LOGAN
PROPERTY

# ANNUAL REPORT 2018

# LOGAN PROPERTY Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

**(Stock Code: 3380)**

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# Company Profile

Logan Property Holdings Company Limited ("Logan Property", the "Company") is an integrated property developer extensively focusing on the residential property market in the Guangdong-Hong Kong-Macao Greater Bay Area in the PRC. The Group's products are mainly tailored to first home purchasers and home improvement purchasers. As at 31 December 2018, the Company and its subsidiaries (the "Group") acquired land bank in a total value of RMB652 billion in the open market, through mergers and acquisitions and urban renewal projects. Over 80% of the land bank, which are located in the Guangdong-Hong Kong-Macao Greater Bay Area, represent a total value of RMB535.6 billion and therefore safeguard a healthy and stable growth in our future sales and profits. In 2019, the Group ranked 23rd among Chinese large property developers (by comprehensive strengths according to China Index Academy). Furthermore, the Group is rated "BB–", "Ba3" and "BB–" ratings by international authoritative agencies including Standard & Poor's, Moody's and Fitch respectively. To be more specific, Standard & Poor's adjusts the rating of Logan Property to "positive", while Moody's and Fitch maintain the ratings of "stable outlook". The Group is rated by Lianhe Ratings Global for the first time with a rating of "BB+" and "stable outlook". Meanwhile, the Group is rated "AAA" credit rating by such renowned domestic rating agencies namely China Cheng Xin Securities Rating Co., Ltd. and United Credit Rating Co., Ltd.

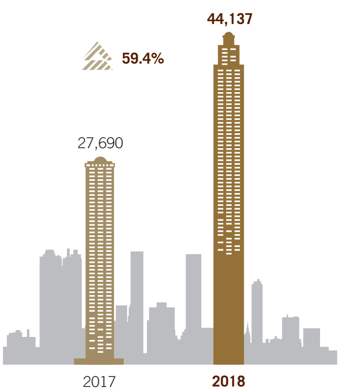
Logan Property's healthy financial position and overall strengths are highly recognized by both domestic and overseas rating agencies. Logan Property is currently a constituent stock of Hang Seng Composite Large Cap & Medium Cap Index, Hang Seng Stock Connect Greater Bay Area Composite Index, MSCI China All Shares Index and FTSE Shariah Global Equity Index.

# FINANCIAL HIGHLIGHTS

| Summary of Consolidated Statement of Profit or Loss | Year ended 31 December | | |
|---|---|---|---|
| (RMB mn) | **2018** | 2017 | Change |
| Revenue | **44,137** | 27,690 | 59.4% |
| Gross Profit | **14,887** | 9,517 | 56.4% |
| Gross Profit Margin (%) | **33.7%** | 34.4% | (0.7) pt. |
| Core Profit | **7,655** | 4,620 | 65.7% |
| Core Profit Margin (%) | **17.3%** | 16.7% | 0.6 pt. |
| Net Profit | **8,996** | 7,008 | 28.4% |
| Profit Attributable to Equity Shareholders of the Company | **8,288** | 6,527 | 27% |
| Earnings Per Share | | | |
| — Basic (RMB cents) | **147.95** | 117.03 | 26.4% |
| — Diluted (RMB cents) | **145.69** | 115.39 | 26.3% |
| Total Dividend per Share (HK cents) | **75** | 41 | 82.9% |
| — Interim Dividend per Share (HK cents) | **20** | 19 | 5.2% |
| — Final Dividend per Share (HK cents) | **40** | 17 | 135.3% |
| — Special Dividend per Share (HK cents) | **15** | 5 | 200% |

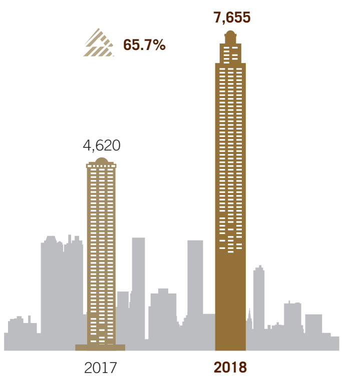
## REVENUE

(RMB million)



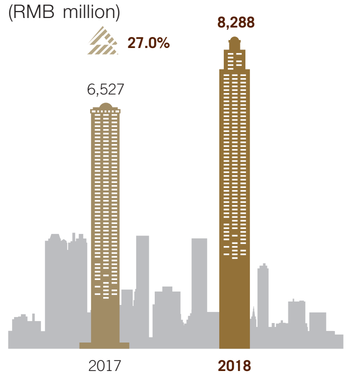

## CORE PROFIT

(RMB million)



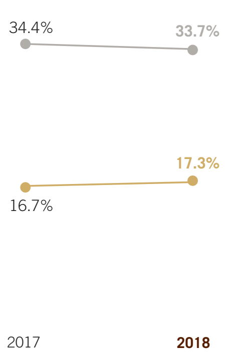

## PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS FOR THE COMPANY

(RMB million)



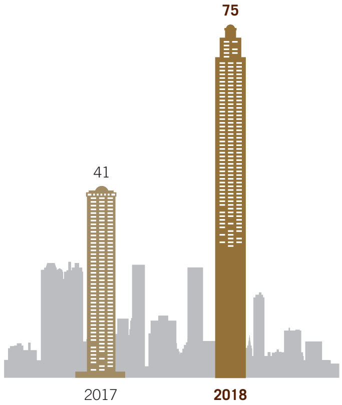

## PROFITABILITY

- Gross profit margin
- Core profit margin



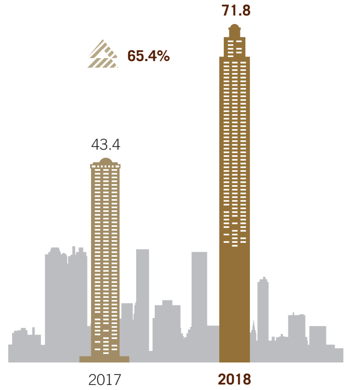

## TOTAL DIVIDEND

(HK cent per share)

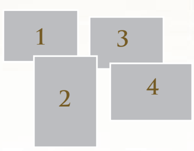



## CONTRACTED SALES

(RMB billion)



# AWARDS


## 1. 2018 TOP 30 CHINA REAL ESTATE COMPANIES WITH STRONGEST COMPREHENSIVE STRENGTHS

Presented by the following Organization:
EH Consulting

## 2. TOP 30 LISTED ENTERPRISES OF THE YEAR 2018

Presented by the following Organization:
Guandian

## 3. 2018 BEST 30 CHINA REAL ESTATE LISTED COMPANIES WITH STRONGEST COMPREHENSIVE STRENGTHS

Presented by the following Organizations:
China Real Estate Association, China Real Estate Appraisal

## 4. 2018 TOP 10 CHINESE REAL ESTATE COMPANY LISTED IN HONG KONG BY INVESTMENT VALUE

Presented by the following Organizations:
Enterprise Research Institute of Development Research Center of the State Council, The Institute of Real Estate Studies of Tsinghua University, China Index Academy


5 7
6

## 5. 2018 CHINA TOP 100 REAL ESTATE DEVELOPERS — TOP 10 BY PROFITABILITY (FOR 7 CONSECUTIVE YEARS FROM 2012 TO 2018)

Presented by the following Organizations:

Enterprise Research Institute of Development Research Center of the State Council, The Institute of Real Estate Studies of Tsinghua University, China Index Academy

## 6. 2018 CHINA TOP 100 REAL ESTATE DEVELOPERS (FOR 8 CONSECUTIVE YEARS FROM 2011 TO 2018)

Presented by the following Organizations:

Enterprise Research Institute of Development Research Center of the State Council, The Institute of Real Estate Studies of Tsinghua University, China Index Academy

## 7. 2018 BEST 30 OF CHINA REAL ESTATE DEVELOPERS

Presented by the following Organizations:

China Real Estate Association, China Real Estate Appraisal

AWARDS


8

9

## 8. 2018 TYPICAL PROJECTS OF CHINA REAL ESTATE DEVELOPERS — LOGAN • ACESITE PARK

Presented by the following Organizations:
China Real Estate Association, China Real Estate Appraisal

## 9. 17TH ANNIVERSARY (YEAR 2018) GUANGDONG TOP 20 CREDITWORTHY REAL ESTATE ENTERPRISES (FOR 16 CONSECUTIVE YEARS FROM 2003 TO 2018)

Presented by the following Organization:
Guangdong Top 20 Creditworthy Real Estate Enterprises Review Committee

## 10. PROPERTYGURU ASIA PROPERTY AWARDS (SINGAPORE) — 2018 BEST PRIVATE CONDO ARCHITECTURAL DESIGN

Presented by the following Organization:
KOHLER

## 11. PROPERTYGURU ASIA PROPERTY AWARDS (SINGAPORE) — 2018 BEST PRIVATE CONDO DEVELOPMENT

Presented by the following Organization:
KOHLER

## 12. PROPERTYGURU ASIA PROPERTY AWARDS (SINGAPORE) — 2018 BEST CONDO DEVELOPMENT (SINGAPORE)

Presented by the following Organization:
KOHLER


QUALITY
OF LIVING

# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Kei Hoi Pang (紀海鵬) *(Chairman)*
Mr. Ji Jiande (紀建德) *(Chief Executive Officer)*
Mr. Xiao Xu (肖旭)
Mr. Lai Zhuobin (賴卓斌)

### Non-executive Director

Ms. Kei Perenna Hoi Ting (紀凱婷)

### Independent Non-executive Directors

Mr. Zhang Huaqiao (張化橋)
Ms. Liu Ka Ying, Rebecca (廖家瑩)
Mr. Cai Suisheng (蔡穗聲)

## AUDIT COMMITTEE

Ms. Liu Ka Ying, Rebecca *(Chairman)*
Mr. Cai Suisheng
Mr. Zhang Huaqiao

## REMUNERATION COMMITTEE

Mr. Zhang Huaqiao *(Chairman)*
Mr. Kei Hoi Pang
Ms. Liu Ka Ying, Rebecca

## NOMINATION COMMITTEE

Mr. Kei Hoi Pang *(Chairman)*
Mr. Zhang Huaqiao
Ms. Liu Ka Ying, Rebecca

## COMPANY SECRETARY

Ms. Li Yan Wing, Rita

## AUTHORIZED REPRESENTATIVES

Ms. Li Yan Wing, Rita
Ms. Kei Perenna Hoi Ting

## AUDITOR

Ernst & Young

## REGISTERED OFFICE

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

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Room 2002, Tower B, Logan Century Center
Xinghua Road South
Bao'An District
Shenzhen, China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit Nos. 02–03A, Level 68
International Commerce Centre
1 Austin Road West
Hong Kong

## COMPANY'S WEBSITE

http://www.loganproperty.com

## PRINCIPAL SHARE REGISTRAR

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

## HONG KONG SHARE REGISTRAR

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

## PRINCIPAL BANKER

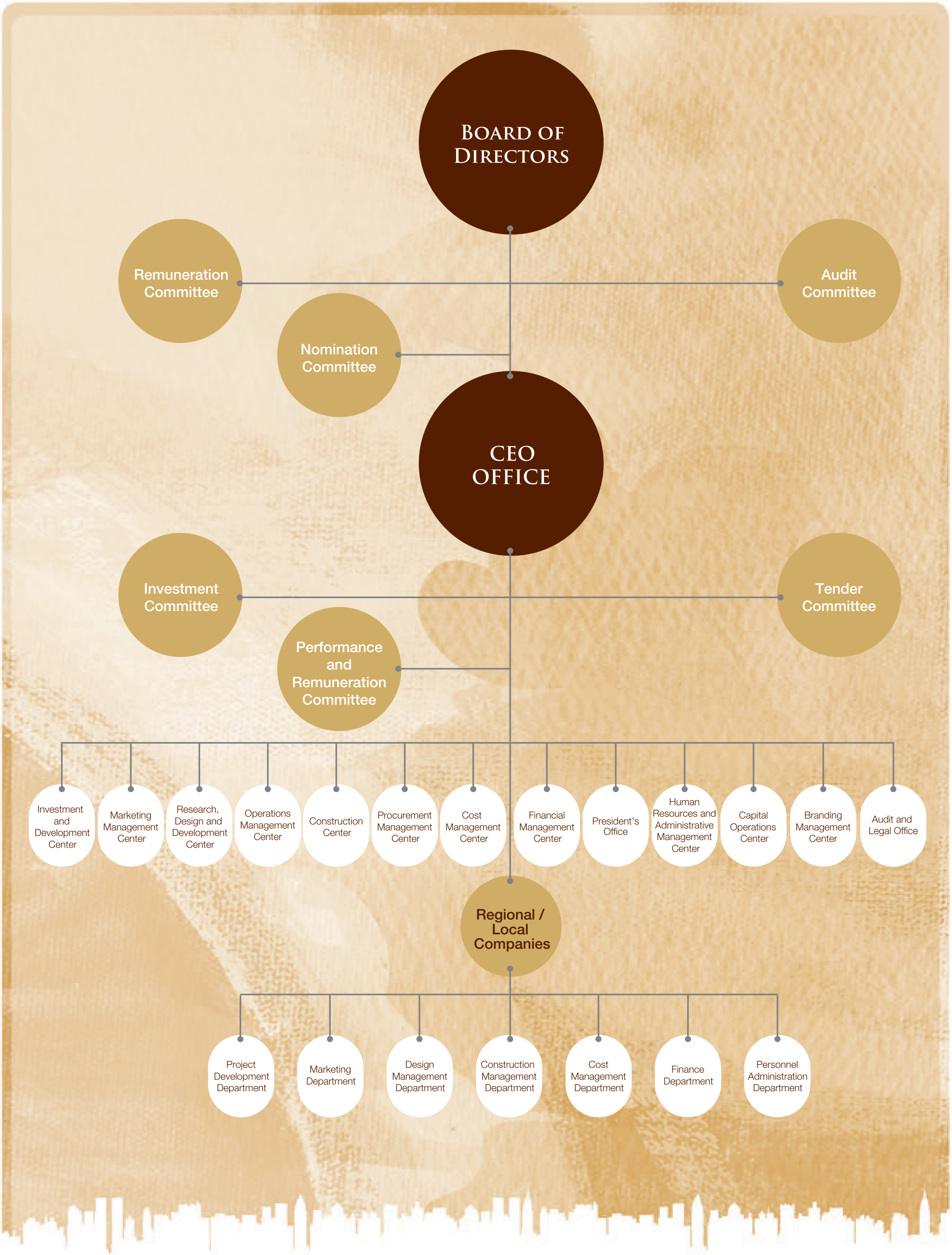
Industrial and Commercial Bank of China (Asia) Limited

## LISTING INFORMATION

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 3380.HK)

# To Build An Evergreen Logan

# Corporate Structure



# Chairman's Statement

**The Group is committed to focusing on the Greater Bay Area, as well as expanding the market share and profit scale of major cities in the region.**

**Dear Shareholders,**

On behalf of the Board of the Company (the "Board"), I hereby present the annual results of the Group for the financial year ended 31 December 2018.

## MARKET REVIEW

In 2018, the global economy maintained its previous growth momentum, with the recovery trend remaining unchanged. However, given the trade protectionism initiated by the United States and the shift of quantitative easing around the globe, more unstable factors have emerged in the global economic environment. Despite challenging international environment, the Chinese Central Government adhered to the supply-side structural reform and economic structure optimization to efficiently expand demand, while China's economy continued to grow steadily with a GDP growth reaching 6.6% in 2018.

China's property market maintained stable growth in 2018. According to the National Bureau of Statistics of China, China's total real estate development and investment increased by 9.5% year on year ("YoY") to RMB12,026.4 billion. The saleable GFA of commercial buildings sold was 1,716.54 million square meters, up by 1.3% YoY, while the total saleable amounts of commercial buildings were RMB14,997.3 billion, up 12.2% YoY. Large-scale developers further accelerated their market share concentration.

According to China central government's announcement, the Guangdong-Hong Kong-Macao Greater Bay Area (hereinafter referred to as the "Greater Bay Area") will be an international innovation center, a world-class bay area and a world-class city cluster. With a population of more than 70 million and a land area of 56 thousand square kilometers, the Greater Bay Area has been one of the most powerful and dynamic economy zones in China, with the highest degree of openness. It is viewed as a major growth engine for global economy. The Group has been focused on the Greater Bay Area for 17 years. Based on its strategic foresight, the Group owns abundant premium land banks alongside key city clusters like Hong Kong-Shenzhen, Macau-Zhuhai and Guangzhou-Foshan, it is well positioned to benefit from the dynamic economic growth of the Greater Bay Area.

The Greater Bay Area has three unique competitive advantages. 1. System advantage: Hong Kong has a mature legal and intellectual property protection systems which as widely accepted by the international business communities. 2. Industry advantage: the Greater Bay Area combines the characteristics of three major international bay areas. It has a world-class complete industry chain concentrated on a limited land area (Finance+Innovative Technology+High-end manufacturing). 3. Market advantage: Given its population over 70 million, the Greater Bay Area itself has been a huge consumption market.

Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area is a substantial long-term positive catalyst. This region's economy will have a sustained and rapid development for more than 30 years. It is the core area for China's industry upgrade, and is the new engine of the Chinese economy. It will also become the most competitive international city clusters in the world. It will become a large consumer market with the highest population density and strong consumption power in the World. Assets in this region will have huge potential for appreciation.

## OVERALL PERFORMANCE

For the year ended 31 December 2018, the Group achieved contracted sales of approximately RMB71,803 million, representing an increase of approximately 65.4% as compared with last year, and achieved its annual sales target. The GFA of contracted sales amounted to 4.4 million square meters. In 2018, the Group's revenue amounted to RMB44,136.9 million, representing an increase of approximately 59.4% as compared with last year. Gross profit amounted to RMB14,886.9 million, with a gross profit margin of 33.7%. Profit attributable to equity shareholders amounted to RMB8,288.4 million. Core profit amounted to approximately RMB7,654.7 million, representing an increase of approximately 65.7% YOY. Core profit margin was 17.3%, far above the industry average level.

During the period under review, the Group continued to be widely acclaimed by the industry and the capital market, given its strategic foresight in the Greater Bay Area, industry-leading profitability and premium brand name value. In terms of brand, honors and awards, the Group was for eight consecutive years selected as one of "China's Top 100 Real Estate Developers" (中國房地產百強企業) and its ranking has jumped to 23rd in 2019 (26th in 2018). This award has been jointly announced by the Enterprise Research Institute of Development Research Center of the State Council (國務院發展研究中心企業研究所), the Institute of Real Estate Studies of Tsinghua University (清華大學地產研究所) and China Index Academy (中國指數研究院). In addition, the Group also ranked 4th in the "Top 10 Real Estate Developers by Profitability in 2019". Moreover, the Group was awarded with "Top 20 Financially Strong and Credible Property Enterprises in Guangdong" for 16 consecutive years. Furthermore, the Group continued to be ranked in "Asia's Fab 50 Companies List" and "the 2018 Global 2000: Growth Champions" by Forbes. The Group also jumped to 266th in Fortune China 500, up 29 spots as compared with its 2017 ranking.

The Group is also highly recognized by the capital market and has been highly recommended by a number of renowned global investment banks such as Citibank, Deutsche Bank AG, UBS, Morgan Stanley, HSBC and BOC International. Meanwhile, its healthy financial position and overall strengths were recognized by both domestic and overseas rating agencies. Currently, the Group is a constituent stock of Hang Seng Composite Large Cap & Medium Cap Index, Hang Seng Stock Connect Greater Bay Area Composite Index, MSCI China All Shares Index and FTSE Shariah Global Equity Index. The Group is rated "BB-", "Ba3" and "BB-" ratings by international authoritative agencies including Standard & Poor's, Moody's and Fitch respectively. To be more specific, Standard & Poors adjusted the rating of Logan Property to "positive", while Moody's and Fitch maintain the ratings of "stable outlook". The Group is rated "BB+" with stable outlook by Lianhe Ratings Global for the first time. The wholly owned subsidiary, Shenzhen Logan Holdings Co., Ltd, is rated "AAA" credit rating by such renowned domestic rating agencies namely China Cheng Xin Securities Rating Co., Ltd. and United Credit Rating Co., Ltd.

