the Group through the Audit Committee of the Company on an annual basis, including financial, operational compliance and risk management aspects, and considered that the risk management and internal control system is effective and adequate and the Group has complied with the code provisions on risk management and internal control of the CG Code.

Auditor's Remuneration

During the year, the auditor of the Company, PricewaterhouseCoopers, Certified Public Accountants charged RMB4.90 million for annual audit services and no non-audit services was rendered.

Investor Relations

The Company uses a number of formal communications channels to account to its shareholders and investors for the performance of the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or special general meeting of the Company providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the website of the Company; (iv) the Company's website offering a communication platform between the Company and its shareholders and investors; and (v) the Company's share registrars in Hong Kong serving the shareholders of the Company regarding all share registration matters.

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to shareholders of the Company in a timely manner and on a regular basis through the publication of interim and annual reports and/or dispatching circular, notices, announcements and other corporate communications.

Investors may write to the Company at the principal place of business or via email to general@sregroup.com.hk for any enquiries.

During the year ended 31 December 2018, there is no change in the constitutional documents of the Company. The Memorandum of Association and Bye-laws of the Company are available on the website of the Company.

Shareholders' Right to convene and put forward Proposals at Special General Meetings

Pursuant to the Bye-laws of the Company, members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board and the Secretary of the Company at the principal place of business at the address which set out in Corporate Information of this annual report, to require a special general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner.

Dividend Policy

The Board has approved and adopted a dividend policy on 19 December 2018 (the "Dividend Policy").

The aim of this Dividend Policy is to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for the future growth and development of the Group.

In considering any dividend payout, the Board shall consider the following:

- the Company's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors that the Board deems relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of Bermuda and the Company's Bye-laws. The Board will continually review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

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To The Shareholders of SRE Group Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of SRE Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 88 to 216, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Fair value of investment properties
- Recoverability of receivables
- Classification as a subsidiary or joint venture upon change of equity interests during the year
- Going concern assumption

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Key Audit Matters (continued)

Key Audit Matter 1

Fair value of investment properties

Refer to Note 3 (Critical accounting judgements and estimates) and Note 18 (Investment properties) to the consolidated financial statements.

The Group's investment properties were measured at fair value and carried at approximately RMB5,408 million as at 31 December 2018 with a net fair value gain of approximately RMB46 million for the year then ended. The fair values of investment properties were determined by the Group based on the valuations performed by an independent professional valuer (the "Valuer") engaged by the Group.

We focused on this area due to the valuation results of the investment properties are significant to the consolidated financial statements and the valuation of the investment properties was highly dependent on a range of assumptions, such as future rental rates, revisionary rates, estimated vacancy rates, yield rates and refurbishment rates.

How our audit addressed the Key Audit Matter

We evaluated the Valuer's competence, capabilities and objectivity by considering its qualification, relevant experience and relationship with the Group.

We obtained and read the valuation reports issued by the Valuer for each of the investment properties, and assessed the appropriateness of valuation methods applied by the Valuer.

For all the valuation reports, we matched the data including rental income, rentable areas and lease terms, to the underlying property records held by the Group. We checked the data used in the valuations to the rent rolls and the rent rates as stated in the relevant lease contracts, if applicable, as well as the location, the size and the age of the properties with property certificates.

We paid site visit to each of the investment properties and observed physical conditions of the properties. We also discussed with management to understand the basis of their consideration applied in the property valuations in light of physical conditions of the properties.

We corroborated the key assumptions used in the valuations of all the investment properties, including future rental rates, revisionary rates, estimated vacancy rates, yield rates and refurbishment rates by gathering and analysing the data of comparable properties in the market and the characteristics of the Group's properties.

We involved our internal valuation specialists to assist us in assessing the methodologies used by the Valuer and compared the valuations of investment properties, on a sample basis, to our independently formed market expectations.

We also tested the mathematical accuracy used in the valuations for all the investment properties by recalculating the valuation values.

Based on the above procedures performed, we found the data used and the key assumptions adopted in management's valuation assessments, were supportable by the evidence we gathered.

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Key Audit Matters (continued)

Key Audit Matter 2

Recoverability of receivables	How our audit addressed the Key Audit Matter
Refer to Note 3 (Critical accounting judgements and estimates), Note 25 (Other receivables) and Note 26 (Trade receivables) to the consolidated financial statements. As at 31 December 2018, the Group had a balance of other receivables of approximately RMB2,624 million (before provision) and a balance of trade receivables of approximately RMB45 million (before provision), with a provision for impairment of approximately RMB259 million and approximately RMB28 million, respectively. The impairments were provided for those receivables which are subject to high collectability risk due to financial difficulty of the debtors, default in payments, relevant legal disputes and other indicators for a decrease in the estimated future cash flows. The Group estimated impairment losses at year end based on the available information, including the financial position of the debtors, litigation progress, value of pledged assets, and credit risk of counterparties etc. We focused on this area because the amount of impairment is significant to the consolidated financial statements and the significant judgements and estimates involved in assessing recoverability of the receivables.	We assessed and tested the design and operating effectiveness of key management controls over impairment assessment. For other receivables with material balance, we obtained and read the agreements and the supplemental agreements if applicable. For receivables with disputes, we checked the litigation progress, latest court decisions, and legal counsel's opinion whereas necessary. We also checked the settlement history of the receivables as well as subsequent settlement after year end date on sample basis. We further evaluated management's assessment on impairment provisions on receivables with material balance by: • interviewing and collaborating with the Group's risk management department responsible for the collection of the receivables in disputes or for monitoring the status of the receivables to assess the rationale of making the accounting estimates; • assessing the financial position of the debtors, where information is available; and • assessing other alternative and available sources of settlement, including the value of the pledged assets or the financial status of the financial guarantors. Based on our audit procedures performed, we found the management's assessment on impairment provision of receivables was supportable by evidence obtained.

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Key Audit Matters (continued)

Key Audit Matter 3

Classification as a subsidiary or joint venture upon change of equity interests during the year	How our audit addressed the Key Audit Matter
Refer to Note 3 (Critical accounting judgements and estimates), Note 22 (Investments in joint ventures), Note 40 (Disposal of subsidiaries) and Note 41 (Subsidiaries with material non-controlling interests and transactions with non-controlling interests) to the consolidated financial statements. During the year, a subsidiary of the Group became a joint venture through partial disposal of equity interests which resulted from a loss of control in the subsidiary. Consequently, the remaining equity interest held by the Group was remeasured at its fair value and a gain arose. The carrying value of the Group in the joint venture was approximately RMB196 million as at 31 December 2018. The Group also partially disposed certain equity interests in a wholly-owned subsidiary without losing control which resulted in transactions with non-controlling interests. We focused on this area because of the complexity in cooperating arrangements, as well as the management's judgement for appropriate classification and accounting treatment relating to subsidiarie and joint ventures. Inappropriate classification, either on acquisition and/or disposal may have a material impact on the consolidated financial statements.	In assessing management's judgement on whether control over a subsidiary was lost due to partial disposals of equity interests during the year ended 31 December 2018, we performed audit procedures as follows: • We examined the legal documents associated with those disposals, and inquired management to understand the key terms, including rights of the investors, dispute resolution provisions, termination provisions, governance structures, and profit-sharing arrangements, and then assessed these against accounting standards based on our own expertise and experience of applying them in similar situations; • We confirmed the completeness of the contracts and agreements associated with those disposals, as well as any subsequent supplementary or amendments, by seeking confirmation from the counterparties; • We considered the adequacy of the Group's disclosures in respect of the classification and carrying value of the new joint venture resulting from the disposals. Based on our audit procedures performed, we consider the classification as a subsidiary or joint venture upon change of equity interests during the year is supported by the evidence we obtained.

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Key Audit Matters (continued)

Key Audit Matter 4

Going concern assumption

Refer to Note 2.1 (Basis of preparation – Going concern basis) to the consolidated financial statements.

As at 31 December 2018, the Group's current liabilities exceeded its current assets by RMB345.1 million. At the same date, the Group's current liabilities included RMB4,905.9 million of current borrowings out of which RMB3,366.1 million were immediately repayable or payable on demand. In addition, the Group's cash and cash equivalents decreased from RMB1,207.1 million as at 31 December 2017 to RMB698.6 million as at 31 December 2018. During the year then ended, the financial conditions of certain related parties of the Group changed in such a way that triggered certain terms specified in the Group's loan agreements, and this resulted in certain of the Group's borrowings amounting to RMB714 million in total as at 31 December 2018 becoming immediately repayable, so that RMB614 million originally scheduled due beyond 31 December 2019 were reclassified as current borrowings.

The directors of the Company evaluated the Group's ability to continue as a going concern based upon an assessment of the financial resources available to the Group, and measures taken by the Group to mitigate the liquidity pressure, including successful renewal or extension of repayments of the loans from parent company and a fellow subsidiary of the Group (altogether "shareholder loans") to dates beyond 31 December 2019; expected renewal of the existing bank loans, grant of new bank loans and replacement of existing loans with alternative financing at a reasonable cost; current progress in the Group's divestment of its financial assets investments, its investment in certain property assets and its equity holdings in certain joint venture and associates; and the Group's cash flow forecasts covering a period of at least 12 months from 31 December 2018 which include anticipated cash flows generated from the Group's operations and cash proceeds from above financing and divestment transactions. The directors considered that the Group will have sufficient funds to finance its operations and to meet its financial obligations when they fall due within the next 12 months from 31 December 2018 and therefore prepared the consolidated financial statements on a going concern basis.

How our audit addressed the Key Audit Matter

In assessing the appropriateness of management's going concern assumption in preparing the consolidated financial statements, we performed the audit procedures as follows:

- We obtained and reviewed key terms in loan contracts, checked repayment history and management's calculation of loan covenants, to assess the appropriateness of the classification of the Group's borrowings between current and non-current, and those which may become immediately repayable on demand;
- We obtained the Group's cash flow forecasts, which covered a period of at least 12 months from 31 December 2018;
- We obtained and reviewed written agreements which the Group reached with its related parties to renew, and/or extend the repayments of RMB2,652.1 million in total of shareholder loans to dates beyond 31 December 2019;
- We assessed the Group's ability to renew existing loans, and obtain new loans by
  - (1) checking the sufficiency of its pledges on certain property development projects and existing completed leasing and operating properties used for these loans,
  - (2) checking the Group's repayment history and compliance with loan covenants during the year ended 31 December 2018,
  - (3) checking the intentions of certain banks through conducting an interview with bank personnels, or obtaining an intention letter;
- For the Group's forecast on cash flows from divestment of investments on financial assets, certain property assets and equity holdings in certain joint venture and associates, we
  - (1) obtained a detail list of these divestments and related information,
  - (2) inquired management of the updated progress of these divestments and estimated time of cash collection,

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Key Audit Matters (continued)

Key Audit Matter 4 (continued)

Going concern assumption (continued)

We focused on this assessment as it involved consideration of future events and application of significant judgements and estimates and accordingly, this was an area of our audit focus.

How our audit addressed the Key Audit Matter (continued)

(3) obtained and reviewed the relevant agreements, framework agreements, or meeting minutes, and related cash receipts subsequent to 31 December 2018, to assess management's judgement on these divestments, and estimates on the timeliness of collection of relevant proceeds;

- For the Group's forecast on cash flow from operating activities, we obtained a monthly cash flow forecast by each entity, and selected material operational entities to assess the appropriateness of key assumptions used by

  (1) comparing their revenue projections to their presale plan and historical sales pattern for property development projects, historical sales results for leasing, hotel and other operations,

  (2) comparing the estimated costs of development to the relevant construction budget,

  (3) comparing estimates on other expenses and taxes to historical results;

- We performed sensitivity analysis over the assumptions with uncertainty contained in the cash flow forecasts to ascertain the extent of change that would make the Group incapable of meeting its ongoing obligations as they fall due;

- We considered whether the management's disclosures relating to the going concern included in the consolidated financial statements are appropriate.

Based on the audit procedures we performed, we found that the judgements and estimates made by management in preparing the cash flow forecasts for the purpose of going concern assessment were supported by available evidence.

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Other Information

The directors of the Company are responsible for the other information set out in the Company's 2018 Annual Report. The other information comprises the information included in the chairman's statement and management discussion and analysis (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the corporate information, introduction of the Group, financial summary, directors and senior management, report of the directors, corporate governance report and environmental, social and governance report which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. Other than certain inconsistencies which were subsequently corrected, we have nothing to report in this regard.

When we read the corporate information, introduction of the Group, financial summary, directors and senior management, report of the directors, corporate governance report and environmental, social and governance report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and the Audit Committee 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.

The audit committee is responsible for overseeing the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mang Kwong Fung, Frederick.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2019

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	2018	2017
Revenue	5	**1,551,309**	1,620,473
Cost of sales	7	**(1,077,340)**	(1,236,234)
Gross profit		**473,969**	384,239
Gains from disposal of subsidiaries and interests in a joint venture – net	22, 40	**242,900**	1,585,922
Net impairment losses on financial assets	7	**(11,476)**	–
Other gains – net	6	**176,113**	26,743
Selling and marketing expenses	7	**(45,085)**	(54,811)
Administrative expenses	7	**(241,587)**	(679,489)
Operating profit		**594,834**	1,262,604
Finance income	9	**70,350**	57,153
Finance costs	10	**(547,406)**	(504,051)
Finance costs – net		**(477,056)**	(446,898)
Share of results of associates		**72,033**	74,332
Share of results of joint ventures		**17,672**	(12,049)
Profit before income tax		**207,483**	877,989
Income tax expense	12	**(108,637)**	(157,685)
Profit for the year		**98,846**	720,304
Other comprehensive (losses)/income, net of tax			
Items that may be reclassified to profit or loss in subsequent periods:			
Changes in the fair value of available-for-sale investments		**–**	1,523
Exchange differences on translation of foreign operations		**(4,248)**	352
Item recycled to profit or loss:			
Fair value gains previously recognised through other comprehensive income recycled to profit or loss and included in other gains upon disposal of financial assets at fair value through other comprehensive income	12	**(1,523)**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**93,075**	722,179

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	**2018**	2017
Profit/(loss) attributable to:			
Owners of the Company		**113,530**	690,543
Non-controlling interests		**(14,684)**	29,761
		98,846	720,304
Total comprehensive income/(losses) attributable to:			
Owners of the Company		**107,759**	692,418
Non-controlling interests		**(14,684)**	29,761
		93,075	722,179
Earnings per share attributable to owners of the Company	14		
– Basic		**RMB0.01**	RMB0.03
– Diluted		**RMB0.01**	RMB0.03

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	31 December 2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	17	**706,767**	737,265
Investment properties	18	**5,408,444**	5,375,199
Prepaid land lease payments	19	**197,500**	204,403
Goodwill	20	**16,271**	16,271
Investments in associates	21	**1,105,416**	1,043,140
Investments in joint ventures	22	**3,825,696**	4,018,705
Deferred tax assets	33	**242,837**	242,837
Financial assets at fair value through other comprehensive income	16	**150,657**	–
Available-for-sale investments	16	**–**	407,790
Other financial assets at amortised cost	28	**574,426**	–
Loans and receivables	28	**–**	579,994
Other non-current assets	29	**171,474**	810,800
		12,399,488	13,436,404
Current assets			
Prepaid land lease payments	19	**1,808,404**	1,905,849
Properties held or under development for sale	23	**1,542,450**	2,257,686
Inventories		**848**	849
Trade receivables	26	**16,984**	24,438
Other receivables	25	**2,365,212**	1,716,383
Prepayments and other current assets	24	**341,216**	322,365
Prepaid income tax	12	**103,400**	96,419
Other financial assets at amortised cost	28	**1,611,011**	–
Loans and receivables	28	**–**	1,172,011
Cash and cash equivalents	27	**698,610**	1,207,119
Restricted cash	27	**2,623**	245,796
		8,490,758	8,948,915
Total assets		**20,890,246**	22,385,319

Consolidated Statement of Financial Position

As at 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	31 December 2018	2017
EQUITY AND LIABILITIES			
Equity			
Issued share capital and share premium	30	**6,747,788**	6,747,788
Other reserves	31	**235,929**	240,440
Retained profits		**461,772**	391,979
Equity attributable to owners of the Company		**7,445,489**	7,380,207
Non-controlling interests		**372,762**	433,761
Total equity		**7,818,251**	7,813,968
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings	32	**2,737,118**	6,151,564
Deferred tax liabilities	33	**1,498,997**	1,447,258
		4,236,115	7,598,822
Current liabilities			
Interest-bearing bank and other borrowings	32	**4,905,884**	2,447,238
Advances received from the pre-sale of properties under development	34	**–**	1,015,262
Contract liabilities	34	**420,959**	–
Trade payables	35	**609,853**	703,382
Other payables and accruals	36	**2,041,820**	1,893,378
Current income tax liabilities		**857,364**	913,269
		8,835,880	6,972,529
Total liabilities		**13,071,995**	14,571,351
Total equity and liabilities		**20,890,246**	22,385,319

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 88 to 216 were approved by the Board of Directors on 28 March 2019 and were signed by the following Directors on its behalf:

Peng Xinkuang
Chairman

Liu Feng
Chief Executive Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Attributable to owners of the Company					
	Issued share capital and share premium (Note 30)	Other reserves (Note 31)	Retained profits/ (accumulated losses)	Total	Non-controlling interests	Total equity
At 1 January 2018	6,747,788	240,440	391,979	7,380,207	433,761	7,813,968
Changes in accounting policies	–	–	(33,964)	(33,964)	–	(33,964)
Restated total equity at 1 January 2018	6,747,788	240,440	358,015	7,346,243	433,761	7,780,004
Comprehensive income						
Profit for the year	–	–	113,530	113,530	(14,684)	98,846
Other comprehensive losses	–	(5,771)	–	(5,771)	2,153	(3,618)
Total comprehensive income for the year	–	(5,771)	113,530	107,759	(12,531)	95,228
Transactions with owners						
Appropriation from retained earnings	–	9,773	(9,773)	–	–	–
Disposal of subsidiaries (Note 40)	–	–	–	–	6,495	6,495
Share-based payments (Note 15)	–	(18,019)	–	(18,019)	–	(18,019)
Change in ownership interests in a subsidiary without change of control	–	9,506	–	9,506	(54,963)	(45,457)
Total transactions with owners	–	1,260	(9,773)	(8,513)	(48,468)	(56,981)
At 31 December 2018	6,747,788	235,929	461,772	7,445,489	372,762	7,818,251

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Attributable to owners of the Company					
	Issued share capital and share premium (Note 30)	Other reserves (Note 31)	Retained profits/ (accumulated losses)	Total	Non-controlling interests	Total equity
At 1 January 2017	6,747,788	212,830	(286,239)	6,674,379	377,682	7,052,061
Comprehensive income						
Profit for the year	–	–	690,543	690,543	29,761	720,304
Other comprehensive losses	–	1,875	–	1,875	–	1,875
Total comprehensive income for the year	–	1,875	690,543	692,418	29,761	722,179
Transactions with owners						
Appropriation from retained earnings	–	12,325	(12,325)	–	–	–
Disposal of subsidiaries (Note 40)	–	–	–	–	5,586	5,586
Capital contributions from non-controlling shareholders	–	–	–	–	20,700	20,700
Share-based payments (Note 15)	–	13,442	–	13,442	–	13,442
Change in ownership interests in a subsidiary without change of control	–	(32)	–	(32)	32	–
Total transactions with owners	–	25,735	(12,325)	13,410	26,318	39,728
At 31 December 2017	6,747,788	240,440	391,979	7,380,207	433,761	7,813,968

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash from/(used in) operations	37	41,512	(1,411,256)
Interest paid		(692,987)	(232,758)
Income tax paid		(119,276)	(176,934)
Net cash outflow from operating activities		(770,751)	(1,820,948)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(2,506)	(2,973)
Proceeds from disposal of property, plant and equipment		157	508
Proceeds from disposal of subsidiaries and a joint venture, net of cash disposed		(64,095)	119,185
Payments for direct acquisition and costs incurred of investment properties		(185)	(899)
Proceeds from disposal of financial assets at fair value through other comprehensive income and at fair value through profit or loss/available-for-sale investments		288,155	497,200
Addition of financial assets at fair value through profit or loss/available-for-sale investments		–	(261,999)
Investments in joint ventures		(200,162)	(783,194)
Reduction of capital from joint ventures and associates		488,118	20,000
Advance to a joint venture		(199,588)	(654,507)
Return of advances made to a joint venture and an associate		23,135	480,000
Collection of amounts due from subsidiaries associated with disposal of these subsidiaries		–	410,917
Settlement of receivables in connection with acquisition of Konmen Investment Limited		–	66,106
Return of a loan made to a third party		–	165,000
Dividends received from a joint venture and an associate		69,030	847
Interest received in relation to financial assets at fair value through profit or loss/available-for-sale investments		–	2,064
Proceeds from other investment activities		–	81,782
Deposit for guarantee of a bank borrowing of a joint venture		(171,684)	–
Return of payments for other investing activities		458,584	–
Payments for other investing activities		–	(660,800)
Net cash inflow/(outflow) from investing activities		688,959	(520,763)

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease/(increase) in restricted cash		**216,004**	(216,022)
Payment of deposit for guarantee of a borrowing		**(12,290)**	–
Proceeds from short-term borrowings		**791,580**	2,968,000
Repayments of short-term borrowings		**(918,000)**	(5,107,209)
Proceeds from long-term borrowings		**1,187,144**	6,384,979
Repayments of long-term borrowings		**(2,107,000)**	(1,905,499)
Dividends paid to non-controlling interests of subsidiaries		**(6,581)**	–
Advance to a non-controlling interest of a subsidiary		**–**	(90,000)
Capital injection from non-controlling interests		**–**	20,700
Advance from non-controlling interests		**428,322**	–
Net cash (outflow)/inflow from financing activities		**(420,821)**	2,054,949
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(502,613)**	(286,762)
Cash and cash equivalents at beginning of year		**1,207,119**	1,519,810
Effect of foreign exchange rate changes, net		**(5,896)**	(25,929)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**698,610**	1,207,119

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

1. CORPORATE AND GROUP INFORMATION

SRE Group Limited (the "Company") was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Bermuda Companies Act 1981. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the other companies comprising the Group on 12 November 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30 November 1999. The shares of the Company began to list on the Stock Exchange on 10 December 1999. The principal place of business of the Company in Hong Kong is Suite 1001, 10th Floor, One Pacific Place, 88 Queensway, Hong Kong.