## BUSINESS REVIEW

The Group persisted with its regional penetration strategy and it has fully penetrated into "9+2" city markets in the Greater Bay Area. Based on its crossed-cycle land acquisition strategy through multiple channels, the Group has abundant premium and low-cost land bank in first tier and second tier cities in this region. The Group focuses on mass-residential market in this region and established distinct competitive strengths. Given the consistent economic growth and extension of railway transportation systems in the Greater Bay Area, the Group will be a major beneficiary of this region and may continue to grow in the next few years.

During the year under review, its three metro property projects in Shenzhen, namely Logan • Carat Complex (龍光•玖鑽), Logan • Acesite Mansion (龍光•玖龍璽) and Logan • Acesite Park (龍光•玖龍台), were well-received by the market, as evidenced by outstanding sales performance. In terms of the number of completed transactions/sales area, the Group ranked first in the Shenzhen market. Besides, "Logan • Carat Complex" (龍光•玖鑽) won the national runner-up in sales amount in China in 2018. In addition, the Group continues its dominance and ranks as No.1 developer in the Shantou market. In Nanning, the Group ranked first in attributable sales amount/sales area. Besides, Stirling Residences (尚景苑), its first Singapore residential project, won three prizes in the 8th anniversary PropertyGuru Asia Property Awards (Singapore).

During 2018, the Group successfully secured new land bank of 7.47 million square meters through "public tendering, auction and listing". It also strategically established its footprint in "One-hour Living Circle" of Shanghai metropolitan area to foster new growth drivers. In addition, the highly profitable urban renewal projects have been another important source for the Group to replenish premium new land bank in the Greater Bay Area. During the period under review, the Group has successfully launched two urban renewal projects for sales, namely "Zhuhai • Acesite Centrium (珠海•玖龍匯)" in Zhuhai and "Chancheng • Green Island Lake (禪城•綠島湖)" in Foshan. For the abovementioned two projects, it took less than 1.5 years from land acquisition to sales. In next few years, the Group will focus more on shantytown revamp and urban renewal projects into new revenue and earning drivers.

The Group has always believed a stable and prudent capital structure will build a solid foundation for its long term sustainable development. During the year, the Group successfully issued senior notes with an aggregate principal amount of US$1,400 million. It also issued senior notes due 2021 with a principal amount of SG$200 million, bearing a coupon rate of 6.125%. As at 31 December 2018, the Group had cash and bank balances (including restricted and pledged deposits) of approximately RMB35,717.2 million, with a net debt-to-equity ratio of approximately 63.2% (As at 31 December 2017: 67.9%). The average weighted borrowing interest rate was 6.1%. In the future, the Group will continue to explore and diversify its financing channels to ensure sustainable and steady development.

## PROSPECTS

The Chinese Central Government proposed to persist in "different policies to different cities", promote the balance between supply and demand, and accelerate the establishment of a long-term stable and healthy development mechanism of the property market. The Group believes the Chinese property market will maintain its steady growth and the market share concentration of commercial properties will accelerate. It is anticipated China's population and industries will continue to be concentrated in the three major metropolitan clusters.

The Chinese Central Government expected the Greater Bay Area will become an international technology innovation hub, with free flow and integration of innovative elements, talents and industries in the region. Compared with three other world-class bay areas, namely New York, San Francisco and Tokyo, the Greater Bay Area has long-term growth potential in per capita GDP and high value-added industries. Currently, the Greater Bay Area is home to 20 Fortune 500 companies, only second to the Tokyo Bay Area. Perched atop of the global industry value chain, the Greater Bay Area owns many globally competitive companies in the financial and technology fields. Given the continuous growth of GDP in the Greater Bay Area, it is expected that the number of Fortune 500 companies will continue to increase in the future and more top talents will flow into this region. With infrastructure and facilities well established, the "One-hour Premium Living Circle" will emerge in the Greater Bay Area.

As at 31 December 2018, the total value of the Group's land bank amounted to approximately RMB652 billion, of which approximately 82% was located in the Greater Bay Area. This ensures the consistent growth of the Group's sales and profits in the future. Based on its premium land bank and strong execution ability, the Group is committed to focusing on the Greater Bay Area, as well as expanding the market share and profit scale of major cities in the region.

Given the accelerating market share concentration trend in the Chinese property industry, more merger and acquisition opportunities will arise in the Chinese property market. By utilizing its extensive operation experience in the Chinese real estate industry, the Group will actively seize the opportunities of land acquisition in the future, seek more mergers and acquisitions targets, and increase the Group's premium land bank through multiple channels, thereby locking in more high-return projects at the lowest cost. The Group will also accelerate sales and strive to enhance the overall product competitiveness of different projects. The Group will uphold the tenet that "quality builds a brand" and incessantly strengthen its market competitiveness and penetration. The Group will further promote the brand image of Logan Property and consolidate its leading position in the Greater Bay Area.

## ACKNOWLEDGEMENTS

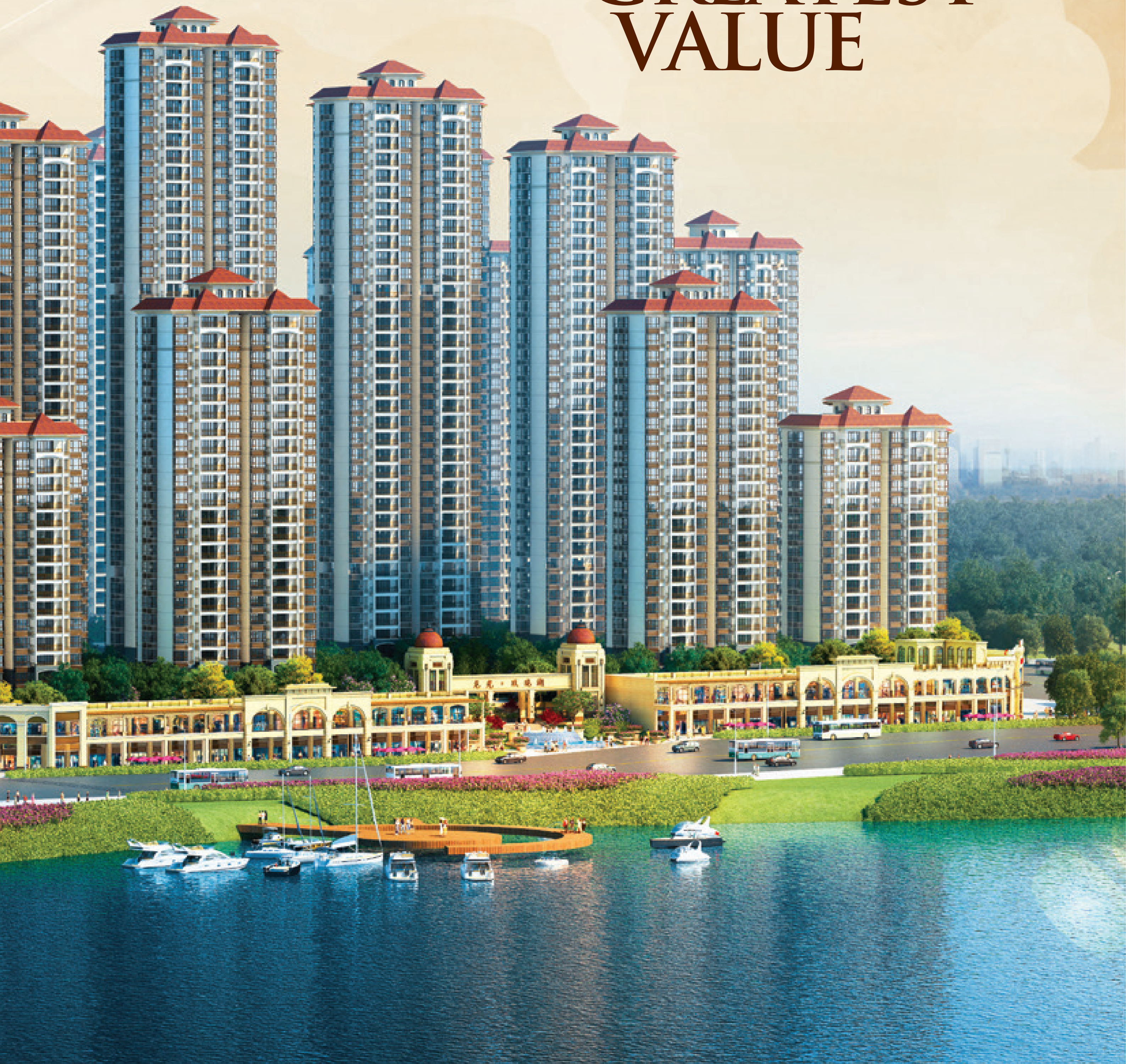
On behalf of the Board, I express my heartfelt gratitude to all our shareholders, investors, partners, customers, and the community for their support and trust. In the past year, thanks to the guidance given from the management of the Company, together with the efforts and contributions from all staff, the Group achieved stable development. In the future, the Company will continue to strive for considerable returns for all of its shareholders.

**Kei Hoi Pang**
*Chairman*

Hong Kong

19 March 2019

# To Achieve The Greatest Value



# Management Discussion and Analysis


## PERFORMANCE HIGHLIGHTS

| | 2018 RMB'000 | 2017 RMB'000 | Changes per year % |
|---|---|---|---|
| **Revenue** | **44,136,908** | 27,689,658 | 59.4% |
| Among which: Sales of properties | | | |
| — Income from properties delivered | **38,804,378** | 26,642,077 | 45.7% |
| — GFA of properties delivered (sq.m.)[1] | **1,862,470** | 2,293,611 | −18.8% |
| — ASP[1] of properties delivered (RMB/sq.m.) | **21,901** | 11,093 | 97.4% |
| Property leasing | **83,146** | 83,383 | −0.3% |
| Construction and decoration income | **4,182,130** | 964,198 | 333.7% |
| Primary land development | **1,067,254** | — | — |
| **Gross profit** | **14,886,893** | 9,517,183 | 56.4% |
| **Profit for the year** | | | |
| — Attributable to equity shareholders | **8,288,398** | 6,527,400 | 27.0% |
| — Attributable to non-controlling shareholders | **707,508** | 481,050 | 47.1% |
| **Core profit**[(1)] | | | |
| — Attributable to equity shareholders | **7,022,962** | 4,628,372 | 51.7% |
| — Attributable to non-controlling shareholders | **631,731** | (8,384) | — |
| **Total assets** | **170,094,677** | 111,870,848 | 52.0% |

| | 2018 RMB'000 | 2017 RMB'000 | Changes per year % |
|---|---|---|---|
| **Cash and bank balances (including cash and cash equivalents and restricted and pledged deposits)** | **35,717,151** | 22,407,985 | 59.4% |
| **Total bank and other borrowings[2]** | **58,941,178** | 40,841,413 | 44.3% |
| **Total equity** | **36,745,786** | 27,163,809 | 35.3% |
| **Total equity attributable to equity shareholders** | **29,248,806** | 23,306,221 | 25.5% |
| **Key financial ratios** | | | |
| Gross profit margin[(2)] | **33.7%** | 34.4% | |
| Core profit margin[(3)] | **17.3%** | 16.7% | |
| Net debt-to-equity ratio[(4)] | **63.2%** | 67.9% | |
| Liability to asset ratio[(5)] | **78.4%** | 75.7% | |

Notes: 1. Excluding the car parking portion
2. Including bank and other loans, senior notes and corporate bonds.

(1) Core profit: excluding changes in fair value of investment properties and derivatives and deferred tax and share of changes in fair value of investment properties at an associate.
(2) Gross profit margin: Gross profit ÷ Revenue × 100%
(3) Core profit margin: Core profit ÷ Revenue × 100%
(4) Net debt-to-equity ratio: (Total bank and other borrowings — cash and cash equivalents — restricted and pledged deposits) ÷ total equity × 100%
(5) Liability to asset ratio: Total liabilities ÷ Total assets × 100%

## SHENZHEN LONGHUA DISTRICT
## LOGAN CARAT COMPLEX

### PROJECT DESCRIPTION

**Site Area** 87,000 sq.m.

**Total GFA** 840,000 sq.m.

**Project value:**
At top of dual metro lines
(Lines No. 4 & 6 at Hongshan Station)

### Property Development

#### Contracted sales

In 2018, the Company continues to utilize its market advantages in the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area") and achieved a satisfactory sales performance. For the year ended 31 December 2018, the Group attained contracted sales of approximately RMB71,803 million, representing a significant increase of approximately 65.4% as compared with 2017. For the contracted sales in 2018, Shenzhen region, other regions of the Greater Bay Area, Nanning region, Shantou region, Singapore and other regions accounted for approximately 34.4%, 26.0%, 24.5%, 7.2%, 4.7% and 3.2%, respectively. The contracted sales were mainly generated from the Greater Bay Area and Nanning region. For Shenzhen region, the sales were mainly generated from Logan • Carat Complex (龍光 • 玖鑽) and Logan • Acesite Mansion (龍光 • 玖龍璽) projects erected on the Hongshan subway station at the Shenzhen's subway line 4, Logan • Acesite Park (龍光 • 玖龍台) in Shenzhen Guangming New District. The sales from Nanning region were mainly contributed by projects, namely Nanning • Acesite Park (南寧 • 玖龍台) and Nanning • Jiuyu Lake (南寧 • 玖譽湖). In 2019, Shenzhen Logan • Acesite Park (龍光 • 玖龍台) and Huizhou Logan City (龍光城) will continue to be launched for sale.

It is expected that such projects will bring an encouraging sales performance to the Group. Since the land cost of such project lands is relatively low, the selling prices are in line with the Company's expectation, therefore bringing significant revenue and profit to the Company in the future.

## SHENZHEN GUANGMING DISTRICT
# ACESITE PARK

### Project Description

**Site Area** 152,000 sq.m.

**Total GFA** 720,000 sq.m.

**Project value:**
At top of dual metro lines
(Lines No. 6 & 13 at Guanguang Station)

**Contracted sales in 2018**

| Region | Amount (RMB Million) | Percentage | Total GFA[1] (sq.m.) | Percentage | ASP[1] (RMB/sq.m.) |
|---|---|---|---|---|---|
| Shenzhen region | 24,696 | 34.4% | 395,782 | 9.0% | 62,342 |
| Other regions of the Greater Bay Area[2] | 18,660 | 26.0% | 1,428,305 | 32.5% | 12,815 |
| Nanning region | 17,626 | 24.5% | 1,921,326 | 43.6% | 8,878 |
| Shantou region | 5,178 | 7.2% | 432,823 | 9.8% | 11,177 |
| Singapore | 3,351 | 4.7% | 35,758 | 0.8% | 93,699 |
| Other regions | 2,292 | 3.2% | 187,412 | 4.3% | 11,932 |
| | 71,803 | 100.0% | 4,401,406 | 100.0% | 16,008 |

1. Excluding car parking portion

2. Excluding Shenzhen Region

**Revenue from sales of properties**

During the year ended 31 December 2018, revenue from sales of properties amounted to approximately RMB38,804.4 million, representing an increase of approximately 45.7% as compared with RMB26,642.1 million in 2017, and accounted for approximately 87.9% of the Group's total revenue. GFA delivered (excluding car parking spaces) decreased by approximately 18.8% to 1,862,470 sq.m. during the year 2018 from 2,293,611 sq.m. for the year 2017.

Shenzhen Region, other regions of the Greater Bay Area, Shantou Region, Nanning Region and other regions contributed to the Group's revenue from sales of properties of 2018, accounting for approximately 56.0%, 24.3%, 6.3%, 13.0% and 0.4%, respectively.

| | Revenue from sale of properties in 2018 | | | | |
|---|---|---|---|---|---|
| | **Amount** (RMB million) | **Percentage** | **GFA**[1] (sq.m.) | **Percentage** | **ASP**[1] (RMB per sq.m.) |
| Shenzhen region | 21,857 | 56.0% | 383,501 | 20.6% | 59,562 |
| Other regions of the Greater Bay Area[2] | 9,479 | 24.3% | 637,815 | 34.2% | 15,841 |
| Shantou region | 2,476 | 6.3% | 153,513 | 8.2% | 16,090 |
| Nanning region | 5,086 | 13.0% | 678,414 | 36.4% | 7,725 |
| Other regions | 165 | 0.4% | 9,227 | 0.6% | 14,437 |
| Total | 39,063 | 100.0% | 1,862,470 | 100.0% | 21,901 |
| Less: Business tax and sales related taxes | (259) | | | | |
| Revenue from sales of properties | 38,804 | | | | |

1. Excluding the car parking portion

2. Excluding Shenzhen Region

### Newly commenced projects

As at 31 December 2018, the Group commenced construction of a total of 58 projects or new project phases with a total planned GFA of approximately 10.04 million sq.m.

### Completed projects

As at 31 December 2018, the Group completed 16 projects or project phases with a total planned GFA of approximately 2.72 million sq.m.

### Developing projects

As at 31 December 2018, the Group had a total of 66 projects or project phases under construction with a total planned GFA of approximately 15.26 million sq.m.

### Land reserves

For the year ended 31 December 2018, the Group acquired 32 new projects through public tendering, auction and listing with a total GFA of 7,473,900 sq.m.

**List of newly acquired projects through public tendering, auction and listing in 2018**

| Region | Site Area (sq.m.) | Total GFA (sq.m.) | Total Land Cost (RMB million) | Equity Land Cost (RMB million) | Average Land Cost (RMB/sq.m.) |
|---|---|---|---|---|---|
| Shenzhen | 15,324 | 79,100 | 1,170 | 1,170 | 14,791 |
| Huizhou | 27,990 | 115,830 | 151 | 50 | 1,302 |
| Foshan | 384,177 | 1,961,934 | 11,746 | 11,276 | 5,987 |
| Zhaoqing | 218,048 | 1,676,024 | 1,650 | 825 | 984 |
| Zhuhai | 107,156 | 349,686 | 2,226 | 1,567 | 6,366 |
| Zhongshan | 97,423 | 349,444 | 1,693 | 847 | 4,845 |
| Dongguan | 63,918 | 246,318 | 1,794 | 763 | 7,284 |
| Heyuan | 38,113 | 98,680 | 162 | 81 | 1,645 |
| Qingyuan | 33,288 | 106,770 | 487 | 244 | 4,561 |
| **Subtotal of Guangdong-Hong Kong-Macao Greater Bay Area** | 985,437 | 4,983,786 | 21,079 | 16,823 | 4,230 |
| **Shantou Region** | 45,301 | 266,059 | 1,105 | 553 | 4,153 |
| **Nanning Region** | 380,987 | 1,885,004 | 4,366 | 2,607 | 2,316 |
| **Yangtze River Delta Region** | 72,763 | 168,315 | 1,083 | 859 | 6,436 |
| **Other Regions** | 81,471 | 170,736 | 680 | 340 | 3,983 |
| **Total** | 1,565,959 | 7,473,900 | 28,313 | 21,182 | 3,788 |

As at 31 December 2018, the total GFA of the land reserves of the Group amounted to approximately 36,261,286 sq.m., the average cost of land reserves was RMB3,985 per sq.m., in which Guangdong-Hong Kong-Macao Greater Bay Area accounted for over 71%, if calculated by land value.

### Land reserves as at 31 December 2018

| | GFA (sq.m.) | Percentage |
|---|---|---|
| Shenzhen | 1,908,684 | 5.3% |
| Huizhou/Dongguan | 6,307,451 | 17.4% |
| Guangzhou/Foshan/Zhaoqing | 6,921,805 | 19.1% |
| Zhuhai/Zhongshan | 4,118,295 | 11.4% |
| Hong Kong | 70,606 | 0.2% |
| Heyuan/Yangjiang/Qingyuan | 3,247,007 | 8.9% |
| Subtotal of Guangdong-Hong Kong-Macao Greater Bay Area | 22,573,848 | 62.3% |
| Shantou Region | 4,125,399 | 11.4% |
| Nanning Region | 7,855,309 | 21.7% |
| Yangtze River Delta Region | 168,315 | 0.5% |
| Singapore | 189,909 | 0.5% |
| Other Regions | 1,348,506 | 3.6% |
| Total | 36,261,286 | 100.0% |
| Land cost (RMB per sq.m.) | 3,985 | |

## Property Investments

### Rental income

For the year ended 31 December 2018, the rental income of the Group amounted to RMB83.1 million, representing an decrease of approximately 0.3%.