Currently, the Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in real estate development and investment in Mainland China, on projects located in gateway cities of developed and developing markets.

As at 31 December 2018, the Company's parent company is China Minsheng Jiaye Investment Co., Ltd. ("China Minsheng Jiaye"), which holds 61.01% (2017: 60.80%) of the Company's shares.

The consolidated financial statements are presented in thousands of Renminbi ("RMB"), unless otherwise stated.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance Cap.622. They have been prepared under the historical cost convention, except for investment properties, financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and available-for-sale investments which have been measured at fair value.

Going concern basis

As at 31 December 2018, the Group's current liabilities exceeded its current assets by RMB345.1 million. At the same date, the Group's current liabilities included RMB4,905.9 million of current borrowings out of which RMB3,366.1 million were immediately repayable or payable on demand. In addition, the Group's cash and cash equivalents decreased from RMB1,207.1 million as at 31 December 2017 to RMB698.6 million as at 31 December 2018. During the year then ended, the financial conditions of certain related parties of the Group changed in such a way that triggered certain terms specified in the Group's loan agreements, and this resulted in certain of the Group's borrowings amounting to RMB714 million in total as at 31 December 2018 becoming immediately repayable, so that RMB614 million originally scheduled due beyond 31 December 2019 were reclassified as current borrowings.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

Going concern basis (continued)

In view of such circumstance, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient funds to fulfill its financial obligations and continue as going concern. The Group has taken the following measures to mitigate the liquidity pressure and to improve its cash flows.

1) Included in current borrowings a total of RMB2,652.1 million are loans from parent company and a fellow subsidiary of the Group (altogether "shareholder loans"), which were due for repayment or payable on demand as at 31 December 2018. Subsequent to 31 December 2018, the Group has reached written agreements with the respective related parties as follows:

   - shareholder loans of US$150 million (equivalent to approximately RMB1,015.7 million) were renewed, and the repayment date is extended to 30 June 2020, with an interest rate increase from 4% to 6% per annum;

   - the repayments of remaining shareholder loans which are due for repayment within one year or payable on demand by lenders, totalling RMB1,636.4 million were unconditionally extended to dates at least after 15 months from 31 December 2018.

2) The Group has been continuously negotiating with certain banks for renewal of its existing bank loans that would be due for repayment in 2019. These existing bank loans have sufficient pledges on certain property development projects and existing completed leasing and operating properties. The Group plans to continue to pledge these assets for renewal of at least about RMB600 million. The Group is also actively negotiating with several banks for grant of new loans, offering a sufficient pledge of assets and at a reasonable cost. Certain banks have indicated its intention to renew or grant of new loans. Considering the Group's ability in providing sufficient pledges of properties and other assets, and the Group's good credit history, the directors believe that the Group will be able to renew the existing loans, as well as to secure new bank loans at a reasonable cost.

3) In addition, the Group is working with certain financial institutions for alternative financing so as to replace existing other current loans for a size around RMB400 million. Considering the Group's good credit history, the directors are confident that the Group will be able to secure new alternative financing at a reasonable cost.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

Going concern basis (continued)

4) The Group is also speeding up its divestments on its financial assets investments, its investment in certain property assets and its equity holding in certain joint venture and associated companies following its certain strategic change. Subsequent to 31 December 2018, the Group has achieved certain progress in this aspect:

- secured certain deals in divestment of financial assets and property investments with agreements and framework agreements, for a consideration of RMB600 million in total, RMB200 million of which have been received in cash by the date of issurance of these financial statements, and the Group expects to collect the remaining in next few months according to the scheduled settlement dates.

- reached intention agreements or well progressed in negotiations with specific counterparties for divestment of certain property projects and certain financial assets, for a consideration of RMB1.1 billion in total. The Group expects to reach final agreements of these transactions in the next few months and recover a significant portion of the consideration in cash by the end of 2019.

Considering the Group's financial assets investments mostly have property projects as underlying assets, and our own property projects are mostly in prime locations, the directors believe that the Group will be able to successfully complete the above-mentioned divestments and secure more deals in 2019 and timely generate cash inflows for the Group.

Management has prepared the Group's cash flow forecast which cover a period of at least 12 months from 31 December 2018. The cash flow forecast has taken into accounts the anticipated cash flows generated from the Group's operations, the completion of divestment transactions which are currently at different stages, the successful renewal or extension of existing borrowings and obtaining of new borrowings, and collection of relevant proceeds on time. These assumptions about future events and conditions are subject to inherent estimation and uncertainties. The directors, after making due enquiries and consider the basis of management's projections described above, believe that, taking into account the above mentioned actions and planned measures and their progress, the Group will have sufficient funds to finance its operations and to meet its financial obligations when they fall due within the next 12 months from 31 December 2018. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

Operating cycle

The operating cycle of the Group is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Due to the nature of the Group's business, the Group's normal operating cycle is longer than 12 months. The Group's current assets include assets (such as properties held or under development for sale and prepaid land lease payments for property development for sale and prepaid taxes) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the end of the reporting period.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.2.1 New Standards, amendments and interpretation to HKFRSs adopted by the Group in 2018

The following new standards, amendments and interpretation have been adopted by the Group for the first time for the financial year beginning on 1 January 2018 and are relevant to the Group's operations:

HKFRS 9 "Financial Instruments" replaces the multiple classification and measurement models in HKAS 39 "Financial Instruments: Recognition and Measurement" with a single model that has initially only two classification categories: amortised cost and fair value.

HKFRS 15 "Revenue from Contracts with Customers" replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the previous notion of risks and rewards.

Amendments to HKFRS 2 "Classification and Measurement of Share-based Payments Transactions" clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled.

Amendments to HKAS 28 "Investments in Associates and Joint Ventures" clarify that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

Amendments to HKAS 40 "Transfers of Investment Property" clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence.

HK (IFRIC) 22 "Foreign Currency Transactions and Advance Consideration" clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

The adoption of the above new standards, amendments and interpretation to existing HKFRSs do not have a material impact on the financial position and performance of the Group, except for HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers as set out below.

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2.2 Impact on the financial statements

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

Consolidated Statement of Financial Position (extract)	31 December 2017	HKFRS9	HKFRS 15	1 January 2018
Restated				
Non-current assets				
Financial assets at fair value through other comprehensive income	–	382,836	–	**382,836**
Financial assets at fair value through profit or loss	–	24,954	–	**24,954**
Available-for-sale investments	407,790	(407,790)	–	**–**
Other financial assets at amortised cost	–	574,426	–	**574,426**
Loans and receivables	579,994	(579,994)	–	**–**
Other non-current assets	810,800	(2,614)	–	**808,186**
Current assets				
Trade receivables	24,438	–	–	**24,438**
Other receivables	1,716,383	(14,531)	–	**1,701,852**
Other financial assets at amortised cost	–	1,160,760	–	**1,160,760**
Loans and receivables	1,172,011	(1,172,011)	–	**–**
Cash and cash equivalents	1,207,119	–	–	**1,207,119**
Restricted cash	245,796	–	–	**245,796**
Total assets	22,385,319	(33,964)	–	**22,351,355**
Current liabilities				
Advances received from the pre-sale of properties under development	1,015,262	–	(1,015,262)	**–**
Contract liabilities	–	–	1,015,262	**1,015,262**
Total liabilities	14,571,351	–	–	**14,571,351**
Other reserves	240,440	–	–	**240,440**
Retained profits	391,979	(33,964)	–	**358,015**
Total equity	7,813,968	(33,964)	–	**7,780,004**

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2.3 Impact of adoption – HKFRS 9

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amount recognised in the financial statements. In accordance with the transitional provision in HKFRS 9, comparative figures have not been restated. The reclassification and adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018.

The impact on the Group's retained profits as at 1 January 2018 due to the classification and measurement of financial instruments is as follows:

Closing retained profits as at 31 December 2017 – HKAS 39	391,979
Increase in provision for other financial assets at amortised cost	(16,819)
Increase in provision for other non-current assets	(2,614)
Increase in provision for other receivables	(14,531)
Opening retained profits as at 1 January 2018 – HKFRS 9	358,015

Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

(a) Reclassification from available-for-sale investments to financial assets at fair value through profit or loss ("FVPL")

Investments related to a loan with variable return granted to an unlisted company were reclassified from available-for-sale investments to financial assets at FVPL (approximately RMB25 million as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principals and interest.

(b) Available-for-sale investments classified as financial assets at fair value through other comprehensive income ("FVOCI")

Investments in secured loan packages were reclassified from available-for-sale investments to financial assets at FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principals and interest. As a result, investments in secured loan packages with a fair value of approximately RMB383 million as at 1 January 2018 were reclassified from available-for-sale investments to financial assets at FVOCI and corresponding fair value gains of approximately RMB2 million were reclassified from the available-for-sale investments reserve to the financial assets at FVOCI reserve.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2.3 Impact of adoption – HKFRS 9 (continued)

Impairment of financial assets

The Group has the following types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- cash and cash equivalents
- restricted cash
- trade receivables
- financial assets at fair value through other comprehensive income
- other receivables
- other financial assets at amortised cost
- other non-current assets

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained profits is disclosed in the table above.

While cash and cash equivalents, restricted cash, trade receivables and financial assets at fair value through other comprehensive income are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Group adopts general approach for expected credit loss of other receivables, other financial assets at amortised cost and other non-current assets, and considers the possibility of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

Applying the expected credit risk model resulted in the recognition of loss allowances of RMB33,964,000 on 1 January 2018 and a further increase in the loss allowances by RMB5,237,000 for other receivables, other financial assets at amortised cost and other non-current assets during the year ended 31 December 2018.

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2.4 Impact of adoption – HKFRS 15

According to the transitional provision of HKFRS 15, the Group applied modified retrospective approach upon adoption and did not restate figures of the comparative periods.

Presentation of assets and liabilities related to contracts with customers

The Group has changed the presentation of the following balance in the statement of financial position to reflect the terminology of HKFRS 15:

– Proceeds received in relation to property sales contracts of RMB1,015,262,000 as at 31 December 2017 were previously included in advances received from the pre-sale of properties under development and were now reclassified as contract liabilities as at 1 January 2018.

Timing of revenue recognition

For the year ended 31 December 2018, the Group has assessed that there is no enforceable right to payment from the customers for performance completed to date. Thus, the Group has concluded that the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS, AMENDMENTS AND INTERPRETATION

Certain new standards, amendments and interpretation of HKFRSs have been published but are not yet effective for the annual period beginning on 1 January 2018. Those that are relevant to the Group's operations are as follows:

HKFRS 16	*Leases (effective for annual periods beginning on or after 1 January 2019)*
HK (IFRIC) 23	*Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019)*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019)*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019)*
Annual Improvements 2015-2017 Cycle	*The amendments include changes from the 2015-2017 cycle of the annual improvements project that affect 4 standards: HKFRS 3 "Business Combinations", HKFRS 11 "Joint Arrangements", HKAS 12 "Income Taxes" and HKAS 23 "Borrowing Costs". (effective for annual periods beginning on or after 1 January 2019)*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019)*
Amendments to HKFRS 10 and HKAS 28	*Sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods to be announced)*

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS, AMENDMENTS AND INTERPRETATION (continued)

The Group has not early adopted any new accounting and financial reporting standards, amendments or interpretation to existing standards of HKFRSs which have been issued but are not yet effective for the year ended 31 December 2018.

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 16 'Leases'. The standard will affect primarily the accounting for the Group's operating leases. HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the balance sheet. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempted from the reporting obligation. The new standard will therefore results in an increase in right of use assets and an increase in financial liabilities in the consolidated balance sheet. In the consolidated income statement, as a result, the operating expenses under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expenses will increase. As at 31 December 2018, the Group does not have any material non-cancellable operating lease commitment, so the impact of adoption of HKFRS 16 is regarded not material.

HK (IFRIC) 23 clarifies how the recognition and measurement requirements of HKAS 12 Income Taxes, are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that approach will be accepted by the tax authority. HK (IFRIC) 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

Amendments to HKFRS 9 is a narrow-scope amendments made to HKFRS Financial Instruments in December 2017, which enables entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss. To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

Amendment to HKAS 28 is part of the annual improvements to HKFRSs 2014-2016 Cycle. HKAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss. This election should be made separately for each associate or joint venture at initial recognition.

Amendments to HKAS 19 clarifies the accounting for defined benefit plan amendments, curtailments and settlements.

The amendments to HKFRS 10 and HKAS 28 address an inconsistency between HKFRS 10 and HKAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

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

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally between 20% and 50% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of the investee.

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

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

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, properties held or under development for sale, financial assets, investment properties, and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Related parties

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

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

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

  (ii) has significant influence over the Group; or

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

or

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss and other comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Hotel buildings	Shorter of 40 years and the remaining terms of the leases, which range from 30 to 40 years
Other buildings	20 years
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets
Furniture, fittings, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents buildings under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss and other comprehensive income in the year in which they arise.

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

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with HKAS 16. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss and other comprehensive income.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Operating leases

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases (continued)

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

(a) Classification

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

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

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

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

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

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

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

(c) Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

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

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at FVOCI are not reported separately from other changes in fair value.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

(d) Impairment

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

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

(e) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

(i) Reclassification

The Group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

(e) Accounting policies applied until 31 December 2017 (continued)

(ii) Subsequent measurement

The measurement at initial recognition did not change an adoption of HKFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables and held-to-maturity investments were subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at FVPL' – in profit or loss within other gains/(loss)
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and other losses from investment securities.

(iii) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

(e) Accounting policies applied until 31 December 2017 (continued)

(iii) Impairment (continued)

- *Assets carried at amortised cost*

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

- *Assets classified as available-for-sale*

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – was removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing bank loans and other borrowings. Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss and other comprehensive income. The net fair value gain or loss recognised in the statement of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

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

Other financial liablilities measured at amortised cost-loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss and other comprehensive income.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by HKAS 39 is recognised in the statement of profit or loss and other comprehensive income as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

(a) Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

(b) Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

(c) Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Properties held or under development for sale

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value.

The costs of properties held or under development for sale comprise specifically identified cost, including acquisition costs, development expenditures, capitalised borrowing costs and other related expenditure directly attributable to the development of such properties. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

Inventories

Inventories mainly comprise food, beverages, operating supplies and low value consumables, and are stated at the lower of cost or net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets with similar nature to cash, which are not restricted as to use.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss and other comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised on the following bases:

Sale of development properties

Until 31 December 2017, the Group accounted for property development activities when significant risk and rewards of ownership has been transferred to the customers on delivery in its entirety at a single time upon vacant possession and not continuously as construction progresses.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of development properties (continued)

From 1 January 2018, revenue are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

A contract liability is recognised for advances received from sales of development properties until control over the relevant properties passed to the customer.

Significant financing component

For contracts where the period between the payment by the customer and transfer of the promised property or service exceeds one year, the transaction price should be adjusted for the effects or a financing component, if significant. The Group has assessed that the financing component effect was insignificant.

Property leasing under operating leases

Operating lease income from investment properties is recognised on the straight-line basis over the lease term, which is the non-cancellable period for which the lessee has contracted to lease the properties together with any further terms for which the lessee has the option to continue to lease the properties, with or without further payments, when it is reasonably certain that the lessee will exercise the option at the inception of the lease.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Construction of infrastructure for intelligent network

Revenue from the construction of infrastructure for intelligent network is recognised as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the time in which construction is conducted, respectively, as revenues and expenses. The Group uses the percentage of completion method(out-put method) to determine the appropriate amount of revenue and costs to be recognised over time. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred and it is probable that such costs incurred will be recovered.

Property management revenue

Property management revenue is recognised in the accounting period in which the services are rendered.

Interest income

Interest income is recognised on an accrual basis using the effective interest method.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established.

Employee benefits

Employee retirement scheme

The employees of the Group's entities which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute 14% to 22% (2017: 14% to 22%) of the standard salary announced by the government to the central pension scheme. The contributions are charged to the statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme. In addition, the Group participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's basic salaries are made by the employer and the Hong Kong employees, respectively. The provision and contributions have been included in the statement of profit or loss and other comprehensive income upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Group operates an equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a weighted average capitalisation rate has been applied to the expenditure on the individual assets.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants (including non-monetary grants) are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is deducted from the relevant asset before arriving at the carrying amount of the asset and released to the statement of profit or loss and other comprehensive income by way of a reduced cost of assets' charge. Grants received in connection with the Group's role in planning and constructing the ancillary public facilities are deducted from the development cost of the ancillary public facilities and would be recognised indirectly in the form of an increased profit margin over the course of recognising revenue in connection with the ancillary public facilities services.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

For a distribution of non-cash assets to shareholders, the Group measures the liability to distribute non-cash assets as a dividend to its shareholders at the net carrying amount of the assets to be distributed when the non-cash asset is ultimately controlled by the same parties both before and after the distribution.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

Foreign currencies

(a) Functional and presentation currencies

Items included in the financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's and its major subsidiaries' functional currency is Renminbi ("RMB"), as the major revenues are derived from operations in Mainland China. Since the year ended 31 December 2016, the Group has changed its presentation currency from HK$ to RMB for the preparation of its financial statements.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

(b) Transactions and balances

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of the Group are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period;

(ii) income and expenses of the Group are translated into the presentation currency at the average exchange rates for the period (unless such average rates are not the reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated into the presentation currency at the exchange rates ruling at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

For the purpose of the consolidated statement of cash flows, the cash flows of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of which arise throughout the year are translated into the presentation currency at the weighted average exchange rates for the year.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, if any, and all monetary items that provide an effective hedge for such investments, if any, are recognised in other comprehensive income. When a foreign operation is disposed of, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amount of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

(d) Disposal of foreign operation and partial disposal

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 control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group. Contingent liabilities (except for contingent liabilities recognised in a business combination) and assets are not recognised on the statement of financial position of the Group and the Company.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Classification of subsidiary, joint venture and associate

In the normal course of business, the Group develops properties together with other developers or institutions, through entering into co-operation agreements with these parties. The rights and obligations of the Group and the other parties are stipulated by respective co-operation agreements, article of associations of the project companies, etc. Because of the complexity of the arrangements, significant judgement is needed in determining whether the project company is subsidiary, joint venture or associate of the Group.

The Group makes judgement based on the substance of the arrangements and the definition of subsidiary, joint venture and associate as disclosed in Notes 2.4.

Estimation uncertainty

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

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period during the years ended 31 December 2018 and 31 December 2017 using the term and reversion method on the basis of capitalisation of net rental income derived from the existing tenancies with due allowance for reversionary income potential of the property interest. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

For details of change in fair values of investment properties and further details including the key assumptions used for fair value measurement and a sensitivity analysis in 2018, please see Note 18.

Estimation of fair value of available-for-sale investments/financial assets at FVOCI

The fair value of available-for-sale investments/financial assets at FVOCI that are not traded in an active market is determined by using valuation techniques or net asset value. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of receivables

Impairment of receivables is made based on assessment of the recoverability of receivables. The identification of impairment of receivables requires management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimation, such difference will have impact on the carrying value of the receivables and impairment of receivables/ reversal of impairment in the period in which such estimate has been changed.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was approximately RMB16 million (2017: approximately RMB16 million). For details of goodwill, please see Note 20.

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets and liabilities and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of these provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the domicile of the respective group entity.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets and liabilities and current income tax charge (continued)

Deferred tax assets are recognised for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed. For details of deferred tax assets and liabilities and income tax, please see Note 33 and Note 12.

4. OPERATING SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board. The Board monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. The Board has determined the operating segments based on the Group's products and services. The performance of each segment is evaluated based on its operating profit or loss before income tax and the methodology used for its calculation is same as that for the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The reportable operating segments are as follows:

- The property development segment develops and sells residential and commercial properties;

- The property leasing segment leases offices and commercial properties owned by the Group which are classified as investment properties;

The other operations comprises, principally, the corporate activities that are not allocated to segments and miscellaneous insignificant operations including provision of property management services.

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows:

	2018			
	Property development	Property leasing	Other operations	Total
Segment revenue				
Sales to external customers	1,269,753	160,171	121,385	1,551,309
Intersegment sales	–	–	49,972	49,972
	1,269,753	160,171	171,357	1,601,281
Reconciliation:				
Elimination of intersegment sales				(49,972)
Revenue				1,551,309
Segment profit	366,603	143,154	85,077	594,834
Finance income	–	–	–	70,350
Finance costs	–	–	–	(547,406)
Finance costs – net	–	–	–	(477,056)
Share of results of associates	–	–	–	72,033
Share of results of joint ventures	–	–	–	17,672
Profit before income tax	–	–	–	207,483
Segment assets and liabilities	–	–	–	
Segment assets	5,361,440	4,856,819	5,740,875	15,959,134
Investments in associates	–	–	–	1,105,416
Investments in joint ventures	–	–	–	3,825,696
Total assets	–	–	–	20,890,246
Segment liabilities	5,199,620	2,149,162	5,723,213	13,071,995
Total liabilities	5,199,620	2,149,162	5,723,213	13,071,995

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows (continued):

	2018			
	Property development	Property leasing	Other operations	Total
Other segment information:				
Depreciation and amortisation	1,316	305	28,893	30,514
Capital expenditure*	827	214	1,649	2,690
Net fair value gain on investment properties	–	(45,956)	–	(45,956)
Reversal of impairment of properties held or under development for sale	(69,813)	–	–	(69,813)
Reversal of impairment of prepaid land lease payments	(158,748)	–	–	(158,748)
Provision for impairment of trade receivables	172	–	–	172
Provision for impairment of other financial assets at amortised cost	–	–	4,365	4,365
Provision for impairment of other receivables	–	–	6,729	6,729
Provision for impairment of other non-current assets	–	–	210	210

* Capital expenditure consists of additions of property, plant and equipment (RMB2,505 thousand) and additions in cost of investment properties (RMB185 thousand).

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4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows (continued):

	2017			
	Property development	Property leasing	Other operations	Total
Segment revenue				
Sales to external customers	1,382,707	151,644	86,122	1,620,473
Intersegment sales	–	–	31,780	31,780
	1,382,707	151,644	117,902	1,652,253
Reconciliation:				
Elimination of intersegment sales				(31,780)
Revenue				1,620,473
Segment profit	188,911	169,424	904,269	1,262,604
Finance income				57,153
Finance costs				(504,051)
Finance costs – net				(446,898)
Share of results of associates				74,332
Share of results of joint ventures				(12,049)
Profit before income tax				877,989
Segment assets and liabilities				
Segment assets	6,902,527	5,007,228	5,413,719	17,323,474
Investments in associates				1,043,140
Investments in joint ventures				4,018,705
Total assets				22,385,319
Segment liabilities	6,315,608	2,281,759	5,973,984	14,571,351
Total liabilities	6,315,608	2,281,759	5,973,984	14,571,351

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows (continued):

	2017			
	Property development	Property leasing	Other operations	Total
Other segment information:				
Depreciation and amortisation	1,689	70	29,851	31,610
Capital expenditure*	132	987	2,753	3,872
Net fair value gain on investment properties	–	(55,165)	–	(55,165)
Impairment of investment in a joint venture	–	–	27,882	27,882
Write-down of properties held or under development for sale	1,663	–	–	1,663
Reversal of impairment of prepaid land lease payments	(156,850)	–	–	(156,850)
Provision for impairment of trade receivables	1,038	–	359	1,397
Provision for impairment of loans and receivables	120,006	–	–	120,006
Provision for impairment of other receivables	175,912	–	–	175,912

* Capital expenditure consists of additions of property, plant and equipment (RMB2,973 thousand) and additions in cost of investment properties (RMB899 thousand).

Geographical information

(a) For the year ended 31 December 2018: 95.7% (2017: 96.0%) of the sales to external customers of the Group are generated from Mainland China.

(b) Non-current assets

As of 31 December 2018, more than 83% (2017: more than 92%) of the Group's non-current assets (based on the locations of the assets and excludes financial instruments and deferred tax assets) were located in Mainland China.

Information about major customers

The Group's customers from whom the revenue is derived are widely dispersed. No customer or a single group of customers which are known to be under common control contributed 10% or more of the Group's revenue for the years ended 31 December 2018 and 2017.

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

5. REVENUE

An analysis of revenue is as follows:

	2018	2017
Revenue from sale of properties	**1,280,765**	1,394,541
Revenue from property leasing (Note 18)	**161,785**	153,370
Revenue from property management	**18,311**	14,888
Revenue from construction of infrastructure for intelligent network	**4,985**	8,890
Other revenue	**99,611**	62,949
	1,565,457	1,634,638
Less: Tax and surcharges (a)	**(14,148)**	(14,165)
Total revenue	**1,551,309**	1,620,473

(a) Tax and surcharges

Prior to 1 May 2016, business tax was calculated at 5% of the revenue from the sale of properties, the provision of property management services and property leasing and at 3% of the net income received from the construction of infrastructure for an intelligent network after deducting amounts payable to subcontractors.

Effective from 1 May 2016, the Group's revenue is subject to value-added tax ("VAT") which is deducted directly from the proceeds. The applicable VAT rate for the Group's revenue is as follows:

- Pursuant to the 'Circular on Adjustment of Tax Rate of Value-Added Tax' (Cai Shui [2018] 32) jointly issued by the Ministry of Finance and the State Administration of Taxation, the applicable tax rates of revenue arising from sale and lease of properties and revenue arising from construction of infrastructure for intelligent network are 10% from 1 May 2018, while they were 11% before then. Qualified old projects, which are those with construction commenced on or before 30 April 2016, can adopt a simplified VAT method at a rate of 5% with no deduction of input VAT. Revenue from property management services is subject to VAT at 6%.

Government surcharges, comprising city maintenance and construction tax, education surtax and river way management fee, are calculated at certain percentages of VAT.

6. OTHER GAINS – NET

An analysis of other gains – net is as follows:

	2018	2017
Gains from disposal of financial assets at FVOCI (Note 16)	**94,385**	–
Gains from disposal of financial assets at FVPL (Note 16)	**8,228**	–
Net fair value gain on investment properties (Note 18)	**45,956**	55,165
Net gain/(loss) on disposal of property, plant and equipment	**61**	(332)
Impairment of investment in a joint venture (Note 22)	**–**	(27,882)
Forfeiture of prepayments	**60,000**	–
Penalties on idle land	**(47,000)**	–
Others	**14,483**	(208)
	176,113	26,743

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

7. EXPENSES BY NATURE

An analysis of expenses by nature is as follows:

	2018	2017
Cost of inventories sold (excluding depreciation, (reversal of impairment)/ write-down of properties held or under development for sale and prepaid land lease payments)	**1,263,259**	1,351,410
Depreciation of items of property, plant and equipment (Note 17)	**26,097**	27,254
Employee benefit expenses (including directors' and chief executive officer's emoluments, excluding those capitalized in property under development):		
– Wages and salaries	**103,438**	193,485
– Other social welfares	**20,035**	19,084
– Share-based payments (Note 15)	**(18,019)**	13,442
	105,454	226,011
(Reversal of impairment)/write-down of properties held or under development for sale (Note 23)	**(69,813)**	1,663
Reversal of impairment of prepaid land lease payments (Note 19)	**(158,748)**	(156,850)
Professional service fees	**67,035**	80,852
Agent and sale commission for sale of properties	**27,800**	29,262
Operating lease payments in respect of buildings	**15,500**	7,228
Auditor's remuneration (*)		
– Annual audit services	**4,900**	4,900
– Non-audit services	**–**	250
Advertising costs	**5,540**	7,889
Miscellaneous tax	**20,196**	28,163
Transportation fee	**9,538**	11,475
Office expenses	**8,223**	10,819
Water and electricity costs	**6,668**	5,115
Provision for impairment of other receivables (Note 25)	**6,729**	175,912
Provision for impairment of trade receivables (Note 26)	**172**	1,397
Provision for impairment of other non-current assets (Note 29)	**210**	–
Provision for impairment of other financial assets at amortised costs/ loans and receivables (Note 28)	**4,365**	120,006
Others	**32,363**	37,778
	1,375,488	1,970,534

* Auditor's remuneration for 2017 included non-audit service fees of RMB250 thousand in respect of services for circulars issued in 2017. In 2018, no non-audit service fee was incurred.

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

8. EMPLOYEE BENEFIT EXPENSES

	2018	2017
Wages and salaries	103,438	193,485
Share-based payments (Note 15)	(18,019)	13,442
Pension costs – defined contribution plans	20,035	19,084
Total employee benefit expenses	105,454	226,011

(a) Pensions – defined contribution plans

All Chinese employees of the Group participate in defined contribution employee social security plans, including pension, medical, housing and other welfare benefits, organised and administered by the governmental authorities. The Group has no other substantial commitments to employees.

(b) Five highest paid employees

The five highest paid employees of the Group during the year included three directors (2017: two directors), details of whose remuneration are set out in Note 11. Details of the remuneration for the year of the remaining two (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018	2017
Salaries, housing allowances, share option scheme, other allowances and benefits in kind	1,865	8,712
Compensation for loss of office	1,108	–
	2,973	8,712

No discretionary bonuses, inducement fees or employer's contribution to pension schemes were given to any of the remaining two (2017: three) highest paid employees who are neither a director nor chief executive of the Company during the years ended 31 December 2018 and 2017.

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

	2018	2017
RMB3,000,001 – RMB5,000,000	–	1
RMB2,000,001 – RMB3,000,000	–	1
RMB1,000,001 – RMB2,000,000	2	1
	2	3

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

9. FINANCE INCOME

An analysis of finance income is as follows:

	2018	2017
Interest from financial assets held for cash management purposes	**70,350**	57,153

10. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
Interest on bank borrowings and other borrowings	**565,855**	553,757
Less: Interest capitalised	**(49,021)**	(41,153)
Interest expense	**516,834**	512,604
Net foreign exchange gain/(loss)	**30,572**	(8,553)
Finance costs	**547,406**	504,051

During the year ended 31 December 2018, the weighted average interest capitalisation rate was 7.15% (2017: 4.12%) per annum.

11. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out as follows:

	2018	2017
Fees	**1,236**	1,244
Other emoluments:		
Salaries	**8,259**	10,505
Share-based payments	**–**	13,386
	9,495	25,135

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

11. BENEFITS AND INTERESTS OF DIRECTORS (continued)

Executive directors, non-executive directors and independent non-executive directors:

	2018			
Name of directors and the chief executive	**Salaries**	**Fees**	**Share option scheme**	**Total**
Chairman				
– Mr. Peng Xinkuang (appointed in 2017)	2,397	–	–	2,397
Executive directors				
– Mr. Shi Janson Bing (resigned in 2018) *	799	–	–	799
– Mr. Chen Chao	51	–	–	51
– Mr. Zhu Qiang	1,178	–	–	1,178
– Mr. Chen Donghui	51	–	–	51
– Ms. Qin Wenying	1,249	–	–	1,249
– Mr. Qi Jiang (appointed in 2018)	240	–	–	240
Independent non-executive directors				
– Mr. Chan, Charles Sheung Wai	–	308	–	308
– Mr. Zhuo Fumin	–	308	–	308
– Mr.Ma Lishan	–	308	–	308
– Mr.Han Gensheng	–	312	–	312
Chief executive	–			
– Mr. Liu Feng (appointed in 2017)	2,294	–	–	2,294
Total	8,259	1,236	–	9,495

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

11. BENEFITS AND INTERESTS OF DIRECTORS (continued)

	2017			
Name of directors and the chief executive	Salaries	Fees	Share option scheme	Total
Chairman				
Mr. Peng Xinkuang (appointed in 2017)*	3,359	–	3,511	6,870
– Mr. He Binwu (resigned in 2017) *	1,298	–	–	1,298
Executive directors				
– Mr. Shi Janson Bing	1,384	–	1,097	2,481
– Mr. Chen Chao	52	–	1,756	1,808
– Mr. Zhu Qiang	980	–	2,633	3,613
– Mr. Chen Donghui (appointed in 2016)	52	–	1,756	1,808
– Ms. Qin Wenying (appointed in 2016)	1,951	–	2,633	4,584
Independent non-executive directors				
– Mr. Chan, Charles Sheung Wai	–	311	–	311
– Mr. Zhuo Fumin	–	311	–	311
– Mr.Ma Lishan (appointed in 2016)	–	311	–	311
– Mr.Han Gensheng (appointed in 2016)	–	311	–	311
Chief executive				
– Mr. Liu Feng (appointed in 2017)	1,429	–	–	1,429
Total	10,505	1,244	13,386	25,135

* In October 2017, Mr Peng Xinkuang, the chief executive officer of the Group, has been re-designated as the chairman of the Board.

* In October 2017, Mr. He Binwu resigned and his 160 million shares granted under the share option scheme was lapsed. The net reversal on expense was approximately RMB6.5 million.

* In July 2018, Mr. Shi Janson Bing resigned and his 50 million shares granted under the share option scheme was lapsed. The net reversal on expense was approximately RMB2.4 million.

No discretionary bonuses, inducement fees, employer's contribution to pension schemes or compensation for loss of office as directors were given to any of the directors during the years ended 31 December 2018 and 2017.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

No significant transactions, arrangements and 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 any time during the year.

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12. INCOME TAX EXPENSE/(CREDIT)

An analysis of income tax is as follows:

	2018	2017
Current taxation		
– Mainland China income tax (a)	28,045	48,981
– Mainland China LAT (c)	28,345	(77,135)
	56,390	(28,154)
Deferred taxation		
– Mainland China income tax	45,977	184,708
– Mainland China LAT	3,233	(2,306)
– Mainland China withholding tax (d)	3,037	3,437
	52,247	185,839
Total tax charge for the year	108,637	157,685

(a) Mainland China income tax

The Group conducts a significant portion of its business in Mainland China and the applicable income tax rate of its subsidiaries operating in Mainland China is generally 25% in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of sale transactions and revenue recognition based on certain estimations. The outstanding balance recorded in "prepaid income tax" was approximately RMB57 million as at 31 December 2018 (2017: approximately RMB50 million). Such prepaid taxes are initially recorded in the statement of financial position and later released to profit or loss upon revenue recognition.

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2035. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2017: Nil).

(c) Mainland China land appreciation tax ("LAT")

LAT is incurred upon transfer of property and land ownership and is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including land costs, borrowing costs, taxes and all property development expenditures.

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12. INCOME TAX EXPENSE/(CREDIT) (continued)

(c) Mainland China land appreciation tax ("LAT") (continued)

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transactions and revenue recognition, generally based on 2% to 5% (2017: 2% to 5%) on proceeds from the sale and pre-sale of properties. Prepaid LAT has been recorded in "prepaid income tax" with an amount of approximately RMB46 million as at 31 December 2018 (2017: approximately RMB46 million). Such prepaid taxes are initially recorded in the statement of financial position and later released to profit or loss upon revenue recognition. The credit to the statement of profit or loss and other comprehensive income in 2017 was due to the reversal of provision upon the final assessment of LAT for certain projects.

(d) Mainland China withholding tax

Pursuant to the PRC Corporate Income Tax Law which became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China and on gain from disposal of equity interests to non-tax resident enterprises. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from retained profits as at 31 December 2007 are exempted from withholding tax.

A reconciliation of the tax expense applicable to profit before income tax using the statutory tax rate of 25% for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

	2018	2017
Profit before income tax	207,483	877,989
Tax at the applicable tax rate of 25%	51,871	219,497
Effect of different tax rate	–	(2,096)
Tax effect of results attributable to associates and joint ventures	(5,441)	(15,571)
Impact of LAT (which is itself classified as part of income tax) as it is deductible for income tax purposes	(7,895)	19,860
Income not subject to tax	(1,572)	(25,396)
Utilisation of previously unrecognized tax losses	(39,032)	(193,764)
Tax losses not recognised	58,290	116,485
Temporary differences not recognised as deferred tax assets due to non-recoverability	17,038	113,815
Expenses not deductible for tax	763	859
Effect of withholding tax at 10% on the retained profits expected to be distributed, for the Group's subsidiaries in Mainland China	3,037	3,437
Mainland China income tax	77,059	237,126
Mainland China LAT (including deferred LAT)	31,578	(79,441)
Total tax expense for the year at the Group's effective tax rate	108,637	157,685

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12. INCOME TAX EXPENSE/(CREDIT) (continued)

The share of taxes attributable to associates amounting to approximately RMB28 million (2017: approximately RMB41 million) is included in "share of results of associates" and "share of results of joint ventures" on the face of the consolidated statement of profit or loss and other comprehensive income.

13. DIVIDENDS PAID AND PROPOSED

The Board of Directors has resolved not to recommend the payment of final dividend in respect of the year ended 31 December 2018 (2017: Nil).

14. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Profit attributable to owners of the Company	**113,530**	690,543
Weighted average number of ordinary shares in issue (thousands)	**20,564,713**	20,564,713

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The share options issued in 2016 constitute dilutive shares. For the Company's share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

For the years ended 31 December 2018 and 2017, as the average annual market share price of the Company's shares was lower than assumed exercise price including the fair value of any services to be supplied to the Group in the future under the share option arrangement, the impact of exercise of the share options on earnings per share is anti-dilutive.