### Investment properties

As at 31 December 2018, the Group had 31 investment properties with a total GFA of approximately 494,397 sq.m. As for this investment property portfolio, 27 investment properties with a total GFA of approximately 272,962 sq.m. were completed, while the remaining four projects are still under development.

### Financial Review

*(I) Revenue*

Revenue of the Group for the year ended 31 December 2018 increased to RMB44,136.9 million by approximately RMB16,447.3 million, or approximately 59.4%, as compared with 2017, primarily due to an increase of RMB12,162.3 million in revenue from sale of properties. Revenue from sale of properties, income from the property leasing business, income from the construction and decoration business and income from primary land development for the year ended 31 December 2018 amounted to approximately RMB38,804.4 million, RMB83.1 million, RMB4,182.1 million and RMB1,067.3 million, respectively (2017: approximately RMB26,642.1 million, RMB83.4 million, RMB964.2 million and nil, respectively).

## Management Discussion and Analysis

Details of the revenue from sale of properties by project are as follows:

| Project name | 2018 Area[1] (sq.m.) | 2018 Amount[2] (RMB'000) | 2017 Area[1] (sq.m.) | 2017 Amount[2] (RMB'000) |
|---|---|---|---|---|
| Shenzhen Carat Complex (深圳玖鑽) | 331,790 | 18,481,679 | – | – |
| Shenzhen Acesite Mansion (深圳玖龍璽) | 41,597 | 2,996,875 | 12,546 | 1,057,523 |
| Foshan Riverside Bay Castle (佛山龍灣華府) | 250,998 | 2,983,483 | – | – |
| Zhuhai Acesite Park (珠海玖龍府) | 145,622 | 2,569,306 | – | – |
| Nanning Sunshine Royal Lake (南寧御湖陽光) | 265,610 | 2,409,830 | 130,514 | 1,065,587 |
| Foshan Riverine View Castle (佛山望江府) | 193,941 | 2,326,116 | – | – |
| Shantou Royal & Seaward Heaven Garden (汕頭御海天禧花園) | 134,474 | 2,106,265 | 131,478 | 2,065,052 |
| Zhuhai Acesite Bay (珠海玖龍灣) | 31,053 | 1,081,234 | – | – |
| Nanning Acesite Park (南寧玖龍府) | 148,130 | 1,050,545 | – | – |
| Guilin Provence (桂林普羅旺斯) | 135,140 | 829,884 | 66,819 | 366,139 |
| Fangchenggang Sunshine Seaward (防城港陽光海岸) | 129,532 | 702,268 | 189,713 | 848,787 |
| Shenzhen Masterpiece (深圳玖雲著) | 10,115 | 378,355 | 94,194 | 2,672,341 |
| Shantou Sea & Sunshine (汕頭碧海陽光) | 15,147 | 248,841 | 56,167 | 590,196 |
| Huizhou Logan City (惠州龍光城) | 10,404 | 183,063 | 481,660 | 6,778,817 |
| Chengdu Joy Residence (成都君悦華庭) | 4,873 | 81,840 | 126,594 | 868,493 |
| Haikou Sea and City (海南海雲天) | 4,353 | 75,707 | 86,170 | 841,279 |
| Foshan Grand Riverside Bay (佛山水悦龍灣) | 1,394 | 72,129 | 59,017 | 508,466 |
| Huizhou Grand Riverside Bay (惠州水悦龍灣) | – | 65,076 | 1,590 | 49,191 |
| Shantou Logan Flying Dragon Landscape (汕頭龍騰嘉園) | 1,936 | 57,542 | 76,145 | 619,284 |
| Foshan Grand Garden (佛山水悦熙園) | – | 53,326 | 140,994 | 1,151,559 |
| Nanning Provence (南寧普羅旺斯) | – | 53,314 | 56,439 | 483,809 |
| Foshan Joy Palace (佛山君悦龍庭) | 2,328 | 40,796 | 12,377 | 104,043 |
| Shantou Seaward Sunshine (汕頭尚海陽光) | 1,828 | 38,419 | 36,993 | 548,553 |
| Foshan Sky Lake Castle (佛山天湖華府) | 1,106 | 31,271 | 67,254 | 1,031,439 |
| Shantou Royal & Seaward Jubilee Garden (汕頭御海禧園) | – | 23,566 | 223,359 | 1,958,204 |
| Zhongshan Grand Joy Garden (中山水悦馨園) | – | 21,786 | 148 | 33,821 |
| Dongguan Imperial Summit Sky Villa (東莞君御旗峰) | – | 18,127 | – | 14,399 |
| Foshan Grand Joy Castle (佛山君悦華府) | 725 | 17,289 | 1,442 | 19,848 |

| Project name | 2018 Area[1] (sq.m.) | 2018 Amount[2] (RMB'000) | 2017 Area[1] (sq.m.) | 2017 Amount[2] (RMB'000) |
|---|---|---|---|---|
| Nanning Grand Riverside Bay (南寧水悦龍灣) | – | 16,261 | 614 | 21,536 |
| Nanning Royal Castle (南寧君御華府) | – | 14,906 | 2,531 | 53,687 |
| Nanning Joy Residence (南寧君悦華庭) | – | 8,706 | – | 8,122 |
| Chengdu Sky Palace (成都天悦龍庭) | – | 7,815 | 72 | 18,994 |
| Guangzhou Landscape Residence (廣州峰景華庭) | – | 6,392 | – | 13,162 |
| Guangzhou Palm Waterfront (廣州棕櫚水岸) | – | 5,292 | 1,637 | 39,502 |
| Zhongshan Ocean Vista Residence (中山海悦華庭) | 245 | 2,429 | 239 | 8,939 |
| Zhongshan Grand Garden (中山水悦熙園) | – | 1,579 | – | 8,471 |
| Shantou Flying Dragon Garden (汕頭龍騰熙園) | 129 | 1,106 | – | 400 |
| Zhuhai Easy Life (珠海海悦雲天) | – | 355 | – | 2,993 |
| Foshan Shin Street Building (佛山尚街大廈) | – | 123 | 2,749 | 37,715 |
| Huizhou Sky Palace (惠州天悦龍庭) | – | – | 948 | 11,971 |
| Shantou Royal Sea Sunshine (汕頭御海陽光) | – | – | 233,127 | 3,037,060 |
| Zhongshan Grasse VieilleVille (中山海悦城邦) | – | – | 81 | 828 |
| Dongguan Royal Castle (東莞君御華府) | – | – | – | 10,969 |
| Total | 1,862,470 | 39,062,896 | 2,293,611 | 26,951,179 |
| Less: Business tax and sales related taxes | | (258,518) | | (309,102) |
| Revenue from sales of properties | | 38,804,378 | | 26,642,077 |

1. Excluding the car parking portion.
2. Representing the amount of income before deduction of business tax and sales related taxes.

(II) *Cost of sales*

The cost of sales of the Group for the year ended 31 December 2018 increased to RMB29,250.0 million by approximately RMB11,077.5 million, or approximately 61.0%, as compared with 2017, primarily due to the increase in cost of sales from sale of properties resulting from the expansion of business scale. Key components of costs are as follows:

| | **2018 RMB'000** | 2017 RMB'000 | Changes per year % |
|---|---|---|---|
| Costs | **29,250,015** | 18,172,475 | 61.0% |
| — Costs of sale of properties | **24,996,099** | 17,329,719 | 44.2% |
| — Costs of construction and decoration business and property leasing business and primary land development business | **4,253,916** | 842,756 | 404.8% |

(III) *Selling and marketing expenses and administrative expenses*

The selling and marketing expenses of the Group for the year ended 31 December 2018 amounted to approximately RMB1,231.4 million (2017: RMB928.7 million). As the Group further increased its property marketing efforts in response to the challenging market environment in 2018, the selling and marketing expenses had increased by approximately 32.6% as compared with 2017.

The administrative expenses of the Group for the year ended 31 December 2018 amounted to approximately RMB1,133.9 million (2017: RMB748.0 million), representing an increase of approximately 51.6% as compared with 2017, which was mainly attributable to an increase in the labor costs.

(IV) *Profit from operations*

The profit from operations of the Group for 2018 amounted to approximately RMB15,436.0 million (2017: RMB11,561.1 million), representing an increase of approximately 33.5% over the corresponding period. As the revenue and other revenue and gains of the Group increased by approximately RMB17,119.7 million as compared with 2017, the relevant cost of sales, selling and marketing expenses and administrative expenses increased by approximately RMB11,766.0 million as compared with 2017, whereas other expenses, net increase in the fair value of investment properties and changes in the fair value of derivative financial instruments, and share of net losses of associates and joint ventures decreased by approximately RMB1,478.8 million as compared with 2017. As a result, the profit from operations of the Group increased by approximately RMB3,874.9 million as compared with 2017.

(V) *Finance costs*

The finance costs of the Group for 2018 increased to approximately RMB1,416.9 million (2017: RMB672.2 million), primarily due to the increase in bank and other loans and senior notes and corporate bonds.

(VI) *Tax*

Taxes of the Group for the year ended 31 December 2018 included CIT and LAT. Taking into account the impact of the relevant changes in deferred tax, the net CIT and LAT amounted to approximately RMB3,291.3 million and RMB1,731.9 million, respectively (2017: approximately RMB2,426.1 million and RMB1,454.4 million).

(VII) *Core Profit*

The Core Profit of the Group for the year ended 31 December 2018 amounted to approximately RMB7,654.7 million, representing an increase of approximately RMB3,034.7 million as compared with 2017. The Core Profit margin of the Group for the year ended 31 December 2018 was approximately 17.3% (2017: approximately 16.7%), representing an increase of approximately 0.6 percentage points as compared with 2017.

(VIII) *Liquidity and financial resources*

As at 31 December 2018, total assets of the Group amounted to approximately RMB170,094.7 million (31 December 2017: RMB111,870.8 million), of which current assets amounted to approximately RMB130,640.5 million (31 December 2017: RMB83,594.5 million). Total liabilities amounted to approximately RMB133,348.9 million (31 December 2017: RMB84,707.0 million), of which non-current liabilities amounted to approximately RMB44,810.4 million (31 December 2017: RMB27,413.3 million). Total equity amounted to approximately RMB36,745.8 million (31 December 2017: RMB27,163.8 million).

As at 31 December 2018, the Group had cash and bank balances (including restricted and pledged deposits) of approximately RMB35,717.2 million (31 December 2017: RMB22,408.0 million) and total borrowings of approximately RMB58,941.2 million (31 December 2017: RMB40,841.4 million). As at 31 December 2018, total net borrowings of the Group amounted to approximately RMB23,224.0 million (31 December 2017: RMB18,433.4 million), the net debt-to-equity ratio of the Group was 63.2% (31 December 2017: 67.9%).

(IX) *Financing activities*

In 2018, the Group successfully issued six tranches of senior notes of US$1,400,000,000 and one tranche of senior notes of S$200,000,000. The first tranche of senior notes amounted to US$250,000,000, with a coupon rate of 6.375% and a maturity date on 7 March 2021. The second tranche of senior notes amounted to S$200,000,000, with a coupon rate of 6.125% and a maturity date on 16 April 2021. The third tranche of senior notes amounted to US$400,000,000, with a coupon rate of 6.875% and a maturity date on 24 April 2021. The fourth tranche of senior notes amounted to US$300,000,000, with a coupon rate of 7.5% and a maturity date on 27 August 2021. The fifth tranche of senior notes amounted of US$80,000,000, with a coupon rate of 6.95% and a maturity date on 5 June 2020. The sixth tranche of senior notes amounted to US$370,000,000, with a coupon rate of 8.75% and a maturity date on 12 December 2020.

(X) *Foreign Exchange Exposure*

The Group's business transactions are principally conducted in Renminbi. Other than the bank deposits denominated in foreign currencies, bank borrowings and the senior notes denominated in US dollar and HK dollar, the Group does not have any material exposure directly due to foreign exchange fluctuations. The Group has not entered into any material forward exchange contract to hedge its exposure to foreign exchange risk. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

(XI) *Employees and Remuneration Policy*

As at 31 December 2018, the Group had approximately 3,219 employees (2017: 2,618). Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. The remuneration policy of the Group is to provide remuneration packages, including basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when occasion requires.

The Company has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details in relation to the Share Option Scheme are set out in the section headed "Share Option Scheme" of the "Directors' Report" on pages 49 to 52 of this annual report.

## POSSIBLE RISKS AND UNCERTAINTIES FACING BY THE COMPANY

The Group's financial conditions, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties which are not known to the Group or which may not be material now but could turn out to be material in the future.

### Business Risk

The business of the Group is highly dependent on the performance of the PRC property market. Any property market downturn in China generally or in the cities and regions in which the Group's property projects are located, or lack of suitable land banks/reserves for project development could adversely affect the Group's business, results of operations and financial position.

Further, property development is capital intensive in nature. Whilst the Group finances its property projects primarily through a combination of pre-sale and sale proceeds, borrowings from financial institutions and internal funds. If no adequate financing can be secured or any failure to renew the Group's existing credit facilities prior to their expiration may adversely impact the Group's operation.

### Foreign Currency Risk

The Group primarily operates its business in the PRC. The currency in which the Group denominates and settles substantially all of its transactions is Renminbi. Any depreciation of Renminbi would adversely affect the value of any dividends the Group pay to shareholders outside of the PRC. The Group currently does not engage in hedging activities designed or intended to manage foreign exchange rate risk. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

### Financial Risk

The financial risk management of the Group are set out in note 44 to the consolidated financial statements.

# Biographies of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Kei Hoi Pang**, aged 52, was appointed as an executive director of the Company on 18 November 2013. Mr. Kei Hoi Pang is also the founder and Chairman of the Company. Mr. Kei was also the chief executive officer of the Company from April 2011 to 29 January 2018. He is primarily responsible for the overall strategic planning of the Group's business. He is the elder brother of Mr. Ji Jiande, an executive director and the chief executive officer of the Company and father of Ms. Kei Perenna Hoi Ting, a non-executive director of the Company. In March 1996, Mr. Kei Hoi Pang held the position as an executive director and the chief executive officer of Guangdong Logan (Group) Co., Ltd., one of the Group's predecessors. Since October 2009, Mr. Kei Hoi Pang has also served as a director and chief executive officer of Shenzhen Logan Holdings Company Limited. Mr. Kei Hoi Pang is presently a member of the 13th National Committee of Chinese People's Political Consultative Conference. Mr. Kei has over 20 years of experience in the property development industry and possesses experience in corporate strategic planning and management as well as project management.

**Mr. Ji Jiande**, aged 44, was appointed as an executive director of the Company on 18 November 2013 and the chief executive officer of the Company on 29 January 2018. He is primarily responsible for the business development and daily management and operations of the Group. He is the younger brother of Mr. Kei Hoi Pang, the chairman and an executive director of the Company and the uncle of Ms. Kei Perenna Hoi Ting, a non-executive director of the Company. Mr. Ji Jiande served as the general manager of various companies of the Group. In December 2009, Mr. Ji Jiande was appointed as a director of Shenzhen Logan Holdings Company Limited and primarily responsible for the operational management of the Group.

**Mr. Xiao Xu**, aged 47, was appointed as an executive director of the Company on 18 November 2013 and the vice president of the Company in July 2015. Mr. Xiao is mainly responsible for implementing strategic development, investment analysis and external affairs of the Group. Mr. Xiao was employed by Logan Property Limited Liability Company (formerly known as "Logan Real Estate Holdings Co., Ltd.") in 2007 and held various senior management positions during the period from August 2007 to April 2011 prior to his appointment as the assistant to the president of Shenzhen Logan Holdings Company Limited in April 2011. Mr. Xiao was also appointed as the director of Shenzhen Logan Junchi Property Development Co., Ltd. (深圳市龍光駿馳房地產開發有限公司) and Zhuhai Bojun Property Development Co., Ltd. (珠海市鉑駿房地產開發有限公司) in August 2014. He has substantial experience in investment analysis, corporate management, secretarial work and external liaison. Mr. Xiao obtained a bachelor's degree in business management from Jinan University (暨南大學) in June 1993 and obtained a postgraduate diploma in economics from the Party School of Chinese Communist Party of Guangdong Province (中共廣東省委黨校) in July 1998.

**Mr. Lai Zhuobin**, aged 47, was appointed as an executive director of the Company on 18 November 2013 and the chief financial officer of the Company in July 2015. He is also the financial director of the Group. Mr. Lai is mainly responsible for the financial management and capital markets functions of the Group. Mr. Lai was employed by Logan Property Limited Liability Company (formerly known as "Logan Real Estate Holdings Co., Ltd.") in 2007 and held various senior positions within the financial management division during the period from November 2007 to May 2011. In May 2011, Mr. Lai was served as the financial controller of Shenzhen Logan Holdings Company Limited. He is a member of the Chinese Institute of Certificate Public Accountants. Mr. Lai obtained a bachelor's degree in science from Sun Yat-sen University (中山大學) in July 1993 and obtained a master's degree in engineering from Beijing Institute of Technology in July 2003. Mr. Lai also obtained an executive master of business administration from Peking University in 2013.

## NON-EXECUTIVE DIRECTOR

**Ms. Kei Perenna Hoi Ting**, aged 29, was appointed as a director of the Company on 14 May 2010 and was redesignated as a non-executive director of the Company on 18 November 2013. She is the daughter of Mr. Kei Hoi Pang, chairman and an executive director of the Company, and the niece of Mr. Ji Jiande, the chief executive officer and an executive director of the Company. In August 2011, Ms. Kei obtained a bachelor's degree in Economics and Finance from the University of London.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Zhang Huaqiao**, aged 55, was appointed as an independent non-executive Director on 18 November 2013. Mr. Zhang is a director of various companies the shares of which are listed on the Hong Kong Stock Exchange, including as a non-executive director of Boer Power Holdings Limited (Stock Code: 1685), an independent non-executive director of Fosun International Limited (Stock Code: 656), Zhong An Real Estate Limited (Stock Code: 672), China Huirong Financial Holdings Limited (Stock Code: 1290) and Luye Pharma Group Ltd. (Stock Code: 2186). Mr. Zhang is a non-executive director and the chairman of the board of China Smartpay Group Holdings Limited (formerly known as "Oriental City Group Holdings Limited") (Stock code: 8325). Mr. Zhang has resigned as an independent non-executive director of Yancoal Australia Ltd (Stock Code: YAL, a company listed on the Australia Securities Exchange) on 30 January 2018, Sinopec Oilfield Service Corporation (formerly known as "Sinopec Yizheng Chemical Fibre Company Limited") (Stock Code: 1033) on 20 June 2018, Wanda Hotel Development Company Limited (Stock Code: 169) on 30 May 2018 and China Rapid Finance Limited (Stock Code: XRF, a company listed on the New York Exchange) on 28 March 2019 respectively. From June 1999 to April 2006, Mr. Zhang had worked with UBS AG, Hong Kong Branch and held positions as a director, executive director, managing director and the co-head of its China Research team. Mr. Zhang obtained a master's degree in economics from the Graduate School of the People's Bank of China in July 1986 and obtained a master's degree in economics of development from the Australian National University in April 1991.

**Ms. Liu Ka Ying, Rebecca**, aged 49, was appointed as an independent non-executive director of the Company on 18 November 2013. From June 1996 to March 2002, Ms. Liu served as the general manager for the Asia and China region of The PRG-Schultz International, Inc., a company listed on NASDAQ. In January 2007, Ms. Liu was appointed as the chief executive officer of AllPanther Asset Management Limited (竣富(資產)管理有限公司) and served at such position since then. She possesses experience in management, investment in real estate development and private investment funds, as well as accounting and financial management.

Ms. Liu is a member of the American Institute of Certified Public Accountants (AICPA), Illinois CPA Society (ICPAS) of the United States and Hong Kong Institute of Certified Public Accountants (HKICPA). Ms. Liu obtained a double bachelor's degree in Business Administrative Studies from York University, Canada with major in management and in accounting (with honours) in 1992 and 1994, respectively. She also obtained a doctoral's degree in business administration from Victoria University of Switzerland in November 2011. She is also a member of the Hong Kong Institute of Bankers, Association of Women Accountants (Hong Kong) Limited, Hong Kong Professionals and Senior Executives Association and Hong Kong China Chamber of Commerce. She was also a member of the Tenth and the Eleventh Jilin Provincial Committee of the Chinese People's Political Consultative Conference.