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15. SHARE-BASED PAYMENTS

On 3 June 2016, the Board proposed to adopt a new share option scheme (the "Scheme") to reward the contributions made by the employees that are eligible under the Scheme (the "Eligible Employees"), which was approved and adopted by the shareholders of the Company on 6 July 2016.

On 14 July 2016, options to subscribe for a total of 1,073,717,976 new shares were offered to the Eligible Employees. The exercise price of the granted options is equal to the average closing prices per share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of the grant which is 14 July 2016. The options shall be vested in three tranches in accordance with the following vesting date and conditions: (i) 40% of the options shall be vested on 30 August 2016 and exercisable from 30 August 2016 to 13 July 2021 at a condition of the Group achieving its target to turn losses into gains for the six months ended 30 June 2016; (ii) an additional 30% shall be vested on 30 August 2017 and exercisable from 30 August 2017 to 13 July 2021 at a condition of the Group achieving a net profit of no less than RMB350 million for the six months ending 30 June 2017; and (iii) the remaining 30% shall be vested on 30 August 2018 and exercisable from 30 August 2018 to 13 July 2021 at a condition of the Group achieving a growth rate of net profit of no less than 50% comparing the six months ending 30 June 2018 to the six months ending 30 June 2017. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

During the year ended 31 December 2018, the Group reversed an expense of approximately RMB18,019 thousand (2017: recognised an expense of approximately RMB13,442 thousand) (Note 7) in relation to the lapsed share options granted to directors and employees.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2018		2017	
	Average exercise price in HK$ per share option	**Number of share options (thousands)**	Average exercise price in HK$ per share option	Number of share options (thousands)
At 1 January	–	**913,718**	–	1,073,718
Granted	–	–	–	–
Lapsed (a)	–	**(309,115)**	–	(160,000)
At 31 December	–	**604,603**	–	913,718

(a) In 2018, the 259,115 thousand options were lapsed due to the failure of meeting the condition to vest and exercise the trench (iii) options, and the 50,000 thousand options (2017: 160,000 thousand) were lapsed due to the resignation of the employees (Note 11).

As at 31 December 2018, out of the 604,603 thousand (2017: 913,718 thousand) outstanding options, 604,603 thousand options (2017: 639,603 thousand options) were exercisable.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date – 13 July	**Exercise price in HK$ per share option**	**Number of share options (thousands) 2018**	Number of share options (thousands) 2017
2021	**0.2132**	**604,603**	913,718

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15. SHARE-BASED PAYMENTS (continued)

The fair value of options granted during the period determined using the Binomial valuation model was divided into three trenches according to vesting period, being HK$7.80 cents per option for options vested on 30 August 2016, HK$7.99 cents per option for options to be vested on 30 August 2017 and HK$8.21 cents per option for options to be vested on 30 August 2018. The significant inputs into the model were closing share price of HK$0.2120 at the grant date, exercise price shown above, volatility of 46%, dividend yield of nil, an expected option life of 5, 4 and 3 years respectively, and an annual risk-free interest rate of 0.69%. The volatility measured at the standard deviation of continuously compounded share returns is based on the average rate of comparable companies. See Note 7 for the total expense recognised in the statement of profit or loss and other comprehensive income for share options granted to directors and employees.

16. AVAILABLE-FOR-SALE INVESTMENTS/FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018			2017
	Available-for-sale investments	**Financial assets at FVOCI**	**Financial assets at FVPL**	Available-for-sale investments
At 1 January	**407,790**	**–**	**–**	642,806
Changes in accounting policies	**(407,790)**	**382,836**	**24,954**	–
Restated at 1 January	**–**	**382,836**	**24,954**	642,806
Additions	**–**	**–**	**–**	261,999
Fair value change during the year	**–**	**–**	**–**	2,030
Disposals	**–**	**(232,179)**	**(24,954)**	(497,200)
Currency translation differences	**–**	**–**	**–**	(1,845)
At 31 December	**–**	**150,657**	**–**	407,790

Breakdown of financial assets at FVOCI as at 31 December 2018:

	Percentage of shares (%)	**Cost at 31 December 2018**	**Fair value at 31 December 2018**	**% to total assets at 31 December 2018**
Investment				
Secured loan package from Industrial and Commercial Bank of China ("ICBC")(a)	**Not applicable**	**150,657**	**150,657**	**0.7%**

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16. AVAILABLE-FOR-SALE INVESTMENTS/FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Breakdown of available-for-sale investments as at 31 December 2017:

	Percentage of shares (%)	Cost at 31 December 2017	Fair value at 31 December 2017	% to total assets at 31 December 2017
Investment				
Secured loan package from ICBC (a)	Not applicable	175,806	175,806	0.8%
Secured loan package from China Minsheng Bank ("CMSB")(a)	Not applicable	205,000	207,030	0.9%
Investment in South Gordon(b)	Not applicable	24,954	24,954	0.1%
Total		405,760	407,790	1.8%

(a) As at 31 December 2018, the Group held the secured loan packages originated from ICBC and CMSB with fair value of approximately RMB151 million (2017: approximately RMB176 million) and nil (2017: approximately RMB207 million) respectively. The fair value of the secured loan packages are based on valuation techniques. The fair value is within level 3 of the fair value hierarchy. The significant unobservable inputs are the adjusted unit market value of the comparative properties. The Group did not make any provision against the balance as it was believed that the properties pledged against such receivables would be sufficient to cover the outstanding loan balance.

In 2018, the Group disposed partial of the secured loan packages originated from ICBC and total of the secured loan packages originated from CMSB and recorded gains from disposal of financial assets at FVOCI of approximately RMB94 million.

(b) As at December 2017, the balance was related to a loan granted with variable return to an unlisted company in Australia with a term of one and a half years. According to the terms, neither repayment of principal nor investment returns are guaranteed for such investment products.

In 2018, the Group disposed the investment and recorded gains from disposal of financial assets at FVPL of approximately RMB8 million.

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16. AVAILABLE-FOR-SALE INVESTMENTS/FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Amounts recognised in profit or loss and other comprehensive income:

During the year, the following gains were recognised in profit or loss and other comprehensive income.

	2018	2017
Fair value gain of available-for-sale investment recognised in other comprehensive income	–	2,030
Gains from disposal of financial assets at FVOCL recognised in other gains (Note 6)	94,385	–
Gains from disposal of financial assets at FVPL recognised in other gains (Note 6)	8,228	–
Gains from disposal of available-for-sale investment recognised in finance income	–	2,064
	95,213	4,094

Movement of financial assets at FVOCI and FVPL for year ended 31 December 2018:

	Secured loan package from ICBC (FVOCI)	Secured loan package from CMSB (FVOCI)	Investment in South Gordon (FVPL)	Total
Beginning of year	175,806	207,030	24,954	407,790
Disposal	(25,149)	(207,030)	(24,954)	(257,133)
End of year	150,657	–	–	150,657
Dividend received	–	–	–	–

Movement of available-for-sale investments for year ended 31 December 2017:

	Secured loan package from ICBC	Secured loan package from CMSB	Structured deposits with banks	Investment in South Gordon	Total
Beginning of year	175,806	205,000	262,000	–	642,806
Current year addition	–	–	235,200	26,799	261,999
Fair value change during the year	–	2,030	–	–	2,030
Currency translation differences	–	–	–	(1,845)	(1,845)
Disposal	–	–	(497,200)	–	(497,200)
End of year	175,806	207,030	–	24,954	407,790
Dividend received	–	–	–	–	–

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17. PROPERTY, PLANT AND EQUIPMENT

			2018		
	Buildings	Leasehold improvements	Furniture, fittings, fixtures and office equipment	Motor vehicles	Total
Cost					
Beginning of year	659,496	2,767	105,458	24,185	791,906
Additions	34	–	1,887	584	2,505
Disposal of subsidiaries (Note 40)	–	–	(66)	–	(66)
Disposals	(9,995)	–	(261)	(1,324)	(11,580)
End of year	649,535	2,767	107,018	23,445	782,765
Accumulated depreciation and impairment					
Beginning of year	23,499	2,767	7,497	20,878	54,641
Depreciation charge (Note 7)	17,165	–	8,002	930	26,097
Disposal of subsidiaries (Note 40)	–	–	(14)	–	(14)
Disposals	(3,237)	–	(248)	(1,241)	(4,726)
End of year	37,427	2,767	15,237	20,567	75,998
Net carrying amount					
Balance, end of year	612,108	–	91,781	2,878	706,767
Balance, beginning of year	635,997	–	97,961	3,307	737,265

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17. PROPERTY, PLANT AND EQUIPMENT (continued)

	2017				
	Buildings	Leasehold improvements	Furniture, fittings, fixtures and office equipment	Motor vehicles	Total
Cost					
Beginning of year	658,526	2,767	109,410	28,767	799,470
Additions	970	–	2,003	–	2,973
Disposal of subsidiaries (Note 40)	–	–	(428)	–	(428)
Disposals	–	–	(5,527)	(4,582)	(10,109)
End of year	659,496	2,767	105,458	24,185	791,906
Accumulated depreciation and impairment					
Beginning of year	5,831	1,914	5,271	23,854	36,870
Depreciation charge (Note 7)	17,668	853	7,671	1,062	27,254
Disposal of subsidiaries (Note 40)	–	–	(390)	–	(390)
Disposals	–	–	(5,055)	(4,038)	(9,093)
End of year	23,499	2,767	7,497	20,878	54,641
Net carrying amount					
Balance, end of year	635,997	–	97,961	3,307	737,265
Balance, beginning of year	652,695	853	104,139	4,913	762,600

Depreciation expenses of approximately RMB6,795 thousand (2017: approximately RMB6,880 thousand), of approximately RMB15 thousand (2017: approximately RMB21 thousand) and of approximately RMB19,287 thousand (2017: approximately RMB20,353 thousand) had been respectively expensed in cost of goods sold, selling and marketing expenses and administrative expenses.

As at 31 December 2018, the property, plant and equipment with a net carrying amount of RMB123,396 thousand (2017: RMB133,493 thousand) were pledged as collateral for the Group's bank and other borrowings (Note 32).

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18. INVESTMENT PROPERTIES

Completed investment properties

	2018	2017
At beginning of year	**5,375,199**	5,270,895
Net fair value gain (Note 6)	**45,956**	55,165
Additions in cost	**185**	899
Currency translation differences	**(12,896)**	48,240
At end of year	**5,408,444**	5,375,199

The investment properties as at 31 December 2018 mainly represent the following properties:

– Shanghai Oasis Central Ring Centre – Portions of eight multi-storey shopping malls and car-park places at Putuo District, Shanghai, with a total fair value of approximately RMB1,064 million (2017: RMB1,041 million), for which the operating leases entered into have terms ranging from 1 to 11 years; and

– Shenyang Richgate Shopping Mall – A seven-storey shopping mall at Shenhe District, Shenyang, with a total fair value of approximately RMB2,433 million (2017: RMB2,436 million), for which the operating leases entered into have terms ranging from 1 to 8 years; and

– Shanghai Lake Malaren Transportation Hub – A five-storey shopping mall at Baoshan District, Shanghai, with a total fair value of approximately RMB246 million (2017: RMB237 million), for which the operating leases entered into have terms ranging from 1 to 12 years; and

– Shanghai Lake Malaren Commercial Street – A commercial street at Baoshan District, Shanghai, with a total fair value of approximately RMB559 million (2017: RMB540 million), for which the operating leases entered into have terms ranging from 1 to 4 years; and

– 41 Tower Hill – A ten-storey office building at 41 Tower Hill, London, UK, with a total fair value of approximately Great Britain Pound("GBP") 90 million (equivalent to approximately RMB783 million) (2017: GBP90 million; equivalent to RMB792 million), for which the operating leases entered into have terms ranging from 1 to 3 years; and

– 12 Moorgate – An eight-storey office building at 12 Moorgate, London, UK, with a total fair value of approximately GBP35 million (equivalent to approximately RMB301 million) (2017: GBP35 million; equivalent to RMB307 million), for which the property was let in its entirety with original remaining lease term of 5 years. The tenant exercised the break option and then terminated the lease close to the end of 2018.

As at 31 December 2018, the Group had no unprovided contractual obligations for future repairs and maintenance (2017: Nil).

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18. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:				
Commercial properties	–	–	5,196,444	5,196,444
Car parks	–	–	212,000	212,000
	–	–	5,408,444	5,408,444

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:				
Commercial properties	–	–	5,168,199	5,168,199
Car parks	–	–	207,000	207,000
	–	–	5,375,199	5,375,199

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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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18. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties	Car parks	Total
Carrying amount at 1 January 2017	5,040,702	230,193	5,270,895
Net fair value gain/(loss) (Note 6)	78,358	(23,193)	55,165
Additions in cost	899	–	899
Currency translation differences	48,240	–	48,240
Carrying amount at 31 December 2017 and 1 January 2018	**5,168,199**	**207,000**	**5,375,199**
Net fair value gain (Note 6)	**40,956**	**5,000**	**45,956**
Additions in cost	**185**	**–**	**185**
Currency translation differences	**(12,896)**	**–**	**(12,896)**
Carrying amount at 31 December 2018	**5,196,444**	**212,000**	**5,408,444**

As at 31 December 2018, the Group's investment properties were valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle"), an independent professionally qualified property valuer and consultant. The Group's finance team will review the valuation performed by the independent valuer, including:

- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the prior year valuation report;
- holds discussions with independent valuers.

The valuations were performed based on the income approach (term and reversion method or direct capitalisation method) or direct comparison approach for those investment properties. The following significant unobservable inputs for income approach have been used:

Term yield, reversionary yield	**2018**	2017
Shanghai Oasis Central Ring Centre	**6%, 6.5%**	6%, 6.5%
Shenyang Richgate Shopping Mall	**4.5%, 6%**	4.5%, 6%
Shanghai Lake Malaren Transportation Hub	**3.5%, 5%**	3.5%, 5%
Shanghai Lake Malaren Commercial Street	**4.5%, 5%**	4.5%, 5%
41 Tower Hill, London	**5.5%, 6%**	5.5%, 6%
12 Moorgate, London	**4.25%, 4.75%**	4%, 4.5%

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18. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value at 31 Dec 2018	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Commercial properties – Mainland China	4,324,787 (2017: 4,276,043)	Income approach	Term yield	Term yield of 3.5%-6% (2017: 3.5%-6.5%), taking into account of yield generated from comparable properties and adjustment to effect the certainty of term income secured and to be received	The higher the term yield, the lower the fair value
			Reversionary yield	Reversionary yield of 4%-6.5% (2017: 4%-6.5%), taking into account annual unit market rental income and unit market value of the comparable properties	The higher the reversionary yield, the lower the fair value
			Market unit rent of individual unit	RMB46-RMB285 (2017: RMB46– RMB285) per square metre per month	The higher the market unit rent, the higher the fair value
Commercial properties – UK	1,083,657 (2017: 1,099,156)	Income approach	Term yield	Term yield of 4.3%-5.5% (2017: 4%-5.5%), taking into account of yield generated from comparable properties and adjustment to effect the certainty of term income secured and to be received	The higher the term yield, the lower the fair value
			Reversionary yield	Reversionary yield of 4.8%-6% (2017: 4.5%-6%), taking into account annual unit market rental income and unit market value of the comparable properties	The higher the reversionary yield, the lower the fair value
			Market unit rent of individual unit	RMB415-RMB537 (2017: RMB421-RMB527) per square metre per month	The higher the market unit rent, the higher the fair value

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18. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

The term and reversion method measures the fair value of the property by taking into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates. The direct capitalisation method measures the fair value of the property by assuming a stabilised economic income capitalised by a market yield rate. The market yield was developed based on the research on the sales and rental evidences of the similar properties in the surrounding market and assuming the existing tenancy will be extended. A significant increase/(decrease) in the estimated market yield would result in a significant decrease/(increase) in the fair value of the investment properties.

Were the rental rate and yield rate required assumed to increase or decrease by 10% from management's estimate, the changes in carrying amount of investment properties as at 31 December 2018 and 2017 would have been as follows:

	2018	2017
Investment properties increase/(decrease)		
– 10 percent rental rate higher	**468,971**	524,922
– 10 percent rental rate lower	**(444,262)**	(526,244)
Investment properties increase/(decrease)		
– 10 percent yield rate used higher	**(356,956)**	(418,369)
– 10 percent yield rate used lower	**442,180**	480,507

As at 31 December 2018, the Group's investment properties of approximately RMB2,953 million (2017: approximately RMB5,116 million) were pledged as collateral for the Group's bank and other borrowings (Note 32).

The following amounts relating to the investment properties have been recognised in the consolidated statement of profit or loss and other comprehensive income:

	2018	2017
Rental income (Note 5)	**161,785**	153,370
Direct operating expenses arising from investment properties that generate rental income	**(40,769)**	(28,120)
Gain from increase in fair value (Note 6)	**45,956**	55,165

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19. PREPAID LAND LEASE PAYMENTS

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2018	2017
At beginning of year	**2,110,252**	2,840,907
Additions	**157,267**	113,458
Disposals with the sale of completed properties	**(101,680)**	(334,098)
Disposal of subsidiaries (Note 40)	**(289,659)**	(559,375)
Amortisation capitalised as properties under development for sale	**(35,368)**	(103,134)
Amortisation provided relating to property, plant and equipment	**(4,417)**	(4,356)
Reversal of impairment of prepaid land lease payments (Note 7)	**158,748**	156,850
Currency translation difference	**10,761**	–
At end of year	**2,005,904**	2,110,252

	2018	2017
Analysed as:		
Non-current: in relation to properties classified under property, plant and equipment	**197,500**	204,403
Current: in relation to properties held or under development for sale	**1,808,404**	1,905,849
	2,005,904	2,110,252

The movements in reversal of impairment of prepaid land lease payments are as follows:

	2018	2017
At 1 January	**326,024**	535,180
Reversal of impairment of prepaid land lease payments recognised	**(158,748)**	(156,850)
Disposal of subsidiaries (Note 40)	**–**	(52,306)
At 31 December	**167,276**	326,024

As at 31 December 2018, the Group's leasehold land of approximately RMB58,572 thousand (2017: approximately RMB117,667 thousand) was pledged as collateral for the Group's bank and other borrowings (Note 32).

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20. GOODWILL

	2018	2017
Cost		
At beginning and end of year	**491,006**	491,006
Accumulated impairment		
At beginning and end of year	**474,735**	474,735
Net carrying amount		
Balance, beginning and end of year	**16,271**	16,271

Impairment testing of goodwill

As at 31 December 2018, goodwill acquired through certain business combinations has been mainly related to the following cash-generating units for impairment testing:

– Shanghai Haibo Property Development Co.,Ltd. ("Haibo")

– Shanghai Xiabo Industry Ltd. ("Xiabo")

As at 31 December 2018 and 2017, cash-generating units were parcels of land in the city of Shanghai.

As at 31 December 2018, the recoverable amount Haibo and Xiabo project cash-generating units had been determined based on a fair value calculation using residual method. A professional valuer, Jones Lang LaSalle, was engaged to assist the Group in determining the estimated fair value. The recoverable amounts applied to the residual method is approximately RMB216 million for Haibo and RMB111 million for Xiabo (2017: RMB214 million for Haibo and RMB111 million for Xiabo). The carrying amounts are approximately RMB175 million for Haibo and RMB78 million for Xiabo (2017: RMB175 million for Haibo and RMB78 million for Xiabo).