**Mr. Cai Suisheng**, aged 68, was appointed as an independent non-executive director of the Company on 18 November 2013. Mr. Cai is currently the honorary president of Guangdong Provincial Real Estate Association (廣東省房地產行業協會). Also, in 2004, Mr. Cai was a visiting scholar at the Institute of Housing and Urban Research of Uppsala University in Sweden (瑞典烏普薩拉大學住房與城市發展研究所). From 2006 to 2010, Mr. Cai served as a standing director of the China Real Estate Association (中國房地產業協會). From 2007 to 2016, Mr. Cai was appointed as the president of Guangdong Provincial Real Estate Association and the vice president of Guangdong Economics Association (廣東經濟學會) respectively. In June 2014, Mr. Cai was redesignated from independent non-executive director to the external director of Guangzhou Pearl River Industrial Development Co., Ltd. (廣州珠江實業開發股份有限公司), a company listed on the Shanghai Stock Exchange. In October 2013, Mr. Cai was appointed as honorary professor of the department of urban planning and design of the University of Hong Kong and visiting professor of College of Real Estate of Beijing Normal University Zhuhai. In September 2018, Mr. Cai was appointed as visiting professor of the department of urban planning and design of the University of Hong Kong. Mr. Cai has in-depth knowledge and extensive experience in real estate policies, market and urban management and has published numerous articles and reviews regarding the real estate market, housing policy as well as urban development and management in various newspapers and publications.

## SENIOR MANAGEMENT

| Name | Position |
| --- | --- |
| Mr. Kei Hoi Pang | Chairman |
| Mr. Ji Jiande | Chief Executive Officer |
| Mr. Xiao Xu | Vice President |
| Mr. Lai Zhuobin | Vice President and Chief Financial Officer |
| Ms. Huang Xiangling | Vice President |

Please refer to the section headed "Executive Directors" above for the biographies of Mr. Kei Hoi Pang, Mr. Ji Jiande, Mr. Lai Zhuobin and Mr. Xiao Xu.

**Ms. Huang Xiangling**, aged 42, is a vice president of the Group. She is mainly responsible for the management of the president's office and public affairs of the Group. Ms. Huang joined Logan Real Estate Holdings Co., Ltd. in 2005. Ms. Huang has extensive experience in project management, internal management and external liaison. Ms. Huang obtained a diploma in public affairs management from Zhejiang University in June 2007.

# Corporate Governance Report

The board of directors of the Company (the "Board") is pleased to present this Corporate Governance Report for the period from 1 January 2018 to 31 December 2018.

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and enhance corporate value. The Company's corporate governance practices are based on the principles and code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The Company has complied with all applicable code provisions as set out in the CG Code throughout the year ended 31 December 2018.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made to all the directors of the Company (the "Directors") and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018. In addition, the Board has also adopted the principles and rules of the Model Code as written guidelines for relevant employees in respect of their dealings in the securities of the Company.

## BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company. The Board should regularly review the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

### Board Composition

The Board currently comprises four executive Directors, one non-executive Director and three independent non-executive Directors. Independent non-executive Directors constitute not less than one-third of the Board.

The list of the Directors is set out in section headed "Corporate Information" on page 9 and their biography (including the relationships between the members of the Board) are set out in the section headed "Biographies of Directors and Senior Management" on pages 29 to 31 of this annual report. Save as otherwise disclosed, there is no relationship (including financial, business, family or other material relationship) between any members of the Board.

### Chairman and Chief Executive Officer

The positions of chairman and chief executive officer are held by Mr. Kei Hoi Pang and Mr. Ji Jiande respectively. The chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The chief executive officer focuses on the Company's business development and daily management and operations generally.

### Independent Non-executive Directors

During the year 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing not less than one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

### Appointment and Re-election of Directors

Each of the Directors is appointed for a specific term of three years. In accordance with the articles of association of the Company, each of the Directors is subject to retirement by rotation at least once every three years. In case of any Director appointed by the Board to fill a casual vacancy shall hold the office until the first general meeting after his appointment and be subject to re-election by retirement at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold the office only until the next following annual general meeting and shall then be eligible for re-election by retirement.

### Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board take decisions objectively in the interests of the Company.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have timely access to appropriate information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves its decision on all major matters which relate to policies, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management. The delegated functions are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by senior management.

The Board believes that independent non-executive Directors have brought their independent judgment on issues in connection with the Group's strategies, performance, conflict of interests and management process so that the interests of all shareholders are considered and safeguard.

### Continuous Professional Development of Directors

Every newly appointed Director (if any) shall receive a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors' training is an on-going process, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company also updates Directors on any latest development regarding the Listing Rules and other applicable regulatory requirements from time to time to ensure compliance and enhance their awareness of good corporate governance practices.

The training records of the Directors for year 2018 are summarized as follows:

| Name of Directors | Attending Internally-facilitated Briefings or Training, Attending Seminars and Reading Materials |
|---|---|
| **Executive Directors** | |
| Mr. Kei Hoi Pang | √ |
| Mr. Ji Jiande | √ |
| Mr. Xiao Xu | √ |
| Mr. Lai Zhuobin | √ |
| Mr. Chen Guanzhan(1) | √ |
| **Non-executive Director** | |
| Ms. Kei Perenna Hoi Ting | √ |
| **Independent Non-executive Directors** | |
| Mr. Zhang Huaqiao | √ |
| Ms. Liu Ka Ying, Rebecca | √ |
| Mr. Cai Suisheng | √ |

Note:

(1) Mr. Chen Guanzhan was an executive Director from 17 July 2017 to 29 January 2018.

## BOARD MEETINGS

The Board meets regularly to review the financial and operating performance of the Company and to discuss future strategy.

The attendance record of each Director at the Board meetings and the general meeting of the Company held in 2018 is set out in the table below:

| Name of Director | Attendance/Number of Board Meetings | Attendance/Number of General Meetings |
|---|---|---|
| **Executive Directors** | | |
| Mr. Kei Hoipang | 8/8 | 1/1 |
| Mr. Ji Jiande | 8/8 | 1/1 |
| Mr. Xiao Xu | 8/8 | 1/1 |
| Mr. Lai Zhuobin | 8/8 | 1/1 |
| Mr. Chen Guanzhan(1) | N/A | N/A |
| **Non-executive Director** | | |
| Ms. Kei Perenna Hoi Ting | 8/8 | 1/1 |
| **Independent Non-executive Directors** | | |
| Mr. Zhang Huaqiao | 7/8 | 1/1 |
| Ms. Liu Ka Ying, Rebecca | 8/8 | 1/1 |
| Mr. Cai Suisheng | 8/8 | 1/1 |

Note:

(1) Mr. Chen Guanzhan was an executive Director from 17 July 2017 to 29 January 2018.

The Chairman also held a meeting solely with the independent non-executive directors without the presence of other directors on 22 March 2018.

## BOARD COMMITTEES

The Board has established Audit Committee, Remuneration Committee and Nomination Committee in assisting the Board to discharge its functions. The terms of reference of such committees are posted on the Company's website and the Stock Exchange's website.

The list of the chairman and members of each Board committee is set out under the section headed "Corporate Information" on page 9 of this annual report.

### Audit Committee

According to the terms of reference of Audit Committee, its main duties include (but not limited to) making recommendations on the appointment of external auditor and monitoring the effectiveness of external audit, supervision of internal audit and oversight of the integrity of financial information and the financial reporting system, overseeing internal audit, risk management and internal control systems of the Company and ensuring such functions are adequately resourced as well as to perform the corporate governance function.

During the year 2018, the Audit Committee had reviewed 2017 annual financial statements and 2018 half-year financial statements and recommended the same to the Board for approval. The Audit Committee oversaw matters concerning the Company's external auditors including reviewing the scope and quality of audit, the external auditors' independence and objectivity as well as their fees and making recommendations to the Board regarding the resignation and appointment of the external auditors, the nature and scope of their audit and their fees. The Audit Committee also reviewed the effectiveness of the internal audit function of the Company and the effectiveness of the risk management and internal control system of the Group which cover all material controls including financial, operational and compliance controls. During the year ended 31 December 2018, the Audit Committee met with the external auditors twice to discuss issues arising from the audit.

The attendance record of each member at the Audit Committee meetings of the Company held in 2018 is set out in the table below:

| Name of Directors | Attendance/ Number of Meetings |
|---|---|
| Ms. Liu Ka Ying, Rebecca *(Chairman)* | 4/4 |
| Mr. Zhang Huaqiao | 3/4 |
| Mr. Cai Suisheng | 4/4 |

### Remuneration Committee

According to the terms of reference of Remuneration Committee and the model adopted whereby the Remuneration Committee is responsible for making recommendation to the Board on the remuneration packages of individual executive Director and senior management. The Remuneration Committee is also responsible for making recommendation to the Board on the remuneration matters of non-executive Directors, the setting up of adequate and transparent procedures for setting such remuneration.

No Director or any of the senior management is allowed to determine their own remuneration. In making recommendation to the Board on the remuneration of Directors and senior management, the Remuneration Committee shall consider factors such as time commitment and responsibilities of Directors, employment conditions of other positions within the Group and whether their remuneration are performance-related.

During the year 2018, the Remuneration Committee had reviewed the Director fees of non-executive Directors and the remuneration of executive Directors and other incentive rewards such as grant of share options to Directors and senior management.

The attendance record of each member at the Remuneration Committee meeting of the Company held in 2018 is set out in the table below:

| Name of Director | Attendance/ Number of Meetings |
|---|---|
| Mr. Zhang Huaqiao *(Chairman)* | 4/4 |
| Mr. Kei Hoi Pang | 4/4 |
| Ms. Liu Ka Ying, Rebecca | 4/4 |

The remuneration of the senior management by band for the year ended 31 December 2018 is set out below:

| Annual Income | Number of Persons |
|---|---|
| RMB5,000,000 to 10,000,000 | 3 |
| Over RMB10,000,000 | 2 |

### Nomination Committee

According to the terms of reference of Nomination Committee, its duties mainly include (but not limited to) reviewing the structure, size and composition of the Board and reviewing the policy on board diversity, assessing the independence of the independent non-executive Directors as well as making recommendations to the Board on the selection of individuals nominated for directorships.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning board diversity as set out in the Company's board diversity policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

The attendance record of each member at the Nomination Committee meeting of the Company held in 2018 is set out in the table below:

| Name of Director | Attendance/ Number of Meetings |
|---|---|
| Mr. Kei Hoi Pang *(Chairman)* | 1/1 |
| Mr. Zhang Huaqiao | 1/1 |
| Ms. Liu Ka Ying, Rebecca | 1/1 |

### Board Diversity Policy

The Company has adopted a board diversity policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the board diversity policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Nomination Committee will review the board diversity policy, as appropriate, to ensure its effectiveness.

### Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a director nomination policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The director nomination policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and Board committees of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Nomination Committee will review the director nomination policy, as appropriate, to ensure its effectiveness.

### Dividend Policy

The Company has adopted a dividend policy on payment of dividends. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to Shareholders' approval.

The declaration of dividends by the Company is also subject to any restrictions under the Cayman Islands Companies Law, the Articles of Association of the Company and any applicable laws, rules and regulations.

In determining payment of dividends, the Company shall share its profits with Shareholders while maintaining adequate reserves for meeting its future growth, with a view to declaring dividends higher than the industrial average level and achieving a stable and better return for the Shareholders.

The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of shareholders;
- tax issue;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

Depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period:

- interim dividend;
- final dividend;
- special dividend; and
- any distribution of net profits that the Board may consider appropriate.

### Corporate Governance Functions

The Audit Committee is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the year 2018, the Audit Committee had reviewed the Company's corporate governance policies and practices and training and continuous professional development of Directors and senior management.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions.

The Company has established the "Notice in respect of Further Regulations on Joint Ventures Management" which formalised the management of the joint ventures and related affairs.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2018.

The Group's audit and legal office is responsible for internal audit function of the Company in performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The audit and legal office examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee. In addition, the Group has engaged SHINEWING Risk Services Limited to carry out the internal audit function such as the analysis and independent assessment of the adequacy and effectiveness of the Group's risk management and internal control systems covering financial, operational and legal compliance controls for the year ended 31 December 2018. The assessment results have been finalized in March 2019 and communicated with Audit Committee.

The Board, through the Audit Committee, had reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2018, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Company has developed respective disclosure policy which provides a general guide to the Company's Directors, senior management, officers and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

## DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 81 to 86.

## AUDITORS' REMUNERATION

The remuneration of external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended 31 December 2018 is set out below:

| Service Category | Fees |
|---|---|
| Audit Services | RMB6.36 million |
| Non-audit Services | RMB4.64 million |
| | RMB11.00 million |

## COMPANY SECRETARY

Ms. Li Yan Wing, Rita has been appointed as the Company's company secretary. Ms. Li Yan Wing, Rita is a corporate services executive director of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Mr. Xiao Xu, an executive Director, has been designated as the primary contact person at the Company which would work and communicate with Ms. Li Yan Wing, Rita on the Company's corporate governance and secretarial and administrative matters.

For the year ended 31 December 2018, Ms. Li Yan Wing, Rita has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

### Convening General Meeting by Shareholders

Pursuant to Articles 58 of the Company's Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require a general meeting 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 requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Putting Forward Proposals at General Meetings

There is no provision allowing shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

### Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

### Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

| | |
|---|---|
| Address: | Unit Nos. 02–03A, Level 68, International Commerce Centre, 1 Austin Road West, Hong Kong (For the attention of the Board of Directors) |
| Fax: | (852) 2175 5098 |
| Email: | i.r@logan.com.cn |

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

The detailed procedures for Shareholders to propose a person for election as a Director can be found on the website of the Company headed "Corporate Governance" section.

Shareholders may call the Company at (852) 2823 9200 or (86) 755 8528 8221 for any enquiry.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/ INVESTOR RELATIONS

The Board has established a shareholders' communication policy and posted it on the website of the Company setting out the principles of the Company in relation to shareholders' communications, with the objective of ensuring that shareholders of the Company are provided with equal and timely access to information about the Company, in order to enable the shareholders of the Company to exercise their rights in an informed manner and to allow them to engage actively with the Company.

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

During the year 2018, the Company has not made any changes to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

# DIRECTORS' REPORT

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

## PRINCIPAL PLACE OF BUSINESS

Logan Property Holdings Company Limited (the "Company") is a company incorporated and has its registered office in the Cayman Islands. The Company's principal place of business in Hong Kong is situated at Unit Nos. 02–03A, Level 68, International Commerce Centre, 1 Austin Road West, Hong Kong.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company, and its subsidiaries (the "Group") are principally engaged in property development, property investment, construction and decoration and primary land development. The activities and particulars of the Company's subsidiaries are shown under note 1 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and notes 5 and 6 to the consolidated financial statements.

## BUSINESS REVIEW

A review of the business of the Group during the year and a discussion of the Group's future business development are set out in "Chairman's Statement" on pages 12 to 15 of this annual report. Description of possible risks and uncertainties facing by the Company is set out in "Management Discussion and Analysis" on pages 17 to 28 of this annual report. An analysis of the Group's performance during the year using financial key performance indicators is set out in the Group's "Five-year Financial Summary" on page 201 of this annual report.

## ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. Being a property developer and city complex operator in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution and discharge of waste and water. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year under review, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

## RELATIONSHIP WITH STAKEHOLDERS

The Group believes that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners. The Company provides a fair and safe workplace, promotes diversity to our staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers and provide the products in a way that satisfy needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner.

The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's business. We reinforce business partnerships with suppliers and contractors by ongoing communication in a proactive and effective manner so as to ensure quality and timely delivery.

## CONSOLIDATED FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2018 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 87 to 200.

## RESULTS AND APPROPRIATIONS

Profits attributable to shareholders for the year ended 31 December 2018, before dividends, of RMB8,288,398,000 (2017: RMB6,527,400,000) have been transferred to reserves. Other movements in reserves are set out on pages 91 to 92 of "Consolidated Statement of Changes in Equity".

## PROPOSED PAYMENT OF FINAL DIVIDEND AND SPECIAL DIVIDEND

The Board recommends the payment of a final dividend of HK40 cents per share and a special dividend of HK7 cents per share for the year ended 31 December 2018 (the "Dividend") (2017: a final dividend of HK17 cents per share and a special dividend of HK2 cents per share), subject to the approval by shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 20 June 2019 (the "AGM"). The Dividend, if approved by the Company's shareholders at the AGM, will be paid in cash on Friday, 19 July 2019 to the shareholders whose names appear on the register of members of the Company on Friday, 28 June 2019. Together with the interim dividend of HK20 cents per share and special dividend of HK8 cents per share, which were paid on 30 November 2018 the total dividend for the year ended 31 December 2018 will amount to HK75 cents per share (2017: HK41 cents per share).

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.

## CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:

(a) To ascertain the shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 14 June 2019 to Thursday, 20 June 2019, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 13 June 2019.

(b) To ascertain the shareholders' entitlement to the Dividend, the register of members of the Company will be closed from Wednesday, 26 June 2019 to Friday, 28 June 2019, both days inclusive. In order to qualify for the Dividend, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 25 June 2019.

## INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the investment properties and other property, plant and equipment are set out in notes 16 and 15 to the consolidated financial statements, respectively.

## SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2018 and as at that date is set out in note 29 to the consolidated financial statements.

## RESERVES

Details of the movements in the reserves of the Group and the Company for the year ended 31 December 2018 are set out in "Consolidated statements of changes in equity" and note 46 to the consolidated financial statements, respectively.

## BORROWINGS

Details of the borrowings are set out in the section headed "Management Discussion and Analysis" in the annual report and notes 25, 26 and 27 to the consolidated financial statements.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 201 of the annual report.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, the Company repurchased from the market a total of 15,086,000 shares of the Company. All the shares repurchased have been cancelled.

Details of the repurchases of the shares of the Company are as follows:

| Month of repurchase | Number of shares repurchased | Highest price per share (HK$) | Lowest price per share (HK$) | Aggregate consideration price (HK$) |
|---|---|---|---|---|
| June | 662,000 | 10.36 | 9.58 | 6,565,720 |
| July | 3,102,000 | 10.48 | 9.73 | 31,320,300 |
| September | 3,410,000 | 8.95 | 8.46 | 29,818,420 |
| October | 7,912,000 | 8.65 | 6.89 | 62,772,820 |

On 7 March 2018, the Company issued US$250 million of 6.375% senior notes due in 2021. On 16 April 2018, the Company issued SG$200 million of 6.125% senior notes due in 2021. On 24 April 2018, the Company issued US$300 million of 6.875% senior notes due in 2021. On 30 May 2018, the Company issued additional senior notes in the aggregate principal amount of US$100 million which were consolidated and formed a single series with the original US$300 million of 6.875% senior notes. On 27 August 2018, the Company issued US$300 million of 7.5% senior notes due in 2021. On 12 December 2018, the Company issued US$370 million of 8.75% senior notes due in 2020. All of the new notes issued as aforesaid had been admitted to the official list of the Singapore Exchange Securities Trading Limited.

On 21 December 2018, the Company announced the issuance of additional US$50,000,000 senior notes which were to be consolidated and formed a single series with the original US$200 million of 5.75% senior notes due in 2022. The additional notes were issued on 9 January 2019 and listed on The Stock Exchange of Hong Kong Limited (Stock Code: 5341).

On 20 August 2018, 5% corporate bonds due 19 August 2020 were partially sold back to Shenzhen Logan Holdings Co., Ltd, representing an aggregate principal amount of RMB10,000,000. The coupon rate was adjusted from 5% to 7.3% per annum. The notes are listed and traded on the Shanghai Stock Exchange.

On 20 November 2018, Shenzhen Logan Holdings Co., Ltd issued the first tranche of domestic bonds to qualified investors, the principal amount of which was RMB2,490 million with a coupon rate of 5.98% per annum due 2022. The notes are listed and traded on the Shenzhen Stock Exchange.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the law of Cayman Islands being the jurisdiction in which the Company is incorporated under which would oblige the Company to offer new shares on a pro-rata basis to existing shareholder.

## DIRECTORS

The list of Directors is set out on page 9 of this annual report.

In accordance with the Company's articles of association, Mr. Ji Jiande, Mr. Xiao Xu and Ms. Liu Ka Ying, Rebecca shall retire from office by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

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

### Directors' Service Contracts

Each of the executive Directors has entered into a service agreement with the Company and each of the independent non-executive Directors has signed an appointment letter with the Company. The appointment of each Director is for a period of three years and shall continue thereafter until being terminated by either party giving not less than three months' written notice.

None of the Directors who are proposed for election or re-election at the forthcoming AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### Directors' Interests in Contracts of Significance

Other than those transactions disclosed in note 41 to the consolidated financial statements and in the section "Continuing Connected Transactions" below, no contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Management Contracts

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

### Indemnity and Insurance Provisions

The Articles of Association of the Company provides that every Director shall be entitled to be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses as a result of any act or failure to act in carrying out his/her functions. Such provisions were in force during the course of the financial year ended 31 December 2018 and remained in force as of the date of this annual report. The Company has also arranged appropriate directors and officers liability insurance in respect of legal action against them.

## DEED OF NON-COMPETITION

The Company shall receive, from each of the controlling shareholders of the Company, an annual declaration on his/her/its compliance with the undertakings contained in the deed of non-competition (the "Deed of Non-Competition") entered into by each of them in favour of the Company pursuant to which each of the controlling shareholders of the Company has undertaken to the Company that he/she/it will not or will procure that his/her/its associates (other than members of the Group) not to, engage in the development of residential properties or mixed-use properties, which mainly represent residential properties with ancillary developments ancillary to the Group's residential projects, such as retail units, supermarkets and car parks, etc.

Details of the Deed of Non-Competition were disclosed in the prospectus of the Company dated 10 December 2013 under the section headed "Relationship with Our Controlling Shareholders".

For the year ended 31 December 2018, the Company had received an annual written confirmation from each of the Company's controlling shareholders in respect of their and their associates' compliance with the Deed of Non-Competition. The independent non-executive Directors had reviewed and were satisfied that each of the controlling shareholders of the Company has complied with the Deed of Non-Competition for the year ended 31 December 2018.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out in the section headed "Biographies of Directors and Senior Management" of this annual report.

## CONTINUING DISCLOSURE REQUIREMENTS UNDER RULE 13.21 OF THE LISTING RULE

### 2017 Facility Agreement

On 21 March 2017, the Company as borrower entered into a loan agreement with, among others, Credit Suisse AG, Singapore Branch, Nanyang Commercial Bank, Limited and Industrial Bank Co., Ltd, Hong Kong Branch in relation to a 36-month term loan facility in an amount of US$150,000,000 (the "2017 Facility") (the "2017 Facility Agreement"). The 2017 Facility Agreement includes a condition imposing specific performance obligation on Mr. Kei Hoi Pang, Ms. Kei Perenna Hoi Ting and their close associates, that it will be an event of default if, among others, (i) Mr. Kei Hoi Pang ("Mr. Kei"), the spouse of Mr. Kei, Ms. Kei Perenna Hoi Ting and any child or step child, natural or adopted, under the age of 18 years of Mr. Kei and their affiliates (individually or together) cease to be the beneficial owners directly or indirectly through wholly-owned subsidiaries of at least 51% of the issued share capital of the Company; or (ii) Mr. Kei does not or cease to have control of the Company; or (iii) Mr. Kei, Ms. Kei Perenna Hoi Ting and Mr. Ji Jiande, individually or together, cease to be the president or chairman of the Company.

In case of an occurrence of an event of default which is outstanding, the Facility Agent may, and must if so directed by the majority lenders, by notice to the Company: (a) cancel all or any part of the total commitments under the 2017 Facility Agreement; (b) declare that all or part of the 2017 Facility, together with accrued interest, and all other amounts accrued or outstanding under the finance documents be immediately due and payable; and/or (c) declare that all or part of the loan, together with accrued interest, and all other amounts accrued or outstanding under the finance documents be payable on demand by the Facility Agent acting on the instructions of the majority lenders.

As at the date of this report, the loan facility of US$150,000,000 remained outstanding.

### 2018 Facility Agreement

On 10 April 2018, the Company as borrower entered into a facility agreement with certain banks as lenders in relation to a 36-month term loan facility in an amount of HK$900,000,000 (the "2018 Facility") (the "2018 Facility Agreement").

The 2018 Facility Agreement includes a condition imposing specific performance obligation on Mr. Kei Hoi Pang, Ms. Kei Perenna Hoi Ting and their close associates, that it will be an event of default if, among others, (i) Mr. Kei Hoi Pang ("Mr. Kei") and his spouse, Ms. Kei Perenna Hoi Ting ("Ms. Kei") and her spouse and any child or step child, natural or adopted, under the age of 18 years of Mr. Kei (or his spouse) or Ms. Kei (or her spouse) and any trust of which Mr. Kei, Ms. Kei and any other person(s) identified in above are the principal beneficiaries (the "Kei Family") do not or cease to own, direct or indirect, at least 51% of the beneficial shareholding interest in the issued share capital of, and carrying 51% of the voting rights in, the Company; or (ii) the Kei Family collectively do not or cease to have management control of the Company; or (iii) any person other than any one of Mr. Kei, Ms. Kei and Mr. Ji Jiande is or becomes the president or the chairman of the Company.

At any time after the occurrence of aforementioned events so long as the same is continuing, the lenders may, by notice to the Company under the 2018 Facility agreement, cancel the commitments or any part thereof (and reduce them to zero); and/or declare that all or part of the 2018 Facility, together with accrued interest, and all other amounts accrued or outstanding be immediately due and payable, whereupon they shall become immediately due and payable, and/or all or part of the Facility be payable on demand, whereupon they shall immediately become payable on demand.

As at the date of this report, the term loan facility of HK$900,000,000 remained outstanding.

On 24 January 2019, the Company as borrower entered into a facility agreement with certain banks as lenders for a term loan facility of HK$1,610,000,000 ("2019 Facility Agreement"), which may be increased to not more than HK$2,500,000,000 in accordance with the terms of the 2019 Facility Agreement at an interest rate of HIBOR plus 3.95% per annum. The facility has to be fully repaid within 42 months after the date of the 2019 Facility Agreement.

Pursuant to the 2019 Facility Agreement, it shall constitute an event of default if (i) Ms. Kei Perenna Hoi Ting, her spouse and any of her child under the age of 18 years old, collectively do not or cease to beneficially own, direct or indirect, at least 51% of the beneficial shareholding interest in the issued share capital of, and carrying at least 51% of all the voting rights in, the Company, such shareholding interest and voting rights being free from any security; (ii) Mr. Kei Hoi Pang does not or ceases to have management control of the Company or the Group and/or control over the business of the Group; (iii) any person other than any one of Mr. Kei Hoi Pang and Mr. Ji Jiande is or becomes the chairman of the Company. Upon and at any time after the occurrence of an event of default, the lenders may cancel all or any parts of their commitments and declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding under the finance documents be immediately due and payable.

As at the date of this report, the term loan facility of HK$1,610,000,000 remained outstanding.

The Company will continue to make relevant disclosure in its subsequent interim and annual reports of the Company pursuant to Rule 13.21 of the Listing Rules for as long as circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continue to exist.

Save as disclosed above, as at 31 December 2018, the Company did not have other disclosure obligations under Rule 13.18 of the Listing Rules.

## SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was conditionally adopted by the written resolutions of the shareholders of the Company passed on 18 November 2013 and the summary of the principal terms of the Share Option Scheme was as follows:

1. **Purpose of the Share Option Scheme:**

   The Share Option Scheme is established to recognize and acknowledge the contributions the Eligible Participants (as defined in paragraph 2 below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

   (i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and

   (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

2. **Participants of the Share Option Scheme:**

   The Board may, at its discretion, offer to grant an option to the following persons (collectively the "Eligible Participants") to subscribe for such number of new Shares as the Board may determine:

   (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

   (ii) any directors (including independent non-executive directors) of the Company or any of its subsidiaries; and

   (iii) any advisors, consultants, suppliers, customers, agents, distributors and such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Company or any of its subsidiaries.

3. **Maximum number of Shares available for issue:**

   The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following the completion of the Global Offering ("the Hong Kong Public Offering and International Offering") (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), being 500,000,000 shares (representing approximately 9.10% of the number of the issued shares of the Company as at the date of this annual report), excluding for this purpose Shares which would have been issued on the exercise in full of options in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company, but not cancelled, lapsed or exercised). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may: (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by the Shareholders in general meeting; and/or (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No further options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditor of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company whether by way of consolidation, capitalization issue, rights issue, sub-division or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

**4. Maximum entitlement of each participant under the Share Option Scheme:**

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and

(ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his/her associates (as defined in the Listing Rules) abstaining from voting.

**5. The period within which the Share options must be exercised under the Share Option Scheme:**

An option may be exercised at any time during a period to be determined and notified by the Directors to each grantee, but shall not be more than 10 years from the date of grant of options subject to the provisions for early termination set out in the Share Option Scheme.

**6. The minimum period for which an option must be held before it can be exercised:**

There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors.

**7. The basis of determining the exercise price:**

Determined by the Board but shall not be less than the highest of (i) the closing price of the ordinary Shares as stated in the Stock Exchange daily quotation sheets on the date of grant of options, which must be a trading day; (ii) the average of the closing price of the ordinary Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of options; and (iii) the nominal value of an ordinary Share.

### 8. The remaining life of the Share Option Scheme:

The Share Option Scheme will remain in force for a period of 10 years commencing from 18 November 2013.

Details of the share options granted under the Share Option Scheme during the year ended 31 December 2018 were as follows:

| Name of Director | Date of grant | Exercise Price (HK$) | Number of share options: Outstanding as at 1 January 2018 | Granted during this year | Exercised during this year | Cancelled/ Lapsed during this year | Outstanding as at 31 December 2018 | Percentage of total issued share capital[1] | Exercise period | Closing price of the securities immediately before the date on which the options were offered (HK$) |
|---|---|---|---|---|---|---|---|---|---|---|
| Mr. Kei Hoi Pang | 29 May 2014 | 2.34 | 9,840,000 | – | (3,280,000) | – | 6,560,000 | 0.119% | 29 May 2014 to 28 May 2020[2] | 2.34 |
| | 25 August 2017 | 7.43 | 8,000,000 | – | – | – | 8,000,000 | 0.146% | 25 August 2017 to 24 August 2027[3] | 7.34 |
| Mr. Ji Jiande | 29 May 2014 | 2.34 | 7,380,000 | – | (2,460,000) | – | 4,920,000 | 0.090% | 29 May 2014 to 28 May 2020[2] | 2.34 |
| | 25 August 2017 | 7.43 | 6,400,000 | – | – | – | 6,400,000 | 0.117% | 25 August 2017 to 24 August 2027[3] | 7.34 |
| Mr. Xiao Xu | 29 May 2014 | 2.34 | 3,352,500 | – | (1,117,500) | – | 2,235,000 | 0.041% | 29 May 2014 to 28 May 2020[2] | 2.34 |
| | 25 August 2017 | 7.43 | 2,800,000 | – | – | – | 2,800,000 | 0.051% | 25 August 2017 to 24 August 2027[3] | 7.34 |
| Mr. Lai Zhuobin | 29 May 2014 | 2.34 | 3,127,500 | – | (1,042,500) | – | 2,085,000 | 0.038% | 29 May 2014 to 28 May 2020[2] | 2.34 |
| | 25 August 2017 | 7.43 | 2,800,000 | – | – | – | 2,800,000 | 0.051% | 25 August 2017 to 24 August 2027[3] | 7.34 |
| Ms. Kei Perenna Hoi Ting | 29 May 2014 | 2.34 | 1,537,500 | – | (512,500) | – | 1,025,000 | 0.019% | 29 May 2014 to 28 May 2020[2] | 2.34 |
| | 25 August 2017 | 7.43 | 1,800,000 | – | – | – | 1,800,000 | 0.033% | 25 August 2017 to 24 August 2027[3] | 7.34 |
| Mr. Chen Guanzhan[6] | 25 August 2017 | 7.43 | 2,450,000 | – | – | (2,450,000)[6] | – | – | 25 August 2017 to 24 August 2027[3] | 7.34 |
| **Total number held by Directors** | 29 May 2014 | 2.34 | 25,237,500 | – | (8,412,500) | – | 16,825,000 | 0.306% | 29 May 2014 to 28 May 2020[2] | 2.34 |
| | 25 August 2017 | 7.43 | 24,250,000 | – | – | (2,450,000) | 21,800,000 | 0.397% | 25 August 2017 to 24 August 2027[3] | 7.34 |
| **Total number held by other participants** | 29 May 2014 | 2.34 | 162,319,000 | – | (9,703,000) | (94,290,000) | 58,326,000 | 1.062% | 29 May 2014 to 28 May 2020[2] | 2.34 |
| | 25 August 2017 | 7.43 | 135,750,000 | – | – | (98,606,000) | 37,144,000 | 0.677% | 25 August 2017 to 24 August 2027[3] | 7.34 |
| | 8 June 2018 | 12.50 | – | 50,000,000 | – | (3,777,000) | 46,223,000 | 0.842% | 8 June 2018 to 7 June 2028[4] | 12.44 |
| | 22 October 2018 | 7.64 | – | 36,400,000 | – | – | 36,400,000 | 0.663% | 22 October 2018 to 21 October 2028[5] | 7.33 |

Notes:

(1) The percentage is calculated based on the total number of 5,490,196,750 shares in issue as at 31 December 2018.

(2) The share options are exercisable within a period of 6 years from 29 May 2014 and subject to the following vesting schedule and performance review:

(i) the share options granted to the Directors and certain senior managers or above of the Group will be vested evenly over a period of 4 years starting from 29 May 2015 and ending on 28 May 2019; and

(ii) the share options granted to certain mid-level managers of the Group will be vested evenly over a period of 3 years starting from 29 May 2015 and ending on 28 May 2018.

(3) The share options are exercisable within a period of 10 years from 25 August 2017 and subject to the following vesting schedule and performance review:

(i) up to 25% of the share options granted after the expiration of 36 months from 25 August 2017;

(ii) up to another 25% of the share options granted after the expiration of 48 months from 25 August 2017;

(iii) up to another 25% of the share options granted after the expiration of 60 months from 25 August 2017; and

(iv) all the remaining share options granted after the expiration of 72 months from 25 August 2017.

(4) The share options are exercisable within a period of 10 years from 8 June 2018 and subject to the following vesting schedule and performance review:

(i) up to 33.3% of the share option granted to each grantee at any time after the expiration of 36 months from 8 June 2018;

(ii) up to 33.3% of the share option granted to each grantee at any time after the expiration of 48 months from 8 June 2018; and

(iii) the remaining of the share option granted to each grantee at any time after the expiration of 60 months from 8 June 2018.

(5) The share options are exercisable within a period of 10 years from 22 October 2018 and subject to the following vesting schedule and performance review:

(i) up to 33.3% of the share option granted to each grantee at any time after the expiration of 36 months from 22 October 2018;

(ii) up to 33.3% of the share option granted to each grantee at any time after the expiration of 48 months from 22 October 2018; and

(iii) the remaining of the share option granted to each grantee at any time after the expiration of 60 months from 22 October 2018.

(6) Mr. Chen Guanzhan resigned as an executive Director of the Company on 29 January 2018. As a result of which, 2,450,000 share options granted to Mr. Chen lapsed during the year ended 31 December 2018.

## EQUITY-LINKED AGREEMENTS

Save as the Share Option Scheme, no equity-linked agreements were entered into by the Company during the year under review.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the share capital and 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 by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

### (i) Interest in Shares of the Company

| Name of Director | Nature of Interest | Number of Shares(1) | Underlying Shares Interested(2) | Aggregate interests | Approximate Percentage of Issued Share Capital(5) |
|---|---|---|---|---|---|
| Mr. Kei Hoi Pang | Beneficiary of a family trust(3) | 3,401,600,000 (L) | – | 3,401,600,000 | 61.96% |
| | Deemed interest(3) | 850,768,750 (L) | – | 850,768,750 | 15.50% |
| | Beneficial owner | 4,920,000 (L) | 14,560,000 | 19,480,000 | 0.35% |
| Mr. Ji Jiande | Beneficial owner | 3,690,000 (L) | 11,320,000 | 15,010,000 | 0.27% |
| Ms. Kei Perenna Hoi Ting | Beneficiary of a family trust(4) | 3,401,600,000 (L) | – | 3,401,600,000 | 61.96% |
| | Interest of a controlled corporation(4) | 850,000,000 (L) | – | 850,000,000 | 15.48% |
| | Beneficial owner | 768,750 (L) | 2,825,000 | 3,593,750 | 0.07% |
| Mr. Xiao Xu | Beneficial owner | 1,676,250 (L) | 5,035,000 | 6,711,250 | 0.12% |
| Mr. Lai Zhuobin | Beneficial owner | 1,563,750 (L) | 4,885,000 | 6,448,750 | 0.12% |

Notes:

(1) The letter "L" denotes the person's long position in the shares.

(2) The number of shares represents the shares in which the directors are deemed to be interested as a result of holding share options.

(3) Mr. Kei Hoi Pang is a beneficiary of the family trust, and therefore interested in the shares held through Junxi Investments Limited. He is also considered to be interested in the shares through Ms. Kei Perenna Hoi Ting as Ms. Kei Perenna Hoi Ting is being a person accustomed to act in accordance with Mr. Kei Hoi Pang's directions.

(4) Ms. Kei Perenna Hoi Ting is the settlor and a beneficiary of a family trust, and therefore interested in the shares held through Junxi Investments Limited. She is also indirectly interested in the Company through Dragon Jubilee Investments Limited, Gao Run Holdings Limited and Thrive Ally Limited, which owned collectively 15.48% equity interests in the Company.

(5) The percentage is calculated based on the total number of 5,490,196,750 Shares in issue as at 31 December 2018.

### (ii) Interest in Associated Corporations of the Company

| Name of Director | Name of Associated Corporations | Percentage of Shareholding Interest |
|---|---|---|
| Ms. Kei Perenna Hoi Ting[1] | Junxi Investments Limited | 100% |
| | Dragon Jubilee Investments Limited | 100% |
| | Gao Run Holdings Limited | 100% |
| | Thrive Ally Limited | 100% |

Note:

(1) Mr. Kei Hoi Pang is a beneficiary of the family trust, and therefore interested in the Shares held through Junxi Investments Limited. He is also considered to be interested in the Shares through Ms. Kei Perenna Hoi Ting as Ms. Kei Perenna Hoi Ting is being a person accustomed to act in accordance with Mr. Kei Hoi Pang's directions.

### (iii) Interest in Debentures of the Company

| Name of Director | Capacity in which the debentures are held | Amount of debentures (in US$) |
|---|---|---|
| Ms. Kei Hoi Pang | Interest of controlled corporation[1] | 20,000,000[2] |
| | Interest of controlled corporation[1] | 30,000,000[3] |
| Mr. Zhang Huaqiao | Beneficial owner | 300,000[4] |

Notes:

(1) On 15 May 2018, Mr. Kei Hoi Pang became the shareholder holding the entire issued share capital of Victorious City Investments Limited, the company which directly holds the debentures, which is freely transferable but not convertible into shares of the listed corporation or a corporation. Prior to 15 May 2018, Victorious City Investments Limited was wholly-owned by Ms. Kei Perenna Hoi Ting.

(2) The US$20,000,000 debentures held by Mr. Kei Hoi Pang represents his interest in the US$450,000,000 5.25% senior notes due 2023 issued by the Company.

(3) The US$30,000,000 debentures held by Mr. Kei Hoi Pang represents his interest in the US$200,000,000 5.75% senior notes due 2022 issued by the Company.