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

20. GOODWILL (continued)

Movement of net carry amount of goodwill is as follows:

	Opening	Impairment	Closing
Shenyang Albany Oasis Garden (a)	–	–	–
Shanghai Huating Project ("Huating") (b)	–	–	–
Haibo	12,297	–	12,297
Xiabo	1,847	–	1,847
Others	2,127	–	2,127
	16,271	–	16,271

The cost of goodwill allocated to each of the major cash-generating units before impairment is as follows:

	2018	2017
Shenyang Albany Oasis Garden	**316,653**	316,653
Huating	**144,354**	144,354
Haibo	**12,297**	12,297
Xiabo	**1,847**	1,847
Others	**15,855**	15,855
	491,006	491,006

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill with the assistance from Jones Lang LaSalle:

– Selling prices – The market prices of comparable properties nearby

– Construction costs – The estimated costs including infrastructure costs to complete the property development projects

– Discount rates – The discount rates used are before income tax and reflect specific risks relating to the relevant cash-generating units

The values assigned to key assumptions are based on historical experiences, current market condition, approved budgets and forecasts, and are consistent with external information sources.

(a) In prior years, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill arising from the acquisition of Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao") was higher than its recoverable amount. Considering the current market condition in Shenyang and the actual selling price of Shenyang Albany Oasis Garden (Phases II and III) projects developed by Liaoning Gao Xiao, the Group estimated that the future cash flows that could be generated from the sale of this property (including the remaining developed Phase II and Phase III under development) would probably be reduced, resulting in the significant decrease of value-in-use. As a result, the Group provided a total impairment loss of approximately RMB317 million in prior years. In addition to the goodwill impairment recognised, impairment provision was also made to state the properties held or under development for sale and prepaid land lease payments of Liaoning Gao Xiao at net realisable value.

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

20. GOODWILL (continued)

(b) The goodwill arose from the acquisition of Shanghai Bairun Real Estate Co., Ltd. ("Bairun") is related to its properties under developments in prior years. The goodwill has been fully impaired pursuant to the sales of these properties.

21. INVESTMENTS IN ASSOCIATES

	2018	2017
Share of net assets	**1,105,416**	1,043,140
Less: Provision for impairment	**–**	–
	1,105,416	1,043,140

As at the 31 December 2018, the Company had indirect interests in the following associates:

Name	**Place and date of incorporation or establishment and business**	**Proportion of ownership interest** Held by the Company	**Proportion of ownership interest** Indirectly held	**Issued and paid-up capital**	**Authorised share capital**	**Principal activities**
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC/Mainland China 6 May 1997	–	26%	RMB50,000,000	RMB50,000,000	Research and development of housing technology
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC/Mainland China 24 October 2000	–	20%	RMB100,000,000	RMB100,000,000	Development and sale of netware and construction of broadband fibre projects
Mayson Resources Limited ("Mayson")	British Virgin Islands ("BVI") 29 January 2003	–	40%	HKD8	HKD8	Property sales
Shanghai Orda Opto-electronics Science & Tech Co.,Ltd.("Orda")	PRC/Mainland China 20 March 2000	–	24%	RMB11,000,000	RMB11,000,000	Research and development of optoelectronic products
Shanghai Xin Richgate Investment Mangement Co., Ltd. ("Richgate")	PRC/Mainland China 14 July 2011	–	25%	RMB9,100,000	RMB9,100,000	Investment management
Shanghai Real Estate Asset Management Co., Ltd. ("SRE Asset") (a)	PRC/Mainland China 25 March 2016	–	20%	RMB35,000,000	RMB100,000,000	Investment management
Ningbo Meishan Free Trade Zone Jia Miao Investment Co., Ltd. ("Ningbo Jia Miao")(b)	PRC/Mainland China 14 March 2018	–	33.34%	RMB4,000,000	RMB4,000,000	Investment management

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

21. INVESTMENTS IN ASSOCIATES (continued)

(a) In August 2017, the Group disposed 50% of its 70% equity interest and lost control in the originally non-wholly owned subsidiary, which become an associate of the Group after the transaction (Note 40(f)).

(b) In March 2018, the Group entered into an agreement to set up Ningbo Jia Miao at a consideration of approximately RMB1.3 million with 33.34% equity interest in Ningbo Jia Miao.

The financial year end dates of the above associates are coterminous with that of the Group.

The Group's shareholdings in the associates comprise equity shares held through certain wholly-owned subsidiaries and non-wholly-owned subsidiaries of the Company. All the above associates have been accounted for using the equity method in the consolidated financial statements.

The commitments relating to the Group's interests in associates are presented in Note 39(a). There are no contingent liabilities relating to the Group's interests in the associates.

Extracts of financial information of principal associates

The following tables illustrate the financial information of the Group's principal associates as extracted from their financial statements:

(1) Broadband

	2018	2017
Current assets	**113,474**	173,586
Non-current assets	**43,618**	47,221
Current liabilities	**(37,769)**	(65,388)
Net assets	**119,323**	155,419
Revenue	**141,697**	135,990
Profit after tax	**19,359**	14,338
Total comprehensive income for the year	**19,359**	14,338
Dividend received	**1,090**	847

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

21. INVESTMENTS IN ASSOCIATES (continued)

Extracts of financial information of principal associates (continued)

(2) Mayson

	2018	2017
Current assets	3,903,979	4,709,029
Non-current assets	289,387	298,081
Current liabilities	(1,523,814)	(2,501,153)
Non-current liabilities	(30,789)	(40,922)
Net assets	2,638,763	2,465,035
Revenue	469,657	1,210,703
Profit after tax	173,728	181,310
Total comprehensive income for the year	173,728	181,310
Dividend received	–	–

(3) SRE Asset

	2018	2017
Current assets	7,425	430,508
Non-current assets	21,452	35
Current liabilities	(1,580)	(403,361)
Net assets	27,297	27,182
Revenue	11,394	1,676
Profit/(loss) after tax	115	(4,628)
Total comprehensive income/(loss) for the period	115	(4,628)
Dividend received	–	–

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21. INVESTMENTS IN ASSOCIATES (continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in associates.

	Broadband		Mayson		SRE Asset		Others		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Opening net assets	**155,419**	145,318	**2,465,035**	2,283,725	**27,182**	4,810	**66,868**	67,400	**2,714,504**	2,501,253
Profit/(loss) for the year	**19,359**	14,338	**173,728**	181,310	**115**	(4,628)	**(4,076)**	(532)	**189,126**	190,488
Capital (reduction)/injection	**(50,000)**	–	**–**	–	**–**	27,000	**4,000**	–	**(46,000)**	27,000
Dividends distribution	**(5,455)**	(4,237)	**–**	–	**–**	–	**–**	–	**(5,455)**	(4,237)
Closing net assets	**119,323**	155,419	**2,638,763**	2,465,035	**27,297**	27,182	**66,792**	66,868	**2,852,175**	2,714,504
Interest in associates	**20%**	20%	**40%**	40%	**20%**	20%				
Goodwill and adjustments	**(298)**	(298)	**–**	–	**638**	638	**2,931**	3,271		
Carrying value	**23,567**	30,786	**1,055,507**	986,015	**6,097**	6,074	**20,245**	20,265	**1,105,416**	1,043,140

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

22. INVESTMENTS IN JOINT VENTURES

	2018	2017
Share of net assets	3,853,578	4,046,587
Less: Provision for impairment	(27,882)	(27,882)
	3,825,696	4,018,705

As at the 31 December 2018, the Company had indirect interests in the following joint ventures:

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Jiangsu Da Run Sensor Technology Co., Ltd. ("Da Run")	PRC/Mainland China 20 May 2010	–	12%*	RMB53,000,000	RMB53,000,000	Research and development of sensor
Yunnan Ming Zhen Hospital Management Co., Ltd. ("Ming Zhen") (a)	PRC/Mainland China 22 October 2014	–	–	RMB150,000,000	RMB150,000,000	Hospital management
SRegal Sinclair LLP ("Sinclair") (b)	UK/London 30 September 2016	–	92.91%*	GBP13,400,000	GBP14,400,000	Property development
Ningbo Meishan Free Trade Zone Zhi Miao Investment Center LLP ("Ningbo Zhi Miao') (c)	PRC/Mainland China 29 December 2016	–	12.75%*	RMB3,897,000,002	RMB3,897,000,002	Equity investment
Certain Business of Golden Luodian ("Relevant Business of Golden Luodian")	PRC/Mainland China 31 December 2016	–	72.63%*	RMB200,000,000	RMB200,000,000	Property development
75 Howard Owner LP ("75 Howard")(d)	USA/Delaware 27 March 2017	–	70%*	US$173,967,740	US$173,967,740	Property development
Shanghai Jinxin Real Estate Co., Ltd. ("Jinxin Real Estate")(e)	PRC/Mainland China 28 October 2002	–	51%*	RMB2,660,000,000	RMB2,660,000,000	Property development
Napa Lifestyle Holdings, LLC ("NAPA") (f)	USA/State of Delaware 01 February 2015	–	78.53%*	US$19,260,310	US$19,260,310	Property development
Shanghai Gaoxin Business Management Co., Ltd. ("Gao Xin") (g)	PRC/Mainland China 17 July 2017	–	50%	RMB8,000,000	RMB8,000,000	Management consulting
Changsha Horoy Real Estate Development Co., Ltd. ("Changsha Horoy") (h)	PRC/Mainland China 25 September 2017	–	49.50%*	RMB100,000,000	RMB100,000,000	Property development and sales

* The Group accounts for its investments in these companies as joint ventures although the Group holds more or less than 50% of equity interest. According to the investment agreements and articles of associations, the Group and the other investors will jointly control the key relevant activities of these companies.

22. INVESTMENTS IN JOINT VENTURES (continued)

(a) In July 2017, the Group disposed all of its equity interest of Ming Zhen for a consideration of approximately RMB62 million, with approximately RMB17 million gain.

(b) In September 2016, the Group entered into an agreement to set up Sinclair for a consideration of approximately GBP13 million (approximately RMB114 million), of which approximately GBP1.8 million (approximately RMB15 million) had been contributed as at 31 December 2016 and the remaining commitment was disclosed in Note 39. In January 2017, the Group paid the remaining consideration in Sinclair of approximately GBP11.5 million (equivalent to approximately RMB100 million).

(c) In December 2016, the Group entered into a joint venture agreement in relation to the formation of the joint venture of Ningbo Zhi Miao with the total capital commitment of approximately RMB5,116 million, of which an aggregate of approximately RMB997 million, being approximately 19% of the total capital commitment, was contributed by the Group. In May 2017, the Group reduced its investment in Ningbo Zhi Miao for a consideration of RMB20 million. Accordingly the Group's equity interest in Ningbo Zhi Miao is decreased from 19.49% to 19.10% as at 31 December 2017. In December 2018, the shareholders of Ningbo Zhi Miao reduced investments of approximately RMB1,219 million in total, of which an aggregate of approximately RMB480 million was reduced by the Group. As such, the Group's equity interest in Ningbo Zhi Miao was decreased from 19.10% to 12.75% as at 31 December 2018.

(d) In February 2017, the Group entered into an agreement with RDF 75 Howard LP to acquire 75 Howard at a consideration of approximately US$92 million (equivalent to approximately RMB631 million) for 80% equity interest in 75 Howard. In March 2018, the Group disposed 10% of its equity interest in 75 Howard for a consideration of approximately US$12 million (equivalent to approximately RMB80 million), with disposal gain of approximately US$0.5 million (equivalent to approximately RMB3.3 million). As such, the Group's equity interest in 75 Howard was decreased from 80% to 70% as at 31 December 2018.

(e) In April 2017, the Group disposed 49% of its equity interest and lost control in the originally wholly-owned subsidiary, Jinxin Real Estate. As such, Jinxin Real Estate became a joint venture of the Group after the transaction (Note 40(d)).

(f) In May 2017, the Group entered into an agreement to acquire NAPA at a consideration of approximately US$15 million (equivalent to approximately RMB104 million) for 78.53% equity interest.

(g) In July 2017, the Group entered into an agreement to set up Gaoxin at an investment of approximately RMB4 million for 50% equity interest.

(h) In April 2018, a third party injected capital to Changsha Horoy, which was a subsidiary of the Group, and thus the Group's equity interest in Changsha Horoy was diluted from 66.5% to 49.5%. Upon the dilution and change of investment agreement and articles of association, the Group lost control and Changsha Horoy became a joint venture of the Group (Note 40(a)).

The financial year end dates of the above joint ventures are coterminous with that of the Group.

The Group's shareholdings in the joint ventures comprise equity shares held through certain wholly-owned subsidiaries and non-wholly-owned subsidiaries of the Company. All the above joint ventures have been accounted for using the equity method in the consolidated financial statements.

The contingent liabilities relating to the Group's interests in the joint ventures are presented in Note 39.

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

22. INVESTMENTS IN JOINT VENTURES (continued)

Extracts of financial information of principal joint ventures

The following tables illustrate the financial information of the Group's principal joint ventures as extracted from their financial statements:

(1) Ningbo Zhi Miao

	2018	2017
Current assets		
Cash and cash equivalents	216,210	2,050
Other current assets	776,843	387,153
Total current assets	993,053	389,203
Non-current assets	3,021,986	4,856,000
Current liabilities	(131,215)	(131,205)
Net assets	3,883,824	5,113,998
Revenue	–	–
Profit/(loss) after tax	344,530	(2,002)
Total comprehensive income/(loss) for the year	344,530	(2,002)
Dividend received	67,940	–

(2) Relevant Business of Golden Luodian

	2018	2017
Current assets		
Cash and cash equivalents	18,207	17,741
Other current assets	1,117,478	1,207,811
Total current assets	1,135,685	1,225,552
Non-current assets	915,660	963,566
Current liabilities	(1,242,609)	(1,884,251)
Non-current liabilities	(649,432)	(119,088)
Net assets	159,304	185,779
Revenue	192,110	84,627
Loss after tax	(26,475)	(93,162)
Total comprehensive loss for the year	(26,475)	(93,162)
Eliminated interest cost	100,958	60,195
Dividend received	–	–

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

22. INVESTMENTS IN JOINT VENTURES (continued)

Extracts of financial information of principal joint ventures (continued)

(3) 75 Howard

	2018	2017
Current assets		
Cash and cash equivalents	4,712	9,048
Other current assets	28,346	109
Total current assets	33,058	9,157
Non-current assets	1,217,571	750,216
Current liabilities	(47,473)	(4,743)
Net assets	1,203,156	754,630
Revenue	2,723	15,143
(Loss)/profit after tax	(199)	5,958
Total comprehensive (loss)/profit for the year	(199)	5,958
Dividend received	–	–

(4) Jinxin Real Estate

	2018	2017
Current assets		
Cash and cash equivalents	128,266	8,518
Other current assets	7,450,152	6,903,239
Total current assets	7,578,418	6,911,757
Non-current assets	1,029	445
Current liabilities	(186,016)	(30,155)
Non-current liabilities	(3,257,963)	(2,743,549)
Net assets	4,135,468	4,138,498
Revenue	–	–
Loss after tax	(3,030)	(2,502)
Total comprehensive loss for the year	(3,030)	(2,502)
Eliminated interest cost	14,332	12,670
Dividend received	–	–

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22. INVESTMENTS IN JOINT VENTURES (continued)

Extracts of financial information of principal joint ventures (continued)

(5) NAPA

	2018	2017
Current assets		
Cash and cash equivalents	534	9
Other current assets	135,062	130,446
Total current assets	135,596	130,455
Non-current assets	–	–
Current liabilities	(12,752)	(4,605)
Non-current liabilities	(8,747)	–
Net assets	114,097	125,850
Revenue	–	–
Loss after tax	(14,623)	–
Total comprehensive loss for the year	(14,623)	–
Eliminated interest cost	202	–
Dividend received	–	–

(6) Changsha Horoy

	2018
Current assets	
Cash and cash equivalents	48,576
Other current assets	1,077,650
Total current assets	1,126,226
Non-current assets	82
Current liabilities	(579,286)
Non-current liabilities	(119,880)
Net assets	427,142
Revenue	
Loss after tax	(30,330)
Total comprehensive loss for the year	(30,330)
Eliminated interest cost	14,958
Dividend received	–

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

22. INVESTMENTS IN JOINT VENTURES (continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in joint ventures.

	Ningbo Zhi Miao	Relevant Business of Golden Luodian	75 Howard	Jinxin Real Estate	NAPA	Changsha Horoy	Others	Total
Opening net assets at 1 January 2018	5,113,998	185,779	754,630	4,138,498	125,850	–	184,047	10,502,802
Profit/(loss) for the year/ period after acquisition	344,530	(26,475)	(199)	(3,030)	(14,623)	(30,330)	(4,042)	265,831
Other comprehensive (loss)/income	–	–	(47)	–	(3,467)	–	53	(3,461)
Capital (reduction)/ injection	(1,219,000)	–	392,927	–	–	–	–	(826,073)
Disposal of partial interests and lost of control of a subsidiary and became a joint venture	–	–	–	–	–	457,472	–	457,472
Dividends distribution	(355,704)	–	–	–	–	–	–	(355,704)
Currency translation difference	–	–	55,845	–	6,337	–	–	62,182
Closing net assets	3,883,824	159,304	1,203,156	4,135,468	114,097	427,142	180,058	10,103,049
Interest in joint ventures	12.75%	72.63%	70.00%	51.00%	78.53%	49.50%		
Impairment in joint ventures	–	–	–	–	(27,882)	–	–	(27,882)
Goodwill and adjustments	1,925	(100,958)	–	(27,002)	(202)	(14,958)		
Carrying value at 31 December 2018	497,113	14,744	842,209	2,082,086	61,511	196,478	131,555	3,825,696

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

22. INVESTMENTS IN JOINT VENTURES (continued)

Reconciliation of summarised financial information (continued)

	Ningbo Zhi Miao	Relevant Business of Golden Luodian	75 Howard	Jinxin Real Estate	NAPA	Others	Total
Opening net assets at 1 January 2017	5,116,000	278,941	–	4,141,000	82,084	194,961	9,812,986
(Loss)/profit for the year/period after acquisition	(2,002)	(93,162)	5,958	(2,502)	–	(19,948)	(111,656)
Other comprehensive loss	–	–	(161)	–	–	–	(161)
Capital injection	–	–	748,833	–	43,766	9,034	801,633
Closing net assets	5,113,998	185,779	754,630	4,138,498	125,850	184,047	10,502,802
Interest in joint ventures	19.10%	72.63%	80%	51%	78.53%		
Impairment in joint ventures	–	–	–	–	(27,882)	–	(27,882)
Goodwill and adjustments	19	–	–	(12,670)	–		
Carrying value at 31 December 2017	976,618	134,932	603,704	2,097,964	70,943	134,544	4,018,705

23. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

	2018	2017
At cost	**1,657,721**	2,442,770
Less: Provision for impairment loss	**(115,271)**	(185,084)
	1,542,450	2,257,686
– In Shanghai City, PRC	**405,617**	449,387
– In Shenyang City, PRC	**450,021**	865,771
– In Chengdu City, PRC	**256,693**	342,001
– In Jiaxing City, PRC	**217,499**	325,898
– In Dalian City, PRC	**197,920**	143,333
– In Phnom Penh City, Cambodia	**14,700**	–
– In Changsha City, PRC	**–**	131,296
	1,542,450	2,257,686

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

23. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE (continued)

	2018	2017
Properties held or under development expected to be completed, at net realisable value		
– Within one year	**1,147,338**	1,278,558
– After one year	**395,112**	979,128
	1,542,450	2,257,686

The movements in (reversal of impairment)/write-down of properties held or under development for sale are as follows:

	2018	2017
At 1 January	**185,084**	533,530
(Reversal of impairment)/write-down of properties held or under development (Note 7)	**(69,813)**	1,663
Disposal of a subsidiary (Note 40)	**–**	(350,109)
At 31 December	**115,271**	185,084

As at 31 December 2018 and 2017, approximately RMB160 million (2017: approximately RMB339 million) of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank and other borrowings (Note 32).