(4) The US$300,000 debentures held by Mr. Zhang Huaqiao represents his interest in the US$400,000,000 6.875% senior notes due 2021 issued by the Company.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2018, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

| Name | Nature of Interest | Number of Shares[(1)] | Approximate Percentage of the Company's Issued Share Capital[(5)] |
|---|---|---|---|
| Mr. Kei Hoi Pang | Beneficiary of a family trust, Deemed interest[(2)] | 4,252,368,750 (L) | 77.45% |
| | Beneficial owner | 19,480,000 (L) | 0.35% |
| Ms. Kei Perenna Hoi Ting | Beneficiary of a family trust, Interest of controlled corporations[(3)] | 4,251,600,000 (L) | 77.44% |
| | Beneficial owner | 3,593,750 (L) | 0.07% |
| Brock Nominees Limited[(4)] | Nominee | 3,401,600,000 (L) | 61.96% |
| Credit Suisse Trust Limited[(4)] | Trustee | 3,401,600,000 (L) | 61.96% |
| Junxi Investments Limited[(4)] | Beneficial owner | 3,401,600,000 (L) | 61.96% |
| Kei Family United Limited[(4)] | Interest of a controlled corporation | 3,401,600,000 (L) | 61.96% |
| Tenby Nominees Limited[(4)] | Nominee | 3,401,600,000 (L) | 61.96% |
| Dragon Julibee Investments Limited | Beneficial owner | 425,000,000 (L) | 7.74% |

Notes:

(1) The letter "L" denotes the person's long position in shares.

(2) Mr. Kei Hoi Pang who is a beneficiary of the family trust, and therefore interested in the shares of the Company through Junxi Investments Limited. Mr. Kei Hoi Pang is also considered to be interested in the Shares through Ms. Kei Perenna Hoi Ting as Ms. Kei Perenna Hoi Ting is being a person accustomed to act in accordance with Mr. Kei Hoi Pang's directions.

(3) Ms. Kei Perenna Hoi Ting is the settlor and a beneficiary of a family trust, and therefore interested in Shares held through Junxi Investments Limited. She is also indirectly interested in the Company through Dragon Julibee Investments Limited, Gao Run Holdings Limited and Thrive Ally Limited, which owned collectively 15.48% interests in the Company.

(4) The family trust is interested in the entire interest of Kei Family United Limited which in turns hold the entire interest in Junxi Investments Limited. Kei Family United Limited is owned as to 50% by each of Brock Nominees Limited and Tenby Nominees Limited, which hold the shares on behalf of Credit Suisse Trust Limited as trustee.

(5) The percentage is calculated based on the total number of 5,490,196,750 Shares in issue as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors and chief executives of the Company, whose interests are set out in the section headed "Directors' and Chief Executives' Interests and/or Short Positions in Shares, Underlying Shares or Debentures of the Company or any of its Associated Corporations" of this annual report above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2018, no sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for 30% or more of the total sales for the year and of the total purchases for the year, respectively.

None of the Directors, their close associates or any shareholders (according to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the major suppliers of customers noted above.

## CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions of the Company during the year ended 31 December 2018 are as follows:

### Master Pre-delivery Property Service Agreement

On 13 June 2017, Shenzhen Logan Holdings Co., Ltd. (深圳市龍光控股有限公司) ("Shenzhen Logan"), a wholly-owned subsidiary of the Company, entered into the master pre-delivery property service agreement (the "Master Pre-delivery Property Service Agreement") with Logan Foundation Group Co., Ltd.* (龍光基業集團有限公司) ("Logan Foundation") pursuant to which Shenzhen Logan has agreed to provide, and procure its subsidiaries to provide, pre-delivery property service, including, but not limited to, construction services, design services and management services (the "Pre-delivery Property Service"), to Logan Foundation and its subsidiaries at the pre-delivery stages for a term commencing from the date of the Master Pre-delivery Property Service Agreement and ending on 31 December 2019 (both days inclusive), and subject to an annual cap of RMB500,000,000 for each of the three years ending on 31 December 2019.

The above annual caps for the Pre-delivery Property Service were determined by reference to: (i) the historical transaction amounts payable by Logan Foundation to the Group for the three financial years ended 31 December 2016 and the four-month period from 1 January 2017 and ended 30 April 2017; and (ii) the expected amount of service fees payable to Shenzhen Logan for the provision of Pre-delivery Property Service with reference to (a) the anticipated increases in demand of Pre-delivery Property Service required by Logan Foundation during the term of the Master Pre-delivery Property Service Agreement taking into account of the number of property development projects of Logan Foundation in the PRC and the expected area to be completed for each year during the term of the Master Pre-delivery Property Service Agreement; and (b) the unit price per square meter as agreed from time to time.

As Logan Foundation is effectively held as to 47% by Mr. Kei Hoi Pang and 16.5% by Mr. Ji Jiande. Mr. Kei Hoi Pang is an executive director and the chairman of the Company and the elder brother of Mr. Ji Jiande, and Mr. Ji Jiande is an executive director and the younger brother of Mr. Kei Hoi Pang. Logan Foundation is hence a connected person of the Company pursuant to the Listing Rules. Accordingly, the transactions contemplated under the Master Pre-delivery Property Service Agreement constitutes continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

Details of the Master Pre-delivery Property Service Agreement are set out in the announcement of the Company dated 13 June 2017.

The Company has complied with the disclosure requirements as prescribed in Chapter 14A of the Listing Rules with respect to the above continuing connected transactions of the Group.

All independent non-executive directors have reviewed the above continuing connected transactions, and confirmed that those transactions were entered into:

1. in the ordinary and usual course of business of the Group;

2. under normal commercial terms, or on terms better than terms available to or from independent third parties; and

3. in accordance with the agreements governing the above continuing connected transactions, the terms of which are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

Based on the work performed, the auditor of the Company confirmed to the Board that the aforesaid continuing connected transactions:

1. have been approved by the Board;

2. are in accordance with the pricing policy of the Group;

3. have been entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

4. have not exceeded the relevant caps allowed by the Stock Exchange and as stated in the announcement.

Pursuant to Rule 14A.56 of the Listing Rules, the auditor has issued an unqualified letter containing their conclusions in respect of the continuing connected transactions of the Group. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Save as otherwise disclosed, there are no related party transactions disclosed in note 41 to the financial statements which constitutes a connected transaction or continuing connected transaction which should be disclosed pursuant to Rules 14A.49 and 14A.71 of the Listing Rules during the year ended 31 December 2018.

## SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires there to be an open market in the securities to be maintained. This normally means that at least 25% of an issuer's total issued share capital must at all times be held by the public. However, Rule 8.08(1)(d) of the Listing Rules provides that the Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25%, if the issuer meets the following requirements under Rule 8.08(1)(d) of the Listing Rules:

(a) the issuer will have an expected market capitalization at the time of listing of over HK$10.0 billion;

(b) the number of securities concerned and the extent of their distribution would enable the market to operate properly with a lower percentage;

(c) the issuer will make appropriate disclosure of the lower prescribed percentage of public float in the initial listing documents;

(d) the issuer will confirm the sufficiency of the public float in successive annual reports after listing; and

(e) a sufficient portion (to be agreed in advance with the Stock Exchange) of any securities intended to be marketed contemporaneously within and outside Hong Kong must normally be offered in Hong Kong.

The Stock Exchange had granted a waiver under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of 15% (or a higher percentage upon exercise of the over-allotment option as defined in the Company's prospectus dated 10 December 2013) of the Company's issued share capital (the "Company's Minimum Public Float") subject to:

(i) the Company's Minimum Public Float upon the listing date was 15%;

(ii) the sponsor and the Company were able to demonstrate satisfactory compliance with Rules 8.08(2) and 8.08(3) of the Listing Rules at the time of the listing;

(iii) the Company has implemented appropriate measures and mechanisms to ensure continual maintenance of the minimum percentage of public float; and

(iv) the Company has made appropriate disclosure of the lower prescribed percentage of public float in the Company's prospectus dated 10 December 2013 and confirms sufficiency of public float as at the date of this annual report.

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2018 and as at the date of this annual report, the Company has maintained sufficient public float as required under the Listing Rules.

## CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report contained on pages 32 to 41 of this annual report.

## AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by Ernst & Young, who will retire and, being eligible, offer themselves for re-appointment as the auditor of the Company at the forthcoming annual general meeting of the Company.

## PROFESSIONAL TAX ADVICE RECOMMENDED

If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

On behalf of the Board
**Logan Property Holdings Company Limited**

**Kei Hoi Pang**
*Chairman*

19 March 2019

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## REPORTING PRINCIPLES

In compliance with the requirement of Environmental, Social and Governance Reporting Guide under Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, Logan Property Holdings Company Limited and its subsidiaries ("Logan Group", the "Group", "we" or "us") have prepared this Environmental, Social and Governance ("ESG") Report (the "Report") to present the Group's ESG performances during the period from 1 January 2018 to 31 December 2018 (the "Reporting Period", "the Year" or the "2018 Financial Year").

## REPORTING SCOPE

The Report covers the Reporting Period. The board of the directors of the Company (the "Board") determined the reporting scope of the Report based on the Group's revenue and geographical presence. As real estate development projects in the People's Republic of China ("PRC") represent the most important business segment of the Group and create significant impact to our stakeholders, the scope of the Report would cover the real estate development business managed by the Group in the PRC as well as the related administrative work.

## APPROVAL BY THE BOARD

The information contained in this Report has been verified by the senior management of the relevant departments and reviewed and approved by the Board in March 2019.

## ESG VALUES AND VISION

### To build a century-old Logan for an evergreen undertaking

As an integrated property company focusing on residential property development who strive to bring success to our community, Logan Property has always been dedicated to social responsibilities as well as creating economic benefits and fulfilling the vision of "To Build a Better Life". Logan Property pursues transparent, healthy and impartial corporate values to attain sustainable and quality growth.

The Company takes on responsibility for all stakeholders including our customers, our investors, our staff and others in the community by devoting itself to being a corporate citizen that can keep on creating value for stakeholders in a sustainable manner. While the Company strives to create profits for shareholders and business partners, it also pushes for efficient, stable and sustainable internal development. It is our belief and our duty to carry this responsibility for all our stakeholders.

The Group has established comprehensive ESG policies to guide the Group's business and operational decisions with the consideration of its environmental, social and governance impacts. The Board reviews the Group's corporate social responsibility related policies and strategies on a regular basis to ensure its appropriateness and applicability to the Group's business as well as achieving our sustainable development goals.

### ESG Management Structure

#### Responsibility of the Board

Embedding in the Group's everyday operations, the ESG concept is highly valued by the Board and they committed to undertake the overall responsibility of the ESG management. The Board establishes the ESG policies for the Group and delegates the governance and execution power to the senior management of the relevant departments. The departmental managers are required to take into account the ESG issues during its daily operation in accordance with the Group's ESG values and vision and they are also required to evaluate the ESG risks and opportunities involved in their business. The overall risk assessment would be carried out by the Audit Committee of the Board during the annual meeting to ensure an appropriate and effective internal control system is in place. For more details, please refers to the Group's Corporate Governance Report. In addition, the Board reviews and approves the information disclosed in the ESG report to safeguard its accuracy, timeliness, and truthfulness to reflect the Group's ESG performance.

### Sustainable Development Committee

The Group is currently developing the Sustainable Development Committee to coordinate the sustainable management activities. The Sustainable Development Committee will be chaired by a senior management of the Group and composed by the departmental heads of the construction center, human resources and administration management center, branding management center, and audit and legal office. The Sustainable Development Committee is mainly responsible for:

- determining the Group's sustainable development strategical direction, as well as taking into account the ESG-related risks during the decision-making process;
- developing sustainable development policies, action plans and goals in response to the expectations of the stakeholders; and
- monitoring the performance and progress of the sustainable development of the Group comparing with the action plans and key performance indicators and maintaining an effective ESG risk management and internal control system.

The Committee would report to the Board at least once a year regarding the Group's sustainable development progress and its latest status to provide sufficient information for the Board to evaluate the Group's ESG performance.

### Stakeholder Engagement

The Group recognizes the importance of stakeholder participation to its sustainable development. Therefore, the Group maintains active communications with the relevant internal and external stakeholders to understand the impact of its operations and the expectations of various stakeholders with regard to the ESG performance of the Group. Through these various communication channels, the Group uncovers its risks and opportunities and hence satisfies the need of its stakeholders. The Group divided its key stakeholders into the following 6 categories. The communication channels between the Group and its stakeholders are outlined in the following table:

| Employees | Customers and consumers | Investors and shareholders | Suppliers and business partners | Government and regulatory authorities | Media and the public |
|---|---|---|---|---|---|
| — Internal emails and publications<br>— Training and seminars<br>— Employee activities<br>— Performance assessment | — Company website<br>— Customer service hotline<br>— Customers survey<br>— Interviews with customer | — Annual general meeting<br>— Annual reports and interim reports<br>— Press release and announcements | — Business meeting<br>— Performance evaluation<br>— On-site investigation | — Government website<br>— Public consultations | — Company website<br>— Press release |

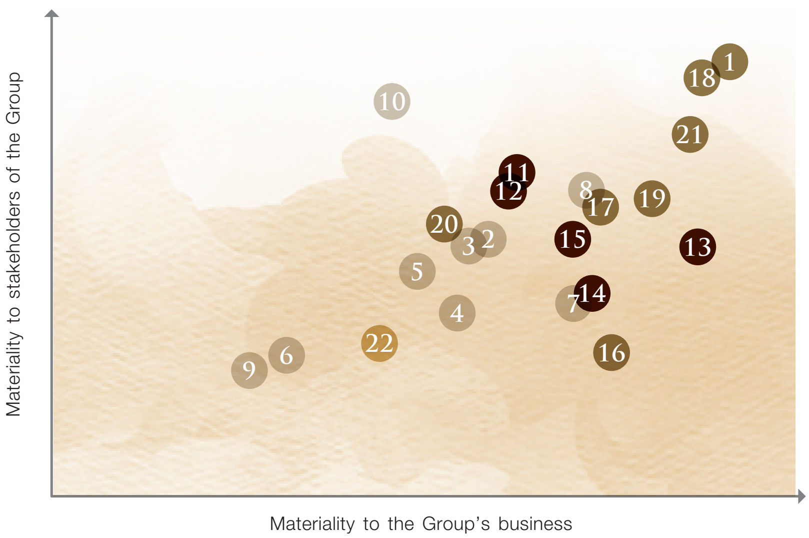
### Materiality Assessment

In order to unfold the major issues involved in its operations, the Group performed the following three steps to identify the relevant ESG issues and their materiality from multiple perspectives.

- Identification: In questionnaires issued to the management and employees from different operating departments who were familiar with the stakeholders of the Group, we understood the major issues concerned by the stakeholders and its degree of importance.
- Analysis: After collecting the data of the questionnaires, the Group sorted out the material issues and made further analysis and prioritization.
- Confirmation: The result of the materiality assessment was reviewed and confirmed by the management of the Group. This Report has been prepared based on the result of the materiality assessment in order to address the key concerns of the stakeholders.

### Materiality Matrix

The issues about which the major stakeholders are concerned for the Year are prioritized by materiality as follows:




1 Compliance
2 Pollutants and greenhouse gas emissions
3 Waste disposal and management
4 Energy use
5 Utilization of water resources
6 Utilization of packaging materials[1]
7 Green building
8 Environmental impact of construction projects
9 Biological diversity
10 Noise pollution
11 Employment
12 Equal opportunity and anti-discrimination
13 Occupational health and safety
14 Development and training
15 Child labor and forced labor
16 Supply chain management
17 Environmental and labor performance of suppliers and subcontractors
18 Product safety
19 Service quality
20 Customer privacy protection
21 Prevention of bribery, fraud and money laundering
22 Community investment

# PURSUE EXCELLENCE AND BUILD EXQUISITE PRODUCTS

## Product Quality

The Group is committed to providing high-quality real estate projects to enhance the living quality of its customers. In order to standardize the project management and internal control procedures, the Group has formulated a Construction Management Manual (工程管理手冊) to specify the key management areas as well as the operation methods. As the Group is principally engaged in real estate construction, all of its construction projects are strictly complied with the quality management requirements of the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例) issued by the State Council (國務院) regarding to the project planning, construction works, supervision, inspection and acceptance, and defects liability. The Group implements a systemized project management mechanism. Prior to the commencement of the construction project, the project team, strategic development team, marketing team, design team, costs control team, and procurement team jointly prepare a complete project plan to confirm the design drawing, construction arrangement, personnel and resources allocation, major obstacles and solutions of the project. The construction team is required to follow the construction plan. In case of any emergency occur which would cause delay to the construction work or damage the project quality, they should report to the management immediately, and work out solutions as soon as possible. During the construction process, the Group would hold regular meetings with the constructors, the supervisors and the suppliers to follow up the project status and its quality and safety performances. In addition, the Group would appoint the site supervisor to regularly inspect the construction sites and establish a construction management appraisal system to further control the quality and safety risks of the project.

The Group carefully inspects the raw materials to ensure its quality satisfy our requirements as specified in the contract and drawings. The Group has established the Material Inspection and Acceptance Management Policy (材料進場驗收管理制度) to illustrate the responsibilities of the relevant departments, the inspection and acceptance procedures, the quality checklist, and the stock and inventory requirements, etc., which provided our employees with clear guidelines for raw material management. The Group arranges relevant government institutions and experts for checking in accordance with the Temporary Completion Examining Requirement of Housing Construction Projects and Municipal Infrastructure Projects (房屋建築工程和市政基礎設施工程竣工驗收暫行規定) issued by China Ministry of Housing & Urban-Rural Development (中國住房城鄉建設部) after completion. Prior to delivering the finished products, the Group would also conduct quality inspections for the construction work of supplementary facilities, including but not limited to foundation, main structure, decoration and outfitting works, drainage, heating and electricity. This ensures all projects of the Group are in strict compliance with the national requirements on real estate projects and bolsters the confidence of our customers in our product quality.

## Sales and Customer Relationship Management

Over the course of business operations, we always place the customer's interests at the highest priority from product design to sales management. All of our projects are strictly conformed to the Regulatory Measures on the Sale of Commodity Houses (商品房銷售管理辦法) with qualified conditions for spot sale and advance sale, appointed certificated intermediary sales agency, and used accurate and legal marketing materials. The Group also marks the price of commodity housing, relevant fee and other factors affecting the price of commodity housing publicly in accordance with the Price Tagging Rules of Commodity Housing Sales (商品房銷售明碼標

1 The Gr`oup does not consume packaging materials in property development business, thus data disclosure for packaging materials does not apply.

價規定) issued by National Development and Reform Commission (國家發展和改革委員會). The Group ensures that housing purchasers are not misled by any false or irregular tender price, and that no price deception is committed by using false or misleading tender price. The Group has established the Sales Process Risk Management Policy (銷售過程客戶風險管理規定) to govern the sales process including model display, press release, contracting, events and customer activities with an aim to safeguard information accuracy and consistently commit itself to integrity.

The Group has also established the Customer Relationship Management Policy (客戶關係管理流程) to specify the roles and responsibilities of the relevant departments among different project stages including project design, marketing, simulated inspection and acceptance as well as pre-delivery, delivery and post-delivery management. In general, the customer relationship department would reflect the customer's opinion to the design department for product optimization and the Group would also assess the risks and formulate the mitigation plan under the sales and project delivery process. Following the delivery of product, dedicated personnel would handle the customer complaints as well as the provide product maintenance services. With the abovementioned policies in place, it facilitates the departments to offer superior customer services and hence increase the customer satisfaction.

### Customer Complaint and Feedback

The Group has established a standardized mechanism to handle complaints and receive customer feedback. The policy defined the duties of the relevant departments such as the customer relationship department, legal department and branding management center. As a centralized management unit, the customer relationship department would collect and handle the complaints as well as reach out to other relevant departments including the construction department, the design department, the marketing department, and the property management department to investigate the complaint and seek for better solution in accordance with the principles of people oriented, honesty, timeliness, and balance. Customers could express their views by telephone, email and in person. In general, the Group would make an initial response within 24 hours and complete the handling of complaint within one week. In addition, the Group would activate the corresponding processing mechanism depending on the severity level of customer complaints and feedback. In the case of any legal proceedings is instituted, the Group would set up a task force within a specified time and actively seek for solutions.