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

24. PREPAYMENTS AND OTHER CURRENT ASSETS

	2018	2017
Non-current		
Prepayment (a)	5,000	5,000
Less: Provision for impairment (a)	(5,000)	(5,000)
	–	–
Current		
Prepaid business tax	25,325	34,768
Prepaid VAT	24,375	29,874
Prepayments (b)	257,174	254,930
Others	50,342	15,543
	357,216	335,115
Less: Provision for impairment	(16,000)	(12,750)
	341,216	322,365

(a) On 12 December 2013, the Company signed a letter of intent with a third party (the "Vendor") to acquire a 100% equity interest in a real estate company in Shanghai at a total consideration of RMB800 million. In connection with this transaction, the Group paid RMB5 million to the Vendor as earnest money. Due to the termination of the project as well as the low probability of collection of the aforementioned prepayment, full provision has been made for the earnest money as at 31 December 2018 and 2017.

(b) The prepayments as at 31 December 2018 mainly included approximately RMB9 million (2017: approximately RMB7 million) of prepayments for construction cost of properties under development, and approximately RMB248 million (2017: approximately RMB248 million) of prepayments for leasehold land in the PRC.

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

25. OTHER RECEIVABLES

	2018	2017
Receivables from subsidiaries disposed of in prior years	**343,224**	339,224
Receivables from related parties (Note 42)	**1,294,347**	1,026,996
Advance to a non-controlling shareholder of a subsidiary	**190,000**	294,330
Receivable of consideration arising from disposal of a subsidiary (a)	**12,862**	12,862
Interests receivable from related parties (Note 42)	**291,582**	82,879
Advance to a land development project	**205,884**	–
Receivable from the disposal of financial assets at fair value through other comprehensive income	**128,436**	–
Others	**157,505**	191,598
	2,623,840	1,947,889
Less: Provision for impairment (Note 7)	**(258,628)**	(231,506)
Other receivables, net	**2,365,212**	1,716,383

(a) As of 31 December 2018 and 2017, this was the remaining consideration which has not been received for the disposal of a subsidiary, Skyway.

All other receivables are non-interest-bearing and are normally settled within one year.

26. TRADE RECEIVABLES

	2018	2017
Trade receivables	**44,999**	52,281
Less: Provision for impairment (Note 7)	**(28,015)**	(27,843)
	16,984	24,438

An aged analysis of trade receivables as at the end of the reporting period, from the date when they were recognised, is as follows:

	2018	2017
Within 6 months	**6,666**	18,056
6 months to 1 year	**5,504**	6,382
1 to 2 years	**5,610**	–
Over 2 years	**27,219**	27,843
	44,999	52,281

The Group's sales of development properties are generally on a cash basis while the Group's trading terms with its customers for other operations are mainly on credit. The credit terms of the Group are generally within six months.

The Group's trade receivables are related to a large number of diversified customers. There is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

26. TRADE RECEIVABLES (continued)

An aged analysis of trade receivables neither past due nor impaired and those past due but not impaired is as follows:

	2018	2017
Neither past due nor impaired	11,451	17,809
Past due but not impaired:		
Within 30 days	–	247
31 to 60 days	–	–
61 to 90 days	–	–
91 to 120 days	–	
Over 120 days	5,533	6,382
	5,533	6,629
	16,984	24,438

Receivables that were past due but not impaired are related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movements in the provision for impairment of trade receivables are as follows:

	2018	2017
At beginning of year	27,843	26,805
Additions (a) (Note 7)	414	1,397
Reversals (Note 7)	(242)	–
Disposal of subsidiaries (Note 40)	–	(359)
At end of year	28,015	27,843

(a) The provision was made as at December 2018 as the directors of the Group consider the recoverability of the receivables is uncertain.

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

27. CASH AND BANK BALANCES

	2018	2017
Cash on hand	605	472
Demand deposits	698,005	1,140,431
Time deposits with original maturity of no more than 3 months	–	66,216
Cash and cash equivalents	698,610	1,207,119
Pledged bank deposits (a)	–	214,000
Restricted bank deposits relating to bank borrowings (b)	2,623	4,626
Restricted bank deposits relating to lawsuits	–	27,170
Restricted cash	2,623	245,796
Cash and bank balances	701,233	1,452,915

(a) As at 31 December 2017, bank deposits of approximately RMB214 million were pledged as security for bank and other borrowings (Note 32). In 2018, the borrowings were repaid.

(b) An amount of approximately RMB3 million (2017: approximately RMB5 million) is restricted in connection with bank borrowings.

The carrying amounts of the cash and bank balances which are denominated in the following currencies are:

	2018	2017
HK$	4,322	86,012
United States dollars ("US$")	44,392	261,137
Singapore dollars	1	1
Australian dollars ("AUD")	32,126	90,068
GBP	52,392	154,903
RMB	568,000	860,794
	701,233	1,452,915

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Demand deposits earn interest at floating rates based on daily bank deposit rates. Time deposits earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents pledged and restricted deposits approximate to their fair values.

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28. OTHER FINANCIAL ASSETS AT AMORTISED COST/LOANS AND RECEIVABLES

Other financial assets at amortised cost include the following debt investments:

	2018			2017		
	Current	**Non-current**	**Total**	Current	Non-current	Total
Loans to related parties (a)	**1,626,627**	**–**	**1,626,627**	1,172,011	–	1,192,011
Loans to a disposed subsidiary (a)	**–**	**700,000**	**700,000**	–	700,000	700,000
Other receivables (a)	**20,000**	**–**	**20,000**	20,000	–	20,000
	1,646,627	**700,000**	**2,346,627**	1,192,011	700,000	1,892,011
Less: Loss allowances for debt investments at amortised cost (b)	**(35,616)**	**(125,574)**	**(161,190)**	(20,000)	(120,006)	(140,006)
	1,611,011	**574,426**	**2,185,437**	1,172,011	579,994	1,752,005

(a) The balance as at 31 December 2018 mainly represented the interest-bearing loans granted to related parties of approximately RMB1,627 million (2017: approximately RMB1,172 million) with a provision of approximately RMB16 million (2017: Nil) (Note 42(c)), and to a disposed subsidiary of approximately RMB700 million (2017: approximately RMB700 million) with a provision of approximately RMB126 million (2017: approximately RMB120 million) (Note 40(h)), and to certain third parties.

(b) The provisions were made as at 31 December 2018 and 2017 as the directors of the Group consider the recoverability of certain receivables is uncertain.

29. OTHER NON-CURRENT ASSETS

	2018	2017
Deposit for guarantee of a loan of a joint venture (a)	**171,684**	–
Prepayments for acquisition of certain real estate assets (b)	**–**	660,800
Receivables from land development (c)	**–**	150,000
Other receivables (d)	**–**	4,000
Others (d)	**–**	3,250
	171,684	818,050
Less: Provision for impairment (d)	**(210)**	(7,250)
	171,474	810,800

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

29. OTHER NON-CURRENT ASSETS (continued)

(a) As at 31 December 2018, the balance represented guarantee for a long-term loan of a joint venture.

(b) As at 31 December 2017, the balance represented prepayments for acquisition of certain real estate assets of approximately RMB661 million. In 2018, the transaction was cancelled due to certain reason so that the prepayments were to be returned. As at 31 December 2018, approximately RMB459 million has been collected, with the remaining approximately RMB202 million reclassified to other receivables from related parties (Note 42).

(c) As at 31 December 2017, the balance represented payments for land redevelopment of approximately RMB150 million in the PRC. As at 31 December 2018, total balance was increased to RMB206 million, and was reclassified to other receivables as the balance is due for collection in 2019 (Note 25).

(d) As at 31 December 2017, these balances comprised a cash consideration of approximately RMB4 million and a non-cash consideration of approximately RMB3.25 million for the disposal of a former subsidiary in 2014. Full provisions were made for such balances as at 31 December 2018 and 2017. As at 31 December 2018, according to the original payment schedule, the balances are to be settled within one year. Thus, the balances of other receivables of approximately RMB4 million and its full provision, the balances of others of approximately RMB3.25 million and its full provision, are reclassified to other receivables (Note 25) prepayments and other current assets (Note 24) respectively.

30. ISSUED SHARE CAPITAL AND SHARE PREMIUM

Shares

	2018	2017
Issued and fully paid:		
20,564,713 thousand (2017: 20,564,713 thousand) ordinary shares	**6,747,788**	6,747,788

A summary of movements in the Company's share capital is as follows:

		Amount		
	Number of shares (thousand)	**Issued capital**	**Share premium**	**Total**
At 1 January 2017, 31 December 2017 and 31 December 2018	**20,564,713**	**1,701,661**	**5,046,127**	**6,747,788**

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

31. OTHER RESERVES

	Surplus reserve	Exchange fluctuation reserve	Available-for-sale investments	Financial assets at fair value through other comprehensive income	Others	Total
At 1 January 2018	377,780	3,731	1,523	–	(142,594)	240,440
Changes in accounting policies	–	–	(1,523)	1,523	–	–
Restated at 1 January 2018	377,780	3,731	–	1,523	(142,594)	240,440
Other comprehensive losses, net of tax						
Currency translation differences	–	(4,248)	–	–	–	(4,248)
Revaluation-gross	–	–	–	(2,031)	–	(2,031)
Revaluation-tax	–	–	–	508	–	508
	–	(4,248)	–	(1,523)	–	(5,771)
Transactions with owners						
Appropriation from retained profits	9,773	–	–	–	–	9,773
Change in ownership interests in a subsidiary without change of control	–	–	–	–	9,506	9,506
Share-based payments (Note 15)	–	–	–	–	(18,019)	(18,019)
	9,773	–	–	–	(8,513)	1,260
At 31 December 2018	387,553	(517)	–	–	(151,107)	235,929

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

31. OTHER RESERVES (continued)

	Surplus reserve	Exchange fluctuation reserve	Available-for-sale investments	Others	Total
At 1 January 2017	365,455	3,379	–	(156,004)	212,830
Other comprehensive losses, net of tax					
Currency translation differences	–	352	–	–	352
Revaluation – gross	–	–	2,030	–	2,030
Revaluation – tax	–	–	(507)	–	(507)
	–	352	1,523	–	1,875
Transactions with owners					
Appropriation from retained profits	12,325	–	–	–	12,325
Change in ownership interests in a subsidiary without change of control	–	–	–	(32)	(32)
Share-based payments (Note 15)	–	–	–	13,442	13,442
	12,325	–	–	13,410	25,735
At 31 December 2017	377,780	3,731	1,523	(142,594)	240,440

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

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's entities which are established in Mainland China has been transferred to reserve funds which are restricted as to use.

Companies within the Group, most of which are registered in the PRC as foreign invested entities, are required to make appropriations from statutory net profits to the reserve fund and the enterprise expansion fund, upon distribution of their post-tax profits of the current year. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the boards of directors of these companies.

Companies within the Group, which are registered in the PRC as domestic invested entities, are required to appropriate 10% of statutory net profits to the statutory surplus reserve, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profit, a company may make further contribution to the surplus reserve using its post-tax profit in accordance with a resolution of the board of directors.

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32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018	2017
Other short-term borrowings		
– Unsecured, from companies ultimately controlled by the same company (d)	–	600,000
– Unsecured, from an associate (d)	300,000	138,000
– Unsecured, from others	491,580	180,000
	791,580	918,000
Current portion of long-term bank borrowings		
– Secured (a)	955,367	621,173
Current portion of other long-term borrowings		
– Secured, from parent company (e)	560,000	–
– Secured, from others (c)	473,506	18,000
– Unsecured, from parent company (e)	2,092,113	490,065
– Unsecured, from companies ultimately controlled by the same company (f)	–	400,000
– Unsecured, from others	33,318	–
	3,158,937	908,065
Borrowings, current portion	4,905,884	2,447,238
Long-term bank borrowings, non-current portion		
– Secured (a)	1,515,301	2,391,830
– Unsecured (b)	330,120	330,120
	1,845,421	2,721,950
Other long-term borrowings, non-current portion		
– Secured, from parent company (e)	–	560,000
– Secured, from others (c)	–	148,638
– Unsecured, from parent company (e)	661,300	2,518,095
– Unsecured, from others	230,397	202,881
	891,697	3,429,614
Borrowings, non-current portion	2,737,118	6,151,564

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32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2018	2017
The long-term borrowings are repayable as follows:		
– Within 1 year	**4,114,304**	1,529,238
– 1 to 2 years	**1,223,595**	2,984,770
– 2 to 3 years	**487,118**	987,819
– 3 to 5 years	**460,436**	1,537,005
– After 5 years	**565,969**	641,970
	6,851,422	7,680,802
Less: Long-term borrowings, current portion	**(4,114,304)**	(1,529,238)
Long-term borrowings, non-current portion	**2,737,118**	6,151,564

(a) Long-term bank borrowings – secured

As at 31 December 2018, long-term bank borrowings of approximately RMB2,471 million (2017: approximately RMB3,013 million) were secured by the pledges of the Group's leasehold land, together with bank deposits, property, plant and equipment, investment properties, properties held or under development for sale and equity interests of subsidiaries.

(b) Long-term bank borrowings – unsecured

As at 31 December 2018, the balance represented entrusted loans of RMB330 million (2017: RMB330 million) provided by a third party. The tenure for the loan of RMB130 million is 60 months, and the interest rate for the first year is 8% per annum, for the second to the fifth year is 6% per annum. The tenure for the loan of RMB200 million is 52 months, and the interest rate is 6% per annum.

(c) Other long-term borrowings – secured, from others

As at 31 December 2018, other long-term borrowing of approximately RMB474 million (2017: approximately RMB167 million) was secured by the pledges of the Group's leasehold land, together with property, plant and equipment, properties held or under development for sale and investment properties.

(d) Other short-term borrowings – unsecured

As at 31 December 2018, the balance of RMB300 million (2017: RMB138 million) represented a loan from a related party. The loan was provided by SRE Asset, an associate of the Group, with interest rate of 9% per annum (2017: 8.5% per annum) and tenure of twelve months. As at 31 December 2017, the loans of RMB600 million were provided by companies ultimately controlled by the same company in 2017, with interest rates from 6% to 7.75% per annum. The tenure of the loans were twelve months and the loans were repaid in 2018.

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(e) Other borrowings from parent company

As at 31 December 2018, a total of RMB3,313 million (2017: RMB3,568 million) of other borrowings are borrowed from parent company, among which RMB560 million (2017: RMB560 million) was guaranteed by Mr. Shi Jason Bing until 13 July 2018. Interest rates of these loans ranged from 7% to 8% per annum. Among these loans, a sum of RMB2,652.1 million were due for repayment or payable on demand as at 31 December 2018. Subsequent to 31 December 2018, the Group has reached written agreements with parent company to renew the existing loan of US$150 million (approximately RMB1,016 million) which were further designated to a fellow subsidiary of the Group to 30 June 2020, and to unconditionally extend other remaining loans to dates at least after 15 months from 31 December 2018.

(f) Other long-term borrowings – unsecured, from companies ultimately controlled by the same company

As at 31 December 2017, the loan of RMB400 million was borrowed in 2017 with interest rate of 7.75% per annum. The tenure of the loan was fifteen months and the loan was repaid in 2018.

Overall collateral arrangements for bank and other borrowings

As at 31 December 2018 and 2017, pledged assets as collateral for the Group's borrowings and banking facilities were as follows:

	2018	2017
Leasehold land (Note 19)	**58,572**	117,667
Investment properties (Note 18)	**2,953,034**	5,116,056
Properties held or under development for sale (Note 23)	**160,484**	339,111
Property, plant and equipment (Note 17)	**123,396**	133,493
Bank deposits (Note 27)	**2,623**	214,000
Equity interests in certain subsidiaries	**187,807**	208,436
Pledged assets provided by a related party (Note 42(c))	**2,569,852**	2,525,307

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32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The weighted average effective interest rates for these borrowings at the end of the reporting period were as follows:

	2018				2017			
	HK$	**US$**	**GBP**	**RMB**	HK$	US$	GBP	RMB
Short-term bank borrowings	**–**	**–**	**–**	**–**	–	–	–	–
Other short-term borrowings	**–**	**–**	**–**	**7.82%**	–	–	–	7.64%
Long-term bank borrowings	**–**	**–**	**3.53%**	**5.62%**	–	–	2.80%	5.16%
Other long-term borrowings	**7.85%**	**4.25%**	**–**	**7.90%**	7.85%	4.00%	–	7.64%

As bank loans are all borrowed at prevailing market interest rates, which would be adjusted from time to time in line with interest rate changes in the market, the carrying amounts of the bank loans approximate to their fair values.

The carrying amounts of the borrowings are denominated in the following currencies:

	2018	2017
HK$	**229,398**	202,881
US$	**1,050,070**	980,130
GBP	**558,880**	796,884
RMB	**5,804,654**	6,618,907
	7,643,002	8,598,802

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33. DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, levied by the same tax authority on the same taxable entity. As of 31 December 2018 and 2017, the majority of deferred tax assets and liabilities are to be recovered after more than 12 months.

The gross movements in the deferred tax account are as follows:

	2018	2017
At beginning of year	**1,204,421**	1,018,042
Disposal of subsidiaries	**–**	33
Recognised in profit or loss (Note 12)	**52,247**	185,839
Recognised in other comprehensive income or loss (Note 31)	**–**	507
At end of year	**1,256,668**	1,204,421

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Difference in accounting and tax bases arising from share transfer consideration
At 1 January 2017, 31 December 2017 and 31 December 2018	**242,837**

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33. DEFERRED TAX (continued)

Deferred tax liabilities

	Fair value gains	Excess of fair value over book value in the subsidiaries as a result of business combination	Withholding taxes	Others	Total
At 1 January 2017	569,662	344,461	260,566	86,190	1,260,879
Recognised in profit or loss	15,340	155,263	3,437	11,799	185,839
Recognised in other comprehensive income	507	–	–	–	507
Disposal of subsidiaries	–	–	33	–	33
At 31 December 2017	585,509	499,724	264,036	97,989	1,447,258
Recognised in profit or loss	11,748	22,981	3,037	14,481	52,247
Recognised in other comprehensive loss	–	–	–	(508)	(508)
At 31 December 2018	**597,257**	**522,705**	**267,073**	**111,962**	**1,498,997**

As at 31 December 2018, no deferred tax asset arose from unused tax losses (2017: Nil). With respect to the recognition of the deferred tax assets, after considering the evidence including the approval from local authorities permitting the sale of the properties, and estimated future taxable profit by referring to recent selling prices of certain properties and current market condition, the Group believes there will be no sufficient taxable profit against which the unused tax losses can be utilised in the foreseeable future.

Deferred tax assets have not been recognised in respect of the following items:

	2018	2017
Tax losses	**1,515,544**	1,563,189

The above tax losses arising in Mainland China for offsetting against future taxable profit will expire in one to five years. Deferred tax assets have not been recognised in respect of the tax losses mentioned above as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these temporary differences can be utilised.

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33. DEFERRED TAX (continued)

Pursuant to the resolution of the Board of Directors of the Company, part of PRC subsidiaries' profits generated from 2011 onwards will be retained by PRC subsidiaries for use in future operations or investments. In the opinion of the directors, it is probable that the temporary differences relating to the profits that are not expected to be distributed in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB759 million (2017: approximately RMB738 million).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. CONTRACT LIABILITIES/ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

	2018	2017
Contract liabilities	**420,959**	–
Advances received from the pre-sale of properties under development	**–**	1,015,262
	420,959	1,015,262

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest-bearing.

35. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, from the date when they were incurred, is as follows:

	2018	2017
Within 1 year	**343,385**	467,638
1 to 2 years	**102,312**	48,693
Over 2 years	**164,156**	187,051
	609,853	703,382

Trade payables represent payables arising from property construction and land development. The trade payables are non-interest-bearing and are normally settled within one year.

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36. OTHER PAYABLES AND ACCRUALS

	2018	2017
Deposits received from and other payable to customers and construction companies	–	8,720
Tax and surtaxes payable	23,391	23,906
Dividends payable to non-controlling interests of subsidiaries	25,700	32,281
Relocation costs payable	203,456	226,317
Deposits from stores, rents received for developers and public utility fees collected and paid for tenants	40,580	26,017
Payroll and welfare payable	50,976	90,546
Accrued interest	235,285	429,896
Payables of consideration for acquisition of non-controlling interests	17,000	17,000
Payable to the former non-controlling interests of a disposed subsidiary	20,000	20,000
Payables to related parties (Note 42)	836,610	836,560
Payables to a non-controlling interest (a)	323,992	–
Accruals of penalties on idle land (Note 6)	47,000	–
Others	217,830	182,135
	2,041,820	1,893,378

Other payables are non-interest-bearing and are normally settled within one year.

(a) As at 31 December 2018, the balance of approximately GBP37 million (approximately RMB324 million) represented payables to a non-controlling interest. The Group pledged 1.1% of equity interest in a subsidiary and 50% of equity interest in another subsidiary for these payables.

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37. CASH FLOW INFORMATION

(a) Cash from/(used in) operations

Reconciliation of profit before income tax to cash from/(used in) operations:

	2018	2017
Profit before income tax	207,484	877,989
Adjustments for:	–	
Depreciation of property, plant and equipment	26,097	27,254
Net (gain)/loss from disposal of property, plant and equipment	(61)	332
Share of results of associates	(72,033)	(74,332)
Share of results of joint ventures	(17,672)	12,049
Share-based payment	(18,019)	13,442
Net fair value gain on investment properties	(45,956)	(55,165)
(Reversal of impairment)/write-down of properties held or under development for sale	(69,813)	1,663
Reversal of impairment of prepaid land lease payments	(158,748)	(156,850)
Provision for impairment of loans and receivables	4,365	120,006
Provision for impairment of other receivables	6,729	175,912
Provision for impairment of trade receivables	172	1,397
Provision for other non-current assets	210	–
Impairment of investment in a joint venture	–	27,882
Forfeiture of prepayments	(60,000)	–
Net gain from disposal of subsidiaries and interests in a joint venture	(242,900)	(1,585,922)
Gains from disposal of financial assets at FVOCI	(94,385)	–
Gains from disposal of financial assets at FVPL	(8,228)	–
Finance income	(55,386)	(35,010)
Finance costs	572,470	503,294
	(25,674)	(146,059)
Decrease/(increase) in restricted bank deposits	27,170	(26,841)
(Increase)/decrease in prepaid land lease payments	(26,594)	328,130
Decrease in properties held or under development for sale	633,640	349,358
Decrease/(increase) in inventories	1	(909)
Increase in prepayments and other current assets	(35,869)	(1,037,867)
Decrease/(increase) in other receivables	156,512	(1,205,782)
Increase in non-current assets	(50,527)	–
Increase in loan and receivables	(4,364)	–
Decrease in trade receivables	7,282	140
Increase in non-current assets	–	(150,000)
Decrease in trade payables	(93,344)	(80,288)
(Decrease)/increase in other payables and accruals	(594,302)	547,289
Increase in advances received from the pre-sale of properties under development	47,581	11,573
Cash from/(used in) operations	41,512	(1,411,256)

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37. CASH FLOW INFORMATION (continued)

(b) Net debt reconciliation

An analysis of net debt and the movements in net debt as follows:

Net debt

	2018	2017
Cash and bank balances	**701,233**	1,452,915
Borrowings – repayable within one year	**(4,905,884)**	(2,447,238)
Borrowings – repayable after one year	**(2,737,118)**	(6,151,564)
Net debt	**(6,941,769)**	(7,145,887)
Cash and liquid investments	**701,233**	1,452,915
Gross debt – fixed interest rates	**(5,138,017)**	(5,763,332)
Gross debt – variable interest rates	**(2,504,985)**	(2,835,470)
Net debt	**(6,941,769)**	(7,145,887)

		Liabilities from financing activities		
	Cash and bank balances	**Borrowings due within one year**	**Borrowings due after one year**	**Total**
Net debt as at 31 December 2017	1,452,915	(2,447,238)	(6,151,564)	(7,145,887)
Net cash flows	(745,786)	1,141,440	(95,164)	300,490
Foreign exchange adjustments	(5,896)	(24,774)	(35,831)	(66,501)
Amortisation of discount or premium	–	–	(29,871)	(29,871)
Reclassification of current/non-current liabilities	–	(3,575,312)	3,575,312	–
Net debt as at 31 December 2018	**701,233**	**(4,905,884)**	**(2,737,118)**	**(6,941,769)**

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38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for remaining terms mainly ranging from 1 to 12 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2018	2017
Within one year	**123,025**	142,900
In the second to fifth years, inclusive	**190,684**	349,281
After five years	**78,351**	94,520
	392,060	586,701

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms mainly ranging from one to five years.

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

	2018	2017
Within one year	**13,883**	12,491
In the second to fifth years, inclusive	**14,101**	25,620
	27,984	38,111

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39. COMMITMENTS AND CONTINGENCIES

(a) The Group had the following capital commitments and commitments in respect of property development for sale at the end of the reporting period:

	2018	2017
Contracted, but not provided for		
Properties held or under development for sale	**11,074**	58,501
Committed investments in a land development	**64,116**	120,000
Committed investments in associates	**15,640**	15,640
	90,830	194,141

(b) The Group provides guarantees in respect of the mortgage facilities granted by certain banks to certain purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates when the relevant mortgage loans are granted and end when the purchasers pledge related property certificates as security to the banks offering the mortgage loans. The Group entered into guarantee contracts of principal amounts totalling approximately RMB375 million (2017: approximately RMB844 million) and these contracts were still effective as at the close of business on 31 December 2018.

The Group did not incur any material losses during the financial year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty, because the principal of each of the mortgage loans was normally below 70% of the sales price of the properties at the date of the sales agreement, and therefore no provision has been made in connection with the guarantees.

(c) The Group also provided guarantee to joint ventures of the Group. As at 31 December 2018, the Group provided guarantee totalling approximately RMB3,259 million (2017: approximately RMB2,826 million).

40. DISPOSAL OF SUBSIDIARIES

(a) In April 2018, a third party injected capital to Changsha Horoy, which was a subsidiary of the Group, and thus the Group's equity interest in Changsha Horoy was diluted from 66.5% to 49.5%. The Group lost control and Changsha Horoy became a joint venture of the Group after the transaction. On the disposal date, the net asset value of Changsha Horoy attributable to the Group was approximately RMB-13 million. After the dilution of 17% equity interest in Changsha Horoy, the 49.5% remaining interest held by the Group was remeasured at its fair value of approximately RMB226 million on the date when control was lost, and the difference with its then carrying amount was approximately RMB239 million. As such, the Group recorded a gain on disposal of approximately RMB239 million.

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40. DISPOSAL OF SUBSIDIARIES (continued)

(a) (continued)

	2018
Net assets disposed of:	
Property, plant and equipment	52
Prepaid land lease payments – Current	289,659
Properties held or under development for sale	138,050
Prepayments and other current assets	47,100
Other receivables	140
Cash and bank balances	64,472
Other payables and accruals	(558,861)
Non-controlling interests	6,495
100% of net assets disposed at book value	(12,893)
Fair value of 49.5% retained interest accounted for as a joint venture	(226,369)
Gain on disposal of the subsidiary	239,262
Satisfied by cash	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2018
Cash proceeds received	–
Cash and bank balances disposed of	(64,472)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(64,472)

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40. DISPOSAL OF SUBSIDIARIES (continued)

(b) In June 2018, the Group disposed all of its 100% equity interest in SRE Capital Limited ("SRE Capital") for a consideration of approximately RMB0.57 million. On the disposal date, the net asset value of SRE Capital attributable to the Group was approximately RMB0.21 million. The Group recorded a gain on disposal of approximately RMB0.36 million.

	2018
Net assets disposed of:	
Other receivables	246
Cash and bank balances	193
Other payables and accruals	(225)
	214
Gain on disposal of the subsidiary	356
Satisfied by cash	570

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2018
Cash proceeds received	570
Cash and bank balances disposed of	(193)
Net inflow of cash and cash equivalents in respect of the disposal of the subsidiary	377

(c) In July 2018, the Group disposed of its 100% equity interest in Shanghai Xunbo Construction Co., Ltd. ("Xunbo Construction") for a consideration of approximately RMB0.75 million. On the disposal date, the net asset value of Xunbo Construction attributable to the Group was approximately RMB0.75 million. The Group recorded a loss on disposal of approximately RMB277.

	2018
Net assets disposed of:	
Cash and bank balances	750
Loss on disposal of the subsidiary	–
Satisfied by cash	750

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2018
Cash proceeds received	750
Cash and bank balances disposed of	(750)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	–

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40. DISPOSAL OF SUBSIDIARIES (continued)

(d) In April 2017, the Group disposed of 49% of its equity interest in Jinxin Real Estate to Shanghai Zhongchong Binjiang Industry Co., Ltd. (hereinafter "Zhongchong Binjiang") and lost control in the originally wholly-owned subsidiary. Jinxin Real Estate became a joint venture of the Group after the transaction.

On the disposal date, the net asset value of Jinxin Real Estate amounted to approximately RMB3,082 million, and the fair value of 51% equity interest in Jinxin Real Estate determined based on the fair value of the net asset of Jinxin Real Estate amounted to approximately RMB2,112 million. After the disposal of 49% equity interest in Jinxi Real Estate, the 51% remaining interest held by the Group was remeasured at its fair value of approximately RMB2,112 million on the date when control was lost, and the difference with its then carrying amount of approximately RMB540 million was recognised as part of disposal gain. The consideration in relation to the 49% equity interest in Jinxin Real Estate was approximately RMB2,112 million. As such, the Group recorded a gain on disposal of approximately RMB1,142 million.

	2017
Net assets disposed of:	
Property, plant and equipment	240
Goodwill	75,866
Prepaid land lease payments – Current	936,207
Properties held or under development for sale	1,019,421
Prepayments and other current assets	2,610,000
Other receivables	1,101
Cash and bank balances	1,237
Deferred tax liabilities	(41,284)
Interest-bearing bank and other borrowings	(1,080,000)
Other payables and accruals	(439,335)
Current income tax liabilities	(1,577)
100% of net assets disposed at book value	3,081,876
Fair value of 51% retained interest accounted for as a joint venture	(2,111,910)
Gain on disposal of the subsidiary	1,141,944
Satisfied by cash	2,111,910

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017
Cash proceeds received	2,111,910
Cash and bank balances disposed of	(1,237)
Net inflow of cash and cash equivalents in respect of the disposal of the subsidiary	2,110,673

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40. DISPOSAL OF SUBSIDIARIES (continued)

(e) In July 2017, the Group disposed of its 100% equity interest held by Wuxi Zhongqing Real Estate Co., Ltd. ("Wuxi Zhongqing") in Wuxi Yongqing Real Estate Co., Ltd. ("Wuxi Yongqing") for a consideration of approximately RMB67 million. On the disposal date, the net asset value of Wuxi Yongqing attributable to the Group was approximately RMB17 million. The Group recorded a gain on disposal of approximately RMB50 million.

	2017
Net assets disposed of:	
Prepaid land lease payments	368,621
Properties held or under development for sale	48,696
Other receivables	698
Cash and bank balances	1,146
Other payables and accruals	(402,585)
Non-controlling interests	349
	16,925
Gain on disposal of the subsidiary	50,397
Satisfied by cash	67,322

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017
Cash proceeds received	67,322
Cash and bank balances disposed of	(1,146)
Net inflow of cash and cash equivalents in respect of the disposal of the subsidiary	66,176

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40. DISPOSAL OF SUBSIDIARIES (continued)

(f) In August 2017, the Group disposed of 50% out of its 70% equity interest in SRE Asset for a consideration of nil. SRE Asset became an associate of the Group after the transaction. On the disposal date, the net asset value of SRE Asset attributable to the Group was approximately RMB5 million. The Group recorded a gain on disposal of approximately RMB2 million.

	2017
Net assets disposed of:	
Property, plant and equipment	33
Prepayments and other current assets	148
Other receivables	1,366
Trade receivables	288
Cash and bank balances	3,222
Other payables and accruals	(177)
Current income tax liabilities	(8)
Non-controlling interests	(62)
100% of net assets disposed at book value	4,810
Fair value of 20% retained interest accounted for as an associate	(7,000)
Gain on disposal of the subsidiary	2,190
Satisfied by cash	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017
Cash proceeds received	–
Cash and bank balances disposed of	(3,222)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(3,222)

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40. DISPOSAL OF SUBSIDIARIES (continued)

(g) In September 2017, the Group disposed of its 100% equity interest held by Shanghai Wingo Infrastructure Co., Ltd in Shanghai Shanghui Construction Co., Ltd.("Shanghui Construction") for a consideration of approximately RMB5.8 million. On the disposal date, the net asset value of Shanghui Construction attributable to the Group was approximately RMB-73 million. The Group recorded a gain on disposal of approximately RMB79 million.

	2017
Net liabilities disposed of:	
Inventories	679
Other receivables	3,000
Trade receivables	2
Cash and bank balances	6,071
Prepayments and other current assets	(1,393)
Other payables and accruals	(69,200)
Current income tax liabilities	(11,691)
Non-controlling interests	(292)
	(72,824)
Gain on disposal of the subsidiary	78,624
Satisfied by cash	5,800

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017
Cash proceeds received	5,800
Cash and bank balances disposed of	(6,071)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(271)

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40. DISPOSAL OF SUBSIDIARIES (continued)

(h) In December 2017, the Group disposed of its 100% equity interest held by Shanghai Oasis Garden Real Estate Co., Ltd. and Lihon Investment Limited in Shenyang Lukang Real Estate Ltd..("Shenyang Lukang") for a consideration of RMB2.

On the disposal date, the net asset value of Shenyang Lukang attributable to the Group was approximately RMB-296 million. The Group recorded a gain on disposal of approximately RMB296 million. As of 31 December 2017, the Group has not collected approximately RMB700 million loans and approximately RMB176 million receivables from Shenyang Lukang. The Group estimated that it would be able to collect the loan of approximately RMB580 million considering the assets held by Shenyang Lukang. As there is uncertainty in the collection of the portion of loans of approximately RMB120 million and other receivables of approximately RMB176 million, a loss of approximately RMB296 million was recognised.

	2017
Net liabilities disposed of:	
Property, plant and equipment	19
Prepaid land lease payments	190,754
Properties held or under development for sale	500,180
Prepayments and other current assets	13,845
Other receivables	396,458
Trade receivables	10
Cash and bank balances	1,183
Interest-bearing bank and other borrowings	(700,000)
Advances received from the pre-sale of properties under development	(137,397)
Trade payables	(8,631)
Other payables and accruals	(557,776)
Current income tax liabilities	(154)
Non-controlling interests	5,591
	(295,918)
Gain on disposal of the subsidiary	295,918
Satisfied by cash	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017
Cash proceeds received	–
Cash and bank balances disposed of	(1,183)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(1,183)

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41. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Details of the Group's subsidiaries that has material non-controlling interest are set out below:

	Bairun 2018	2017
Percentage of equity interest held by non-controlling interest:	**49.00%**	49.64%

	Bairun 2018	2017
Profit for the year allocated to non-controlling interest:	**14,953**	6,944
Transaction with non-controlling interests (b)	**(1,256)**	–
Accumulated balance of non-controlling interests at the reporting dates	**131,825**	118,128

The following tables illustrate the summarised financial information of Bairun.

	Bairun 2018	2017
Revenue	**134,786**	255,861
Total expenses	**81,867**	238,976
Other losses	**–**	(10,633)
Profit for the year	**30,319**	13,990
Total comprehensive income for the year	**30,319**	13,990
Current assets	**773,449**	792,828
Non-current assets	**88**	141
Current liabilities	**(501,907)**	(551,490)
Non-current liabilities	**(3,320)**	(3,499)
Net cash flows used in operating activities	**(117,301)**	(167,179)
Net cash flows from investing activities	**–**	261,204
Net cash flows from/(used in) financing activities	**104,330**	(90,000)
Net (decrease)/increase in cash and cash equivalents	**(12,971)**	4,025

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41. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS (continued)

(b) In July 2018, the Group acquired all non-controlling interests in a number of partly owned subsidiaries from Shanghai Yaluo Enterprise Management Partnership LLP at a total consideration of RMB45 million. After the transaction, these subsidiaries become wholly owned by the Group. The carrying amounts of the non-controlling interests in these partly-owned subsidiaries on the date of acquisition were RMB91 million in total.

The effect of acquisition of equity interests in these partly-owned subsidiaries on the equity attributable to owners of the Company during the year is summarised as follows:

	2018 RMB million
Carrying amount of non-controlling interests acquired	91
Consideration paid to non-controlling interests	(45)
Saving from consideration paid recognised within equity	46

(c) In June 2018, the Group reduced a capital of RMB700 million of Liaoning Gao Xiao, resulting in a decrease of the Group's equity interests in Liaoning Gao Xiao from 98.71% to 97.5%. The carrying amount of the deemed disposal of 1.21% equity interests in Liaoning Gaoxiao was RMB12 million.

In May 2018, the Group disposed 48.9% of equity interests in its wholly-owned subsidiary Profit Concept Investments Ltd. to Ronghe International Group Limited for a consideration of HKD489. The difference between fair value of consideration received and the carrying amount of disposed equity interests in Profit Concept Investments Ltd. amounting to RMB24 million is recorded in other reserves.

The effect of the above disposals of equity interests in subsidiaries on the equity attributable to owners of the Company during the year is summarized as follows:

	2018 RMB million
Carrying amount of net assets transferred to non-controlling interests	(36)
Consideration received from non-controlling interests	–
Loss on disposal of equity interest recognised within equity	(36)

42. RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions and balances with related parties.

(a) Name and relationship with related parties

Name	**Relationship**
Broadband	An associate of the Group
New Technology	An associate of the Group
Da Run	A joint venture of the Group
Relevant Business of Golden Luodian	A joint venture of the Group
Mayson	An associate of the Group
Shanghai Shuo Cheng Real Estate Co., Ltd. ("Shuo Cheng")	A subsidiary of an associate of the Group
Black Eagle (Shanghai) Investment Management Co., Ltd. ("Black Eagle")	A subsidiary of the minority shareholder of the Group
Jinxin Real Estate	A joint venture of the Group
SRE Asset	An associate of the Group
Gao Xin	A joint venture of the Group
China Minsheng Invest Yunhong (Shanghai) Investment Management Co., Ltd. ("China Minsheng Yunhong")	A company ultimately controlled by the same company
Changsha Horoy	A joint venture of the Group
NAPA	A joint venture of the Group
Ningbo Jia Miao	An associate of the Group
CMIG Southern China (Guangzhou) Real Estate Co., Ltd. ("CMIG Southern")	An associate of the Group
75 Howard	A joint venture of the Group

(b) Transactions with related parties

(i) Purchases from a related party

	2018	2017
Da Run	–	1,500

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42. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties (continued)

(ii) Advances to related parties

	2018	2017
Jinxin Real Estate	40,890	147,166
Changsha Horoy	25,000	–
Relevant Business of Golden Luodian	13,540	654,507
NAPA	11,098	–
Ningbo Jia Miao	4,900	–
CMIG Southern	4,476	–
Gao Xin	–	42,000
Broadband	–	89
	99,904	843,762

(iii) Repayment from related parties

	2018	2017
Shuo Cheng	458,584	–
Relevant Business of Golden Luodian	23,135	–
Changsha Horoy	25,000	–
Broadband	45	–
	506,764	–

(iv) Fundings/advances from related parties

	2018	2017
Broadband	50	–
Shuo Cheng	–	480,000
	50	480,000

(v) Repayment of fundings to a related party

	2018	2017
Black Eagle	–	270,124

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42. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties (continued)

(vi) Interest income from related parties

	2018	2017
Relevant Business of Golden Luodian	139,003	82,879
Changsha Horoy	15,260	–
NAPA	258	–
	154,521	82,879

(vii) Interest expenses charged by related parties

	2018	2017
Interest expense charged by parent company	269,840	292,447
Interest expense charged by companies ultimately controlled by the same company	21,753	97,047
Interest expense charged by an associate of the Group	16,939	1,571
	308,532	391,065

(viii) Compensation to key management personnel of the Group

	2018	2017
Salaries and other short-term employee benefits	16,667	36,636

(ix) Occupation of properties owned by a related party

Before March 2018, some subsidiaries of the Group occupied certain properties with total gross floor areas of approximately 1,150 square meters leased by the Company's parent company for operational use, which was free of charge. From March 2018, these subsidiaries moved to another floor and started to bear rental costs by themselves according to rental contracts entered with third parties.