The Group appreciate the customer feedback in regard to service and product quality. We reflect the opinions to the relevant departments in a monthly basis and strive for continuous improvements. The Group has also established an accountability system to expedite the process of information collection and transformation, so that the complaints can be resolved in a timely and effective manner in order to improve customer satisfaction and build our reputation.

The Group engages an independent third party to conduct customer satisfaction surveys every year. In December 2018, the Group received 16,000 customer responses from our telephone surveys. In general, the level of customer satisfaction over products was quite high. In that, our customers were most satisfied with the service attitude of our sales representatives with a satisfaction rate of 85%.

### Information Privacy

The personal data of our employees, customers and related parties are all protected under the General Principles of the Civil Law of the People's Republic of China (中華人民共和國民法通則) as well as other relevant laws and regulations. As the Group collects and uses personal data of customers over the course of business operation, the Group attach great importance of managing and protecting personal data. We enter confidentiality agreements with our customers and we would not disclose or transfer any of the personal information without the consent of our customers so as to protect the privacy and interests of our customers.

During the Reporting Period, the Group was not aware of any material violations of laws and regulations relating to products, sales and services quality as well as information privacy that have a significant impact on the Group.

## Supply chain quality and environmental management

The Group implements strict requirements on the management of suppliers and contractors. The Group has adopted the Procurement Practices Management Policy (採購業務實現管理辦法) and Practice Manual for Bidding and Evaluation (招評標實施指引) to govern the procurement and bidding process on an impartiality and fairness manner, so as to achieve the purpose of controlling quality from the sources and make sure all type of the raw materials and construction work fulfil our quality and environmental requirements.

Our procurement management center is responsible for the procurement activities of the Group. The Group sets stringent selection criteria, which covers from the environmental certification for materials and to the contractors itself, and strictly comply with the market entry conditions set by the Chinese government. In addition to the annual performance review of suppliers and contractors and the updating of suppliers' lists, the procurement management center also carries out irregular visits on examining the suppliers' plants, organize business meetings, pays visit to the construction site and communicates with the frontline and senior staff of the suppliers and the contractors to oversee the delivery schedule, projects progress and product quality. If the performance of suppliers and contractors fail to meet the requirements, we would discontinue the partnership to avoid the negative effects on the quality and safety of our product. Moreover, the procurement management center holds internal and external trainings regularly for the purchasing staffs to improve their professional skills.

Except for quality, we also emphasis on the environmental performance of our suppliers and contractors. The selection of suppliers and contractors includes their certifications of environmental management system and the environmental impact of their products or projects. We also conduct environmental examination on materials to encourage low-carbon production and environmental-friendly operation among suppliers and contractors. Furthermore, the Group follows the government's technical requirements for resources, land, and energy efficiency and conservation and prefers the supplier and contractors with advanced environmental practices. During the annual review of suppliers, we incorporate safety and environmental performances into the evaluation criteria. For the suppliers fail to meet the requirements, the project management department of the Group would assist them to improve their performance. Furthermore, the purchasing management center would participate in the Research and Development process in order to apply green and energy-saving products into our projects.

## Anti-bribery and anti-corruption

We are determined to combat all offences involving bribery, extortion, fraud and money laundering. We have developed "Ten Nos" principles in the Employee Handbook (員工手冊) including no abusing power to seek personal gains, no committing corruption or bribery, and no divulging trade secrets, etc. All of the employee should abide by the integrity and honest requirements of the Group. The Group has also established supervisory divisions such as the audit department and supervision department which would report to the Board independently, and takes proactive supervision and carries out anti-corruption practice through internal audit. In addition, we have set up appropriate whistleblowing mechanism, encouraging employees to report any dishonest and improper behavior, and allowing our employees to submit complaints and reports to our Human Resources Department by post or e-mail.

All employees are required to read and sign to confirm the compliance of the Employee Code of Conduct (員工職業操守行為準則), which includes the strict prohibition of bribery and fraud, and emphasis on honesty and integrity, compliance with laws and regulations and incorruptibility in work. New employee induction training contains incorruptibility and self-discipline course, and the employees are required to pass the exam to ensure that they understand the Group's requirements on incorruptibility and self-discipline. Our audit department regularly conducts incorruptibility training for our employees. In April and September this year, our general manager at the Office of Audit and Legal Affairs organized the incorruptibility training for the marketing employees to remind our frontline employees to maintain the principle of incorruptibility. The Group has also established the Regulations on Employees' Incorruptibility in Work (員工廉潔從業規定), aiming to enhance the incorruptibility practice, lawful operation and employees' incorruptibility in work and prevent breaches of laws and regulations by our employees. The senior management shall sign the Management Responsibility Letter (管理責任書) to hold them accountable for the corrupt practices and breach of incorruptibility committed by the management themselves and their subordinates.

In addition, we hold a meeting with suppliers, at which the in-depth communication between high-level members of both parties will be made to advocate Logan's culture and spirit of incorruptibility and cooperation, promote the steps of strategic cooperation and understand the condition of employees' incorruptibility and self-discipline of the suppliers. During March this year, the Group organized a meeting of suppliers, at which, our general manager at the Office of Audit and Legal Affairs delivered a speech to promote the cooperation based on incorruptibility. In addition, the Group enters into Incorruptibility and Cooperation Agreement (廉潔合作協議) with all suppliers, which provides the whistleblowing channels for them. Furthermore, the Office of Audit and Legal Affairs of the Group also requires our suppliers to sign a Honest Performance Undertaking (誠信履約承諾函) and the Incorruptibility Statement (廉潔告知書) to enhance the suppliers' incorruptibility level. Suppliers shall be blacklisted and its engagement shall be terminated in case of any issues on incorruptibility which have been audited and confirmed.

During the Reporting Period, the Group has been in strict compliance with the relevant laws and regulations in regard in various regions where the business is operating. Including but not limited to the Anti-Unfair Competition Law of the People's Republic of China (中華人民共和國反不正當競爭法), the Interim Provisions on Banning Commercial Bribery (關於禁止商業賄賂行為的暫行規定), and the Criminal Law of the People's Republic of China (中華人民共和國刑法) etc. As prescribed in these laws and regulations, enterprises in violation of these laws and regulations shall have the legal liability which include unfair competition, disrupt the market order, any other fraud. With the policies mentioned above, including promotion and training of incorruptibility awareness, and stringent supervision and whistle-blowing mechanisms, the Group safeguards its incorruptible operation. During the Reporting Period, the Group was not aware of any material violation of laws and regulations relating to corruption, bribery extortion, fraud and money laundering that have a significant impact on the Group.

## RESPECT FOR EMPLOYEES, SAFE AND HEALTHY DEVELOPMENT

### Employee treatment

The Group believes that high caliber talent plays the role of cornerstone for our business development, so we provide attractive remuneration packages for our employees to attract and retain top staff. The Group's Remuneration Policy (薪酬管理辦法) set forth the calculation and management of employee remuneration to shield the interests of the employees and stay in line with the human resources development goals of the Group. The remuneration of the employees is determined with reference to the market and industry practices. Employee compensation comprises of basic salary, short-term bonus, long-term reward (such as options) and other employee benefits. The Remuneration Committee of the Group would also conduct an annual review or as necessary to ensure our employees enjoy a high-standard remuneration package.

As for employee benefits, the number of working hours, holidays and welfare of the employees are implemented strictly comply with the Labor Law of the People's Republic of China (中華人民共和國勞動法) and other relevant laws and regulations, ensuring that each employee has reasonable working hours and holidays, including statutory holidays, marriage leave, maternity leave, paternity leave, breastfeeding leave, annual leave, and paid sick leave to achieve work life balance. In accordance with the laws and regulations, the Group provides the employees with medical insurance, pension scheme, unemployment insurance and work injury insurance. In order to enhance the employee satisfaction, the Group also establishes an employee allowance policy, under which, a portion of expenses incurred by our employees from their work and life will be compensated, including transportation allowances, meal allowances, housing allowance, health check-up allowances, allowances for high-temperature conditions, and other special benefits. Such policy fully demonstrates that the Group cares and emphasizes the mental and physical health of our employees. Moreover, the Group would organize Lunar New Year event each year and employee sports day from time to time to give our employees a happy and healthy working life.

### Equal opportunity policy

As an employer who promotes equal opportunities, the Group strongly opposes to all discriminatory behaviors and is committed to providing a fair, equitable, and diverse working environment to all employees. We have formulated a strict selection criteria and clearly-defined recruitment and promotion channels as listed in the Group's Recruitment Management Policy (招聘管理辦法) and Employee Promotion Management Policy (員工晉升管理辦法). The employment ordinance is also accurately listed in labor contracts. This includes the selection process which only takes into account the candidate's experience, expertise and skills. Any other factors that are irrelevant to workability or performance, such as gender, pregnancy, marital status, disability, family status or race, are not considered.

Due to the fact that most of our construction operations takes place in Mainland China, the Group's human resources policy is mainly subject to the Labor Law of the People's Republic of China (中華人民共和國勞動法), Labor Contract Law of the People's Republic of China (中華人民共和國勞動合同法), and other applicable laws and regulations in Mainland China. The abovementioned policies of the Group demonstrate that the Group is in strict compliance with equal employment, labor contracts, working hours, leave, resignation, remuneration calculation, and social insurance and welfare in order to fully protect the rights and interests of our employees. During the Reporting Period, the Group has complied with the relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

### Occupational health and safety

Human resources are essential to the operation and development of the Group. As a result, the Group is committed to taking all appropriate measures to provide employees with a fair and safe working environment to protect employees and avoid occupational injuries.

The Group establishes the building safety management mechanism, which would deal with production safety issues at the preliminary, interim, and final stages in order to enhance the safety and production quality of the Group. At the preliminary stage, the Group would prevent and monitor the sources of danger at work sites, including making construction site risk assessment and formulating contingency plans for emergencies. The Group has developed and distributed "Employees' Handbook" (員工手冊) and safety guidelines to provide precautions and solutions on the health and safety concerns that the employees would encounter during their work for the purpose to reduce the chances of all kinds of accidents. Safety equipment are required for those who work on the construction sites in order to provide physical protection to employees. The Group conducts regular training on safety awareness for employees which allows the employees to give opinions to the management on the environmental safety of the site. As part of the strategy for sustainable development, the Group also conducts annual centralized audits on all domestic offices and construction sites to assess the implementation of occupational health and safety measures to ensure that the measures formulated are properly implemented across the Group.

Upon any occurrence of emergencies, the Group would deploy emergency taskforces, comprising an on-site incident commander, an injury rescue team, a fire-fighting team, and others, to carry out expedient, orderly, and efficient emergency actions so that personal injuries and property loss can be minimized. After an accident, the Group would launch an investigation into the causes, and properly handle subsequent compensation. In addition, we regularly carry out emergency drills in regard to high-rise falling objects, collapses, electric shocks, fire accidents, etc. These drills enhance the capability of our employees to make emergency responses and raise their safety awareness.

The Group acknowledges the importance of occupational health and safety for each employee and therefore, in strict compliance with the Production Safety Law of the People's Republic of China (中華人民共和國安全生產法), the Administrative Regulations on the Work Safety of Construction Projects (建設工程安全生產管理條例), and other laws and regulations governing occupational safety. Besides taking its responsibility for production safety, the Group ensures that all construction processes from design to construction work comply with the laws and regulations and professional the safety standards. The policies described above demonstrate the Group's full understanding and compliance with relevant laws and regulations. During the Reporting Period, the Group has complied with the relevant laws and regulations that have a significant impact on the Group relating to relating to providing a safe working environment and protecting employees from occupational hazards.

### Employee training and development

The Group considers its employees as the key to business success, and therefore follow the talent philosophy of professionalism, career orientation, passion, fortitude, and accountability, which is also included to our training policy so that such philosophy can be persevered and reinforced. Moreover, the Group has been systematically providing its employees with training and development resources so that the employees could improve their performance and achieve self-development in their posts.

We have our "Training Management Measures" (培訓管理辦法) to build a comprehensive training mechanism and training system to plan the employees' on-the-job education and training, in a view to enhance the job knowledge and skills of the employees. These measures stipulate the responsibilities of the human resources department as the training body and division of labor to provide training sessions, implementation procedures of training programs, and assessment procedures for training results, so that the Group can cultivate the talent pool in a scientific manner. Considering the positions, professional levels and hire dates of our employees, the Group provides various training programs, including induction training, on-the-job training, e-learning, and third-party professional training to raise the employees' understanding of personnel policies, improve their occupational quality, help them to understand the Group's management system, and enhance their professional ability and comprehensive ability. Meanwhile, the third-party professional training ensures that the employees are able to obtain the latest market knowledge and information to enhance their competitiveness. All of the above training fees are covered by the Group. The Group also establishes a system recording training points, which would encourage active participation in training and assess the training efficiency.

At the same time, we offer different career development plans according to different business characteristics and employees' aspirations, competencies and development needs. In addition to having access to different business modules and expanding their horizons, the employees could develop diversified skills by rotating posts or participating in different projects. During the year, our training contents were very diverse in various professional aspects, including managerial skills, team building, individual development, knowledge sharing and promotion-based training

### Sustainable development

To promote our culture and cultivate talents for the Group, the Group has adopted the "Logan Elites (光之子)" Scheme to recruit outstanding graduates as the management reserve of the Group. The Scheme allows the "Logan Elites (光之子)" to learn more about industry and business knowledge, the corporate culture and systems, professional skills and norms under the phased training program. Also, members of the Scheme would be arranged to participate in rotation study in different key departments to understand the actual operations of the department. Members of the scheme who successfully pass the assessment would enjoy the well-established career ladder system and be on the fast track to become the key members of our management.

### Prevention of child labor or forced labor

The Group strictly abides by the requirements of Labor Law of the People's Republic of China (中華人民共和國勞動法) which prohibits the recruitment of child labor under the age of sixteen and forced labor. We have adopted a series of measures to ensure that all applicants meet the stipulations and requirements of labor laws and regulations, including the rigorous inspection and selection process implemented in the process of recruitment.

All staffs are required to reach the legal working age and enter into labor contract before being duly hired. The human resources department also examines the identification documents of the applicants to make sure the staff are legal labor, with an aim to avoid child labor or forced labor. Moreover, the Group also makes random inspection on each of its subsidiaries on a regular basis to ensure there are no breach of relevant laws and regulations.

During the Reporting Period, the Group was not aware of any material violation of Labor Law of the People's Republic of China (中華人民共和國勞動法) or other laws and regulations relating to prevention of child labor or forced labor.

## ENVIRONMENT PROTECTION AND NATURAL RESOURCES CONSERVATION

### Emissions management

As a major property developer and city complex operator in the PRC, the Group is committed to supporting environmental sustainability. By taking promotion of environmental work and awareness as its mission, the Group vigorously applies the latest environmental technologies, while constantly improving its models of production to minimize the impacts brought by its business operations. During the year, the Group's resources invested in environmental protection and emission reduction also enabled the Group to reduce our environmental footprint.

The Group is committed to becoming a leading green property developer in China. In addition to providing its customers with a highly premier and comfortable living environment, the Group will strive for environmental protection. Construction works during the development of property projects would unavoidably emit exhaust, sewage and wastes. As such, the Group wishes to process such wastes with good work plans and continuous monitoring, to reduce its damage to the environment. Before a project commences its construction, experts from the Group's engineering department would assess and predict the amount of emissions to be generated, and formulate an emission source reduction plan that can effectively manage emissions from production processes of our projects. To minimize emissions from production, the Group also closely monitors and controls the amount of emissions, while utilizing specification-compliant production equipment and matured emission treatment processes, including exhaust, sewage and construction wastes.

In compliance with the laws and regulations on environmental protection formulated by national, provincial and municipal governments of the PRC, including the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), the Law of the People's Republic of China on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) and the Law of People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法), the Group ensures that it strikes a balance between its development and environmental issues for attaining the goal of sustainability. During the Reporting Period, the Group was not aware of any material violations of laws and regulations relating to environmental protection. This year we have an increase in the emission of exhaust, sewage, greenhouse gases, and wastes which is mainly attributable to the Group's construction business grows significantly during the Year with a two-fold increase of the amount of the construction projects and resulting on higher amounts of emission. We would continuously devote to mitigating our environmental impact by adopting the following stringent control measures and strive to promote a sustainable development.

### Emission of exhaust and sewage

Exhaust and sewage discharge from the production activities of the Group mainly come from the property development projects, while other business operations involve no significant emissions. The construction work of the Group is outsourced to third-party contractors. During the Reporting Period, the amount of major exhaust and sewage generated from the contractors appointed by the Group is listed as below:

| Emission type | Unit | 2018 | 2017 |
|---|---|---|---|
| Nitrogen oxide (NOx)[2] | kg | **1,549.80** | 964.60 |
| Sulfur dioxide ($SO_2$)[2] | kg | **959.70** | 597.30 |
| Particulate matters (PM)[2] | kg | **7,917.60** | 5,201.50 |
| Hydrocarbon (HC)[2] | kg | **3,216.50** | 2,001.90 |
| Volatile organic compounds (VOC)[2] | kg | **809.90** | 478.90 |
| Carbon monoxide (CO)[2] | kg | **2,497.80** | 1,554.60 |
| Sewage | tonne | **548,903.00** | 341,625.50 |

2 Calculation of data regarding emissions is based on the technical specifications and operating data of construction machinery and transportation vehicles.

To mitigate the abovementioned environmental impact from emissions, the Group implements a series of emissions reduction measures that aim to reduce emissions and prevent them from spreading to and affecting the surroundings in an all-round manner, covering the source of emissions, the construction process and the post-construction stage. During the planning of project engineering, we set up our objectives on pollutants emission and air quality. The Group continuously monitors the actual emission and conducts regular comparative analysis against the objectives, so as to identify and follow up areas for improvement accordingly. The engineering department establishes environmental monitoring points at the project sites, to provide live monitoring of environmental quality and ensure timely improvement for all the situations concerned. The Group also has measures in place to monitor the discharges from contractors, under which, contractors are required to be in strict compliance with the discharge standard prescribed by the Group, including the emission types and amounts. Where any discharge exceeds the standard amount, a timely report shall be submitted. Furthermore, the Group would regularly assign personnel to the construction sites for inspection to ensure no noncompliance matter is occurred.

In respect of dust pollution, the Group has formulated the "Measures for the Prevention and Control of Dust Pollution in Real Estate Construction Projects" (地產建設項目揚塵污染防治辦法), which stipulates the obligations of construction and supervision entities, and provides guidelines for dust management and control. For all our development projects, the construction entity hardens the ground of construction sites and applies brick slags to temporary roads. All construction sites are equipped with mist sprayers and dust suppression systems for regular sprinkling, which includes atomizers for dust suppression, construction wall sprayers and high-altitude sprayers. Environmental hygiene management staff is also deployed at each construction site to clean up the floating soil and ash accumulated on the temporary roads, storage yards and roads around construction gateways. Dust sources, such as earthworks, are placed in a concentrated manner and covered. All these measures effectively reduce the spread of dusts. Furthermore, in order to prevent the dust from affecting the environment nearby, every construction site is also furnished with vehicle washing facilities, including washing platforms, high-pressure washing equipment, drains and sewage pools, which can collect waste water and mud from washing, so that vehicles and machines within the site can be washed before departure.

In respect of sewage treatment, all construction sites are equipped with return pipes to collect sewage, through which used water would flow into sedimentation tanks for filtration, so as to ensure the discharge of sewage is in line with regulations. For the measures of sewage reduction, please refer to the section headed "Management of water use".

### Greenhouse gases (GHG) emissions

The GHG emissions by the Group are mainly caused by the use of fuel and electricity. During the Reporting Period, the total amount[3] and intensity (calculated by gross floor area per square meter) of relevant direct and indirect GHG emissions generated by the Group are as below:

| GHG Emissions | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| Scope of GHG emissions | Unit | Total GHG emissions | Intensity (per square meter by gross floor area) | Total GHG emissions | Intensity (per square meter by gross floor area) |
| Direct and indirect GHG emissions | tonne | **27,710.11** | **0.00167** | 20,205.23 | 0.00307 |

Although the Group's construction business experienced significant growth during the Year, the Group adopted a series of measures to control carbon emissions. Please refer to the section headed "Energy use" for details in relation to measures to reduce GHG emissions.