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42. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties (continued)

(x) Guarantees provided to related parties

Guaranteed party	2018	2017
Jinxin Real Estate (a)	3,259,450	2,826,400
75 Howard (b)	–	–
	3,259,000	2,826,400

(a) For the year ended 31 December 2018, the Group charged RMB53 million (before consolidation elimination) of income from Jinxin Real Estate in relation to this guarantee.

(a) For the year ended 31 December 2018, the Group also provided a deposit of RMB172 million as guarantor's letter of credit for the loan of 75 Howard apart from the guarantee above. As at 31 December 2018, 75 Howard has not drawn down the relevant loans.

(c) Related-party balances

(i) Trade receivable due from a related party

	2018	2017
Broadband	**247**	247

(ii) Trade payable due to a related party

	2018	2017
New Technology	**109**	109

(iii) Other receivables due from related parties

	2018	2017
Jinxin Real Estate	**466,995**	397,899
Relevant Business of Golden Luodian	**410,541**	433,676
Shuo Cheng	**202,216**	–
Mayson	**160,406**	153,376
Gao Xin	**42,000**	42,000
Ningbo Jia Miao	**4,900**	–
CMIG Southern	**4,476**	–
NAPA	**2,813**	–
Broadband	**–**	45
	1,294,347	1,026,996

Amounts due from related parties are unsecured, bear no interest and are repayable on demand.

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42. RELATED PARTY TRANSACTIONS (continued)

(c) Related-party balances (continued)

(iv) Other payables due to related parties

	2018	2017
Shuo Cheng	**836,560**	836,560
Broadband	**50**	–
	836,610	836,560

Amounts due to related parties are unsecured, bear no interest and are repayable on demand.

(v) Prepayments due from a related party

	2018	2017
Da Run	**1,500**	1,500

(vi) Non-current asset (downpayment) due from a related party

	2018	2017
Shuo Cheng	**–**	660,800

(vii) Loans receivable due from related parties

	2018	2017
Relevant Business of Golden Luodian (a)	**1,185,551**	1,172,011
Changsha Horoy (b)*	**432,791**	–
NAPA (c)	**8,285**	–
	1,626,627	1,172,011

* The balance comprises an inter-company receivable fully eliminated upon consolidation as at 31 December 2017, but turned into loans receivable as Changsha Horoy was disposed and became a joint venture of the Group.

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42. RELATED PARTY TRANSACTIONS (continued)

(c) Related-party balances (continued)

(vii) Loans receivable due from related parties (continued)

(a) The loans receivable due from Relevant Business of Golden Luodian are interest-bearing loans of approximately RMB1,186 million (2017: approximately RMB1,172 million) with an interest rate of 8% per annum.

(b) The loans receivable due from Changsha Horoy are interest-bearing loans of approximately RMB433 million (2017: Nil) with an interest rate of 10% per annum.

(c) The loans receivable due from NAPA are interest-bearing loans of approximately RMB8 million (2017: Nil) with an interest rate of 10% per annum.

Interests receivable from related parties in relation to the loans above are summarised as below:

	2018	2017
Relevant Business of Golden Luodian	221,882	82,879
Changsha Horoy	69,448	–
NAPA	251	–
	291,581	82,879

(viii) Loans from related parties

	2018	2017
Loans from parent company (a)	3,313,413	3,568,160
– Current	2,652,113	490,065
– Non-current	661,300	3,078,095
Loans from companies ultimately controlled by the same company		
– Current (b)	–	1,000,000
Loans from an associate of the Group		
– Current (c)	300,000	138,000
	3,613,413	4,706,160

Interests payable to related parties in relation to the loans above are summarised as below:

	2018	2017
Interests due to parent company	166,868	337,759
Interests due to companies ultimately controlled by the same company	22,592	78,779
Interests due to an associate of the Group	16,939	1,571
	206,399	418,109

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42. RELATED PARTY TRANSACTIONS (continued)

(c) Related-party balances (continued)

(viii) Loans from related parties (continued)

(a) The loans of approximately RMB3,313 million (31 December 2017: approximately RMB3,568 million) were provided by the parent company, China Minsheng Jiaye in 2017 and 2018. Please refer to Note 32(e) for detailed information.

(b) As at 31 December 2017, the loans of RMB1,000 million were provided by companies ultimately controlled by the same company, which were repaid in 2018.

(c) The loan of RMB300 million (2017: RMB138 million) was provided by a related party, SRE Asset with tenure of twelve months. Interest rate of the loan was 9% per annum (2017: 8.5% per annum).

(ix) Pledged assets provided by a related party

	2018	2017
Relevant Business of Golden Luodian	**2,569,852**	2,525,307

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43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	2018	2017
Financial assets		
Financial assets at fair value through other comprehensive income	150,657	–
Available-for-sale investments	–	407,790
Other financial assets at amortised cost	2,185,437	–
Loans and receivables		
– Loans and receivables	–	1,752,005
– Other receivables	2,365,212	1,716,383
– Trade receivables	16,984	24,438
– Cash and bank balances	701,233	1,452,915
– Other non-current assets	171,474	810,800
	5,590,997	6,164,331
Financial liabilities		
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	7,643,002	8,598,802
– Trade payables	609,853	703,382
– Others	1,732,168	1,349,030
	9,985,023	10,651,214

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. When an active market exists, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market or when current market prices are not available, fair value is determined using valuation techniques.

The Group's financial assets mainly include cash and bank balances, receivables and financial assets at FVOCI and financial assets at FVPL.

The Group's financial liabilities mainly include interest-bearing bank and other borrowings and payables.

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and appropriate valuation models.

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44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and liabilities (continued)

Assets and liabilities measured at fair value:

Financial assets at FVOCI, Financial assets at FVPL and available-for-sale financial assets of the Group are measured at fair value.

The following table presents the Group's financial assets that are measured at fair value at 31 December 2018. See Note 18 for disclosures of the investment properties that are also measured at fair value.

	Level 1	Level 2	Level 3	Total
Financial assets at FVOCI	–	–	150,657	150,657
Financial assets at FVPL	–	–	–	–

There were no transfers between level 1 and 2 during the year.

The following table presents the changes in level 3 instruments for the year ended 31 December 2018.

Opening balance	407,790
Disposals	(257,133)
Ending balance	150,657

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest-bearing loans, and cash and bank deposits. The main purpose of these financial instruments is to raise funds to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group does not enter into derivative transactions for trading purposes. The Group's accounting policies in relation to derivatives are set out in Note 2.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank and other borrowings. The Group does not use derivative financial instruments to manage its interest rate risk. The interest rates and terms of repayment of the borrowings are disclosed in Note 32.

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates of the major currencies in which the Group's borrowings are denominated, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings). The Group's equity is not affected, except for the consequential effect on retained profits (a component of the Group's equity) by the changes in profit before income tax.

	2018 Impact on profit before income tax	2017 Impact on profit before income tax
Changes in variables – RMB interest rate		
+ 50 basis points	**(8,849)**	(10,061)
- 50 basis points	**8,849**	10,061
Changes in variables – GBP interest rate		
+ 50 basis points	**(2,751)**	(3,052)
- 50 basis points	**2,751**	3,052

Foreign currency risk

Most of the Group's operating entities operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk with only limited exposure arising primarily with respect to cash at banks and bank borrowings, which are mainly denominated in US$, HK$, GBP and AUD.

Renminbi is not a freely convertible currency. The conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$, the HK$, the GBP and the AUD exchange rates, with all other variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). The Group's equity is not affected, except for the consequential effect on retained profits (a component of the Group's equity) by the impact on profit before income tax as disclosed below.

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	2018 Impact on profit before income tax	2017 Impact on profit before income tax
Changes in exchange rate of US$ against Renminbi		
+ 5%	**(4,901)**	(2,197)
- 5%	**4,901**	2,197
Changes in exchange rate of HK$ against Renminbi		
+ 5%	**(3,238)**	(5,844)
- 5%	**3,238**	5,844
Changes in exchange rate of GBP against Renminbi		
+ 5%	**(9,326)**	781
- 5%	**9,326**	(781)
Changes in exchange rate of AUD against Renminbi		
+ 5%	**–**	5,751
- 5%	**–**	(5,751)

Credit risk

Credit risk mainly arises from cash at banks, trade receivables and other receivables. The guarantees as disclosed in Note 39 might also result in credit risk to the Group. For the sale of developed properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks. Receivable balances are monitored on an on-going basis other than the significant receivables in Note 25. Except for due from related parties, there is no other significant concentration of credit risk within the Group as other debtors of the Group's receivables are widely dispersed and the majority of the Group's financial assets are cash at banks as at 31 December 2018. Directors of the Group have considered the credit risk with these balances and believe that credit risk associated with current carrying amounts of due from related parties is low.

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the assets subject to credit risk at the end of the reporting period. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancement.

	2018	2017
Financial assets		
Available-for-sale investments	–	407,790
– Loans and receivables	–	1,752,005
– Other receivables	2,365,212	1,716,383
– Trade receivables	16,984	24,438
– Cash at banks	701,233	1,452,915
– Other non-current assets	171,474	810,800
	3,254,903	6,164,331

Liquidity risk

	2018					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings (including interest payment)	53,365	373,069	4,853,026	2,589,870	742,606	8,611,936
Trade payables	93,878	73,105	102,313	340,557	–	609,853
Others	989,315	1,528	741,325	–	–	1,732,168
	1,136,558	447,702	5,696,664	2,930,427	742,606	10,953,957

	2017					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings (including interest payment)	490,065	602,742	1,558,013	6,223,355	927,873	9,802,048
Trade payables	95,015	80,626	142,506	385,235	–	703,382
Others	981,167	2,874	364,989	–	–	1,349,030
	1,566,247	686,242	2,065,508	6,608,590	927,873	11,854,460

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Management has assessed that the fair values of trade payables and others approximate to their carrying amounts largely due to the short term maturities of these instruments.

Please refer to Note 2.1 for analysis of going concern basis of preparation.

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

As the Group is mainly engaged in the development of properties, it needs a substantial amount of funds. The Group monitors capital using a gearing ratio, as defined by management for capital management purposes, which is net debt divided by capital plus net debt.

Net debt includes interest-bearing bank and other borrowings, less cash and bank balances, and excludes assets classified as held for sale and liabilities directly associated with the assets classified as held for sale. Capital includes equity attributable to owners of the parent and non-controlling interests. The gearing ratios are calculated as follows:

	2018	2017
Interest-bearing bank and other borrowings (Note 32)	7,643,002	8,598,802
Less: Cash and bank balances (Note 27)	(701,233)	(1,452,915)
Net debt	6,941,769	7,145,887
Equity attributable to owners of the Company	7,445,489	7,380,207
Non-controlling interests	372,762	433,761
Capital	7,818,251	7,813,968
Capital and net debt	14,760,020	14,959,855
Gearing ratio	47%	48%

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46. INFORMATION ABOUT SUBSIDIARIES

As at 31 December 2018, the Company had direct or indirect interests in the following principal subsidiaries:

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest Held by the Company	Proportion of ownership interest Indirectly held	Issued and paid-up capital	Authorised share capital	Principal activities
Sinopower Investment Limited	BVI 1 October 1998	100%	–	US$52	US$50,000	Investment holding
Shanghai Xin Dong Industry Co., Ltd.	PRC/Mainland China 28 May 1993	–	100%	US$3,457,729	US$3,457,729	Property leasing and real estate agency
Shanghai Oasis Garden Real Estate Co., Ltd. ("Oasis Garden")	PRC/Mainland China 29 September 1998	–	100%	US$19,600,000	US$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd.	PRC/Mainland China 4 August 1999	–	100%	US$20,000,000	US$20,000,000	Development of technology housing and provision of construction services
Shanghai Zhufu Property Development Co., Ltd. ("Zhufu")	PRC/Mainland China 11 August 2000	–	51%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd.	BVI 29 September 2001	–	52%	US$100	US$50,000	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd.	PRC/Mainland China 16 April 2002	–	52.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd.	PRC/Mainland China 14 June 2002	–	98%	US$10,000,000	US$10,000,000	Property development
Shanghai Andong Real Estate Development Ltd.	PRC/Mainland China 18 October 2007	–	99%	RMB370,000,000	RMB370,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd.	PRC/Mainland China 12 August 2002	–	97%	RMB442,235,160	RMB442,235,160	Property development and property leasing
Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management")	PRC/Mainland China 30 October 2007	–	100%	US$31,936,200	US$31,936,200	Property leasing
Shanghai Shangzhi Real Estate Development Co., Ltd.	PRC/Mainland China 16 October 2008	–	100%	RMB10,000,000	RMB10,000,000	Property development
Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao")	PRC/Mainland China 4 December 2000	–	97.50%	RMB750,000,000	RMB750,000,000	Property development

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46. INFORMATION ABOUT SUBSIDIARIES (continued)

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Shanghai Xiangdao Real Estate Ltd. ("Xiangdao")	PRC/Mainland China 21 July 2009	–	100%	RMB330,000,000	RMB330,000,000	Property development
Shanghai Xiabo Industry Ltd. ("Xiabo")	PRC/Mainland China 14 September 1995	–	100%	RMB3,000,000	RMB3,000,000	Property development
Shanghai Haibo Property Development Co., Ltd. ("Haibo")	PRC/Mainland China 27 December 1996	–	100%	RMB15,000,000	RMB15,000,000	Property development
Shanghai Bairun Real Estate Co., Ltd. ("Bairun")	PRC/Mainland China 16 May 2002	–	51%	RMB605,500,000	RMB605,500,000	Property development
Wuxi Zhongqing Real Estate Co., Ltd. ("Wuxi Zhongqing")	PRC/Mainland China 11 July 2008	–	100%	RMB85,000,000	RMB85,000,000	Property development
Jiaxing Lake Richgate Real Estate Co., Ltd. ("Jiaxing Lake Richgate")	PRC/Mainland China 26 September 2007	–	100%	RMB335,114,300	RMB335,114,300	Property development
Shanghai Zhiyi Enterprise Ltd.	PRC/Mainland China 14 March 2011	–	100%	RMB30,000,000	RMB30,000,000	Procurement management
Dalian Shangzhi Real Estate Development Co., Ltd.	PRC/Mainland China 19 July 2013	–	51%	RMB30,000,000	RMB30,000,000	Property development
Shanghai Zhi Yi Investment Ltd.	PRC/Mainland China 21 January 2014	–	100%	RMB140,000,000	RMB790,000,000	Investment
Chengdu Shanghai Real Estate Co., Ltd	PRC/Mainland China 20 December 2010	–	100%	RMB20,000,000	RMB20,000,000	Property development
Shanghai Lake Malaren Obstetrical and Gynecological Hospital Co., Ltd.	PRC/Mainland China 17 October 2013	–	100%	RMB10,000,000	RMB10,000,000	Hospital
Shanghai Lake Malaren Corporate Development Co., Ltd	PRC/Mainland China 8 April 2014	–	72.63%	RMB70,000,000	RMB70,000,000	Property development
Shanghai Lake Malaren Commercial Management Co., Ltd	PRC/Mainland China 8 April 2014	–	72.63%	RMB70,000,000	RMB70,000,000	Property development

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46. INFORMATION ABOUT SUBSIDIARIES (continued)

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Jiangsu Jiaye SRE Commercial Factoring Limited	PRC/Mainland China 10 February 2017	–	80%	RMB100,000,000	RMB100,000,000	Factoring
Qingdao Zhongtong Environmental Fund Center (Limited Partnership)	PRC/Mainland China 16 October 2017	–	100%	RMB90,000,000	RMB90,000,000	Investment
Zhongtong Wanfang Construction and Development (Zhangjiakou) Co., Ltd.	PRC/Mainland China 21 November 2017	–	90%	RMB100,000,000	RMB100,000,000	Construction
CMSREUK Tower Hill Propco Limited	UK/Bailiwick of Jersey 25 August 2016	–	51.10%	GBP15,000,000	GBP15,000,000	Property leasing
CMSREUK Moorgate Propco Limited	UK/Bailiwick of Jersey 14 September 2016	–	51.10%	GBP5,700,000	GBP5,700,000	Property leasing
Gullveig Investment Co., Ltd.*	Cambodia 30 January 2018	–	100%	US$250,000	US$250,000	Investment
Valkyrie Investment Co., Ltd.*	Cambodia 30 January 2018	–	100%	US$260,000	US$260,000	Investment
Romduol Overseas Co., Ltd.	Cambodia 30 January 2018	–	100%	KHR4,000,000,000	KHR4,000,000,000	Property development

* Although the Group holds less than 50% of these Cambodian companies legally, the other shareholders are deprived of the rights and obligations of these interests so that the Group, in substance, holds 100% interest in these Cambodian companies.

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

Other than disclosed above, the Company has several investment holding subsidiaries incorporated in the BVI, Hong Kong, the United Kingdom, Australia and the United States of America with nominal issued shares. All subsidiaries located in Mainland China are limited liability entities.

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47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018	2017
ASSETS		
Non-current assets		
Property, plant and equipment	19	18
Investments in subsidiaries	2,376,034	2,391,954
Advances to subsidiaries	2,260,056	1,965,695
	4,636,109	4,357,667
Current assets		
Dividends receivable from subsidiaries	1,951,622	1,951,622
Prepayments and other current assets	42,395	42,373
Cash and bank balances	59,250	529,108
	2,053,267	2,523,103
Total assets	6,689,376	6,880,770
EQUITY AND LIABILITIES		
Equity		
Issued share capital and share premium	6,747,788	6,747,788
Reserves	(1,411,456)	(1,303,091)
Total equity	5,336,332	5,444,697
LIABILITIES		
Non-current liabilities		
Interest-bearing bank and other borrowings	196,081	889,600
Current liabilities		
Interest-bearing bank and other borrowings	1,049,071	490,065
Other payables and accruals	107,892	56,408
	1,156,963	546,473
Total liabilities	1,353,044	1,436,073
Total equity and liabilities	6,689,376	6,880,770

The statement of financial position of the Company was approved by the Board of Directors on 28 March 2019 and was signed by the following Directors on its behalf:

Peng Xinkuang	**Liu Feng**
Chairman	Chief Executive Officer

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47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

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

	Accumulated losses	Others	Total
Balance at 1 January 2018	**(1,645,333)**	**342,242**	**(1,303,091)**
Total comprehensive loss for the year	**(92,751)**	**–**	**(92,751)**
Transaction with owners:			
Share-based payments	**–**	**(15,614)**	**(15,614)**
Balance at 31 December 2018	**(1,738,084)**	**326,628**	**(1,411,456)**

	Accumulated losses	Others	Total
Balance at 1 January 2017	(1,524,709)	318,921	(1,205,788)
Total comprehensive loss for the year	(120,624)	–	(120,624)
Transaction with owners:			
Share-based payments	–	23,321	23,321
Balance at 31 December 2017	(1,645,333)	342,242	(1,303,091)

48. APPROVAL OF THESE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 28 March 2019.