### Construction wastes

The Group's property development projects generate certain construction wastes. Set out below were the types and amounts of major building waste generated from the engineering work in connection to all project developments of the Group during the Reporting Period.

| Types of construction wastes | Unit | 2018 | 2017 |
|---|---|---|---|
| **Non-hazardous wastes** | | | |
| Building debris | tonne | **37,622.30** | 26,170.10 |
| Rubble | tonne | **5.29** | 3.68 |
| Earth | tonne | **1,241,204.00** | 815,415.40 |
| Concrete | tonne | **240,146.60** | 149,462.10 |
| Asphalt | tonne | **385.94** | 240.20 |
| Metal scrap | tonne | **1,272.86** | 792.20 |
| Wood | tonne | **3,228.30** | 2,009.20 |
| **Hazardous wastes[4]** | | | |
| Asbestos | tonne | **1.62** | 0.96 |
| Fluorescent light tubes | tonne | **1.37** | 0.95 |

[3] Data only comprises energy utilized by the Group over the course of its business operation, excluding energy consumption beyond direct control by the Group. Calculation of carbon dioxide emission is based on the Greenhouse Gas Protocol jointly published by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI), the Regional Grid Baseline Emission Factors and the Guide for Greenhouse Gas Emission Accounting Methods and Reporting for Public Building Operators (Trial) published by the National Development and Reform Commission of the PRC, and the Reporting Guidance on Environmental KPIs by the Stock Exchange of Hong Kong Limited.

[4] The identification of hazardous wastes is based on "Directory of National Hazardous Wastes" (國家危險廢物名錄) issued by the Ministry of Environmental Protection of the People's Republic of China.

The Group controls and handles construction wastes arising during the development process through a comprehensive plan, recycling and continuous monitoring. During the development phase in the real estate project, the engineering staff members of the Group spend efforts in reviewing the engineering drawings to reduce the construction wastes caused by construction demolition at later stages as a result of the defects in drawings. Construction wastes are sorted out and stacked separately, and delivery records are kept for easy track of the wastes. The Group will also deliver hazardous wastes to qualified waste disposal companies to ensure the wastes are destroyed and disposed of in a compliant manner. The spoil in each project is generally recycled in the way of backfilling. Recycling system is set up in certain projects, so that the construction wastes (including waste bricks, concrete block, fly ashes) are reprocessed as building blocks for the construction of the building wall to reduce the wastes and save the raw materials. Although the construction wastes was increased due to the growth of our business, the abovementioned measures have effectively controlled the construction wastes generation rate and reduced the related greenhouse gas emissions.

*Case: Prefabricated building*

In response to the new trend of green building encouraged by the government, the Group promoted the prefabricated building technology, and achieved certain success. Prefabricated building technology refers to the unified planning and design for structural components. First, building structural components are molded within the factory for production and assembly, and transported to construction sites for set up upon completion. The use of standardized building blocks can significantly improve the construction efficiency, while saving a massive amount of construction materials which further enables better utilization of building materials and reduction of construction wastes. Over the course of construction, in comparison to traditional cast-in-place building, prefabricated building applies dry construction, which would significantly reduce the amounts of the sand, mud, and lime on site. Reduced construction processes also avoid noise, dust, and water pollution, thereby delivering a green production process. In addition, the unified structural components designed for prefabricated building ensure that installation of such components are more precise than traditional building, and effectively reduce the potential water seepage and cracks. As a result, building quality can be improved and the interests of users are protected.

During the Year, the Group adopted the prefabricated construction experience in Phase I of Acesite Park Project in Shenzhen launched on April 2017. Alongside the assembly formwork, outer structure, components, interior walls and decoration, the project implemented five major steps, being product stereotypes, full decoration, refined management, project evaluation and delivery evaluation, which greatly increased the construction efficiency and product quality. The advantages brought by the project included a substantial improvement in construction quality and efficiency, as well as an increase in the industrialization level of the construction.

The Project fully abolished wet constructions such as masonry and plastering, which improved on-site construction conditions and reduced construction wastes. The project also addressed the problems of hollowing, cracking and leakage of walls from the root, thereby improving the building quality. The Group has established a construction management team and a system of weekly meetings and technical issues seminars to clarify management processes. The Group has set strict requirements on the quality and testing for prefabricated components, and introduced control points and safety assurance measures for lifting and installation processes. As a result, this project was a great success.

Upon review by the relevant experts, Acesite Park Project in Shenzhen received the Technical Confirmation for Prefabricated Building Designs in Shenzhen (深圳市裝配式建築項目設計階段技術認定意見書) issued by Shenzhen Housing and Construction Bureau, confirming that our project is in compliance with the relevant requirements pertaining to prefabricated building in Shenzhen. In addition, this project also had a widely positive response in the market. In the future, the Group will continue to introduce more prefabricated buildings, and further apply the green technologies to our production process to minimize the impacts on the environment from the source.

### Office wastes

The daily administrative office work of the Group also generates a small amount of waste, which are mainly non-hazardous wastes. Set out below are the types and amounts of major office waste generated from the office work of the Group during the Reporting Period:

| Waste type[5] | Unit | 2018 | 2017 |
|---|---|---|---|
| **Non-hazardous wastes** | | | |
| Paper | tonne | **44.78** | 48.83 |
| Paper cups | tonne | **6.21** | 5.55 |
| Ink cartridges | tonne | **2.20** | 2.17 |
| Toner cartridges | tonne | **3.44** | 2.75 |
| Plastic bottles | tonne | **5.70** | 4.40 |

The Group has implemented a number of waste reduction measures in administrative offices by reducing waste from two aspects, namely, the sources and the recycling process. Each office of the Group has set up a recycling bin to collect waste paper which is collected and sent to qualified recyclers for recycling. A recycling box for single-sided paper is also set next to the printer to collect the single-sided paper used for secondary printing of non-important documents. Double-sided printing is advocated in the office, and all computer files are defaulted for double-sided printing to save paper. Large-capacity printers that can repeatedly add toners are preferentially used by our employees to reduce the consumption and waste of ink cartridges. All departments are also required to report the amount of office supplies to be used for the next month in advance so as to set a goal for the reasonable use of office supplies to further reduce waste. The amount of paper used in the Group's offices during the Year was nearly 10% lower than that in the previous year, reflecting the effectiveness of the Group's paper saving initiatives.

During the Reporting Period, the Group has complied with the relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes.

## Efficient use of resources

All production and operation activities of the Group are carried out with the purpose of energy conservation and emission reduction. The Group formulates the relevant policies to manage resource consumption, and adopts a series of energy-conserving measures to avoid the overuse of natural resources.

5 Calculation of office waste data is based on the annual purchase amount.

In the real estate project development, the Group uses more environmental friendly and highly efficient construction equipment as well as green construction methods to minimize the use of resources and construction pollution. The project design also takes into the consideration environmental protection to reduce the resource consumption in the long run. By using prefabricated components and aluminum alloy templates and the industrialized construction, our prefabricated building technology could reduce on-site installation work, and thus reduce the waste of raw materials and resource consumption.

In the administrative office, the Group reviews the use of resources on a regular basis and formulates resource improvement plans and measures, including the use of environmentally friendly and highly efficient office and operating equipment to improve the Group's environmental performance on one hand and save the costs for the Group on the other hand, which serves a double purpose. The Group has established the Office Environment Management System (辦公環境管理制度) to encourage our employees to efficiently utilize office resources. The administrative department of the Group is responsible for and supervises the use and maintenance of water, power, air conditioning and printers of the Company, while all employees are obligated to cherish the Company's resources.

### Energy use

Major energy used by the Group is categorized into four types, namely, electricity, gasoline, diesel and natural gas. Set out below is the consumption level of the Group during the Reporting Period:

| Energy use | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| Energy type | Unit | Amount | Intensity (per square meter by gross floor/office area) | Amount | Intensity (per square meter by gross floor/office area) |
| **Property Development** | | | | | |
| Electricity | kWh | **39,410,814.60** | **2.3856** | 25,987,714.00 | 3.9689 |
| Gasoline | liter | **78,951.80** | **0.0048** | 49,137.90 | 0.0075 |
| Diesel | liter | **114,333.90** | **0.0069** | 71,159.00 | 0.0109 |
| Natural gas | cubic meter | **14,620.70** | **0.0009** | 9,099.60 | 0.0014 |
| **Administrative Office** | | | | | |
| Electricity | kWh | **5,863,579.00** | **112.6429** | 4,856,328.00 | 136.5392 |
| Gasoline | liter | **230,400.00** | **4.4261** | 193,400.00 | 5.4376 |
| Natural gas | cubic meter | **5,802.30** | **0.1115** | 4,602.10 | 0.1294 |

As electricity is the major type among four types of energy consumption, the Group implements a number of electricity saving measures: use of LED lights or other highly efficient energy-saving fluorescent tubes in most of the Group's lighting system; use of non-iodine-tungsten flood lamps for outdoor lighting to reduce the electricity consumption; use of lamps with sound and light control switch or timer switch for construction site or other public areas without the need for long time lighting to reduce the lighting time; use of latest low power consumption equipment and elimination of the old high-consumption equipment, so as to reduce the electricity consumption.

In addition, the Group has also applied solar technology, which includes the use of solar street lighting for the roads of project sites, as well as solar water heaters to provide hot water. The indoor air conditioning temperature in all offices of the Group is set between 23 and 25 degrees Celsius to avoid unnecessary cooling electricity consumption. Monitoring meters are installed in the proper places which would be calibrated regularly, so as to monitor electricity consumption for improvement.

As for other fuel consumption, the Group's engineering department also has the corresponding control measures. Electricity supplied by the power company is used as much as possible to replace the diesel generators, which can take advantage of the power company's more efficient power generation equipment to reduce carbon emissions. In addition, the Group uses energy-saving construction machinery and equipment, and ensures that machines not in use are turned off timely to reduce unnecessary fuel consumption.

As for other daily office electricity consumption, our employees are required to pay attention to power consumption of office equipment such as computers, lighting systems, air conditioners and printers, and keep such equipment turned off when not in use. Based on the principle of environmental protection and conservation, utilization of used papers or double-side photocopying is encouraged when documents are photocopied. Air-conditioners and heating system in offices can only be turned on and used when the temperature exceeds 28℃ in summer and falls below 10℃ in winter, respectively. The Group arranges regular maintenance for office equipment to enhance its energy efficiency, further ensuring efficient use of resources.

### Management of water use

The Group consumes water mainly in construction projects and daily office work. Set out below is the water consumption amount of the Group during the Reporting Period:

| Water use | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| Energy type | Unit | Amount | Intensity (per square meter by gross floor/office area) | Amount | Intensity (per square meter by gross floor/office area) |
| **Property Development** | | | | | |
| Water | cubic meter | **3,479,528.20** | **0.2106** | 2,165,583.80 | 0.3307 |
| **Administrative Office** | | | | | |
| Water | cubic meter | **137,319.00** | **2.6380** | 122,119.00 | 3.4335 |

To protect valuable water resources, the Group has actively implemented a number of water conservation projects. As the Group's main water consumption is generated by construction projects, the Group has devoted to the management of water consumption in construction sites. All the construction sites of our projects are equipped with sedimentation tanks, construction wastewater, rainwater and other domestic sewage are drawn into the sedimentation tanks for filtration. The filtered water is then recycled for vehicle cleaning and dust removal. As for vehicle cleaning which consumes plenty of water, the engineering department requires the use of water-saving pistols to reduce water consumption, and the water used for cleaning should be collected back to the sedimentation tanks for recycling. The engineering department of the Group would maintain a plan for inspection and maintenance of water pipes to regularly inspect leakage in the water pipes used in the projects for timely maintenance.

For other daily office water consumption, the Group also encourages employees to reuse domestic sewage as much as possible, to enhance the awareness of water conservation. As for equipment, the Group uses water-saving faucets and toilets are installed with regularly flushing system, which shut down after 10 o'clock every night to reduce the waste of water. The Group also installs water meters at proper places and makes appropriate calibrations to assist measurement.

Thanks to the great importance attached to efficient use of resources within the Group, the Group effectively regulated and controlled the use of energy and water resources in various production stages during the Year, which reduced the consumption of, as well as eliminated waste of, resources over the course of our fast growing business. The Group is pleased to announce that, during the Reporting Period, density of use of resources decreased significantly as compared to last year, demonstrating the inspiring results brought by the Group's environmental protection measures.

## Environment protection

The Group attaches great importance to the impact of business operations on the surrounding environment and natural resources, and as such the Group strictly complies with national environmental protection laws and regulations. Under the development principle of green production, the Group takes into account environmental protection in every process of its production chain, and seeks to balance the interests of all parties from management to implementation. The Group tried and then promoted the prefabricated building technology, the industrialized construction of which helped to conserve energy, save water, save materials, and reduce emissions. Ultimately, the Group achieved a harmonious relationship between its business and the environment.

The Group organizes internal publicity campaigns that are related to environment protection and energy conservation on a regular basis. It also arranges the construction entities to participate in various environmental publicity activities held by the government departments, so as to enhance the environmental protection concept of the employees and raise the awareness of energy conservation and emission reduction in their daily work.

During the construction of each project, the Group regularly monitors and measures the construction work and conducts environmental quality assessment. For the identified environmental risks, the engineering staff would respond in a timely manner case by case, so as to control the problem as soon as possible, reducing the impact on environment.

### Construction noise

In addition to the various emissions and resource consumption mentioned above, the negative impact on the environment that comes from the Group's business is mainly the noise created from the construction work of project development. During the construction process, the operation of construction machinery generates considerable noise, so the engineering staffs have made appropriate arrangements, including the use of low-noise construction machinery in compliance with the required standards, as well as regular measure of the noise level to prevent violation of the standards. In addition, all construction of the projects is only carried out during the daytime to avoid disturbing residents in the surrounding areas. In addition, the construction site is also equipped with appropriate sound insulation equipment to effectively reduce the noise spreading to the nearby community. On the other hand, workers are also required to receive training to increase their awareness of operating procedures to mitigate noise pollution.

### Environmental impact assessment

As the Group's construction projects cause certain environmental impacts, prior to commencement of our construction projects, the Group is required to appoint experts to perform an assessment of environmental impact on the surrounding area in accordance with the requirements of the national laws and regulations. Such assessment shall cover, among others, the natural habitats of animals, water contamination, soil pollution, and disturbance against residents in the neighborhood. Based on the findings derived from the environmental impact assessment, the Group would take various measures to minimize the negative impacts due to emission and pollution caused by our projects. In addition, the Group would, at the construction planning stage, formulate an environmental protection scheme to mitigate the impacts brought by the construction projects on the neighboring environment.

### Green building

The Group is committed to delivering environmental friendly buildings. During the Year, the Group received various certifications with respect to our buildings, including the Leadership in Energy and Environmental Design (LEED) certificate, Building Environmental Assessment Method (BEAM Plus) certificate, and Green Building Design Label (GBDL) certificate, which in return shows the recognition of our environmental undertaking by the industry and the market.

The green design of our buildings includes:

- An intelligent building management system is installed to buildings, which automatically adjusts the air-conditioning level and window curtains based on weather data;
- The external shading system and light guide plates are adopted to control indoor light with a maximum use of natural light. Common areas are afforested, while outdoor air convection is introduced for better ventilation;
- Renewable energy is used efficiently through installation of solar panels; and
- Harmless and recyclable building materials are used.

## CONTRIBUTING TO A BEAUTIFUL SOCIETY WITH CARE AND HARMONY

### Public welfare

Since the establishment in 1996, the Group has always been actively performing its social corporate responsibility. It is dedicated to promoting public welfare and charity, as well as earnestly fulfilling its social responsibilities as a corporate citizen. Logan Charity Fund (龍光慈善基金會) (the "Charity Fund") was founded by the Group in 2016 to manage the public welfare affairs of the Group.

The Group's community investment covers the community and the environment, mainly relating to supporting underprivileged families, promotion of education to younger generation, and environmental construction. Our public welfare undertakings cover more than 20 cities in the PRC, with nearly 100 public welfare programs. The Group was awarded "Outstanding Contributor to Chinese Philanthropy (中華慈善突出貢獻獎)", "Guangdong Poverty Alleviation Cotton Tree Golden Cup Award (廣東扶貧濟困紅棉杯金杯獎)", and "Platinum Award of the Hong Kong Community Chest".

During the Reporting Period, we launched a number of donation activities, so as to support poverty alleviation, education and community development. The donations amounted to RMB45 million with over 30 programs, benefitting over 100,000 people. In 2018, the Group and Logan Charitable Foundation were also awarded "Special Tribute Award" of the 8th China Charity Festival (第八屆中國公益節"特別致敬大獎"), one of "Top Ten Love Enterprises in Shenzhen Care Action (深圳關愛行動十佳愛心企業)" and "The Fourth Pengcheng Charity Corporate Donor: Gold Award (第四屆鵬城慈善捐贈企業金獎)", acknowledging our contribution to public welfare. During the Year, our social investments include:

- In January 2018, volunteers from Logan Group worked with the home owners of local communities to launch the "Power of Light: Logan's Winter Care Action" (光的力量•龍光暖冬行動) program to deliver winter clothing, school supplies, and boxes of Lunar New Year gifts to the children of Longbiao Teaching Venue in Longfu Village, Du'an County, Guangxi Province and make happy-hour interactions with them, bringing them a joyful experience in community care;

- In June 2018, under the guidance of Shenzhen Coordination Team for Guangdong Poverty Alleviation Day Campaign, we joined forces with Shenzhen Charity Federation to launch the Shenzhen Top Ten Landmark Ice-cream Charity Bazaar and Flash Mob Event, during which, a Shenzhen project operated by Logan Property offered the charity venue so that the home owners from local communities can make donations in exchange for receiving free ice-creams, or posing with the doll elephant and sharing the photos on the social media platforms, with an aim to promote poverty alleviation campaigns and strengthen public attention to the poverty issues and underprivileged groups. By promoting and raising funds for the 2018 Guangdong Poverty Alleviation Day Campaign, we earned recognition and appreciation from local citizens;

- In June 2018, we donated RMB32 million to the Guangdong Poverty Alleviation Day Campaign focusing on the population in poverty, contributing to the targeted poverty alleviation initiative and the economic revitalization and development in rural areas;

- In July 2018, Logan Group provided financial support to university freshmen with financial difficulties in Lingshui County, Hainan Province. Besides assisting them in completing their academic credentials, we molded them into industrious, progressive, and self-reliant characters, helping them to achieve an all-around development from "being assisted" and "being self-reliant" to "being helpful to others";

- In September 2018, the Group launched the public charity campaign named "Caring and Love Commitment to Sanjiang County" (情系三江・愛暖人心), during which, we assisted villagers in renovating roads, and established assistance channels to address difficulties facing the children in their schoolwork and life, so that we could contribute to their pursuit of dreams;

- In October 2018, Logan Group donated RMB10 million to construct more than 300 water tanks for production and domestic use in a mountainous rural area that is subject to adverse weather conditions in Dashi, Guangxi Province, thereby resolving the water consumption issue in the poverty-stricken area;

- In 2018, the Group set up a Logan "Angel's Love" (天使之愛) Infirmary in a poverty-stricken mountainous area in Sichuan, where an array of standardized medical apparatus is equipped to address the difficulty facing the villagers in accessing medical treatment. Logan volunteers also visited Zhaojue County in Liangshan, which suffers serious poverty that affects a huge population in many areas and finally identified the Saladipoxiang in that county as the site for educational assistance and poverty alleviation;

- During the Year, the Group also operated five "Logan Book Court" (龍光書苑) projects for the purpose of a better community, under which, community residents can access the public exchange venue for reading, schoolwork assistance, handcraft production and nature education. The Group also initiated employee volunteer services on a regular basis, including, among others, the volunteer activities for the senior homes during major public holidays, a public welfare campaign named "Environmental Protectors on Green Monster Hunt" (打綠怪助環保) in Shenzhen Mangrove Nature Reserve to preserve the coastline ecosystem, and recycle and reuse of 150 kilograms of soap, which were delivered to 300 children in less-developed regions sufficient for one-year consumption by them.


In the future, Logan Group will remain dedicated to promoting its corporate culture of environmental protection and caring the underprivileged and gather the charity powers to further broaden the scope and charity work and make it more heart-touching. We deeply believe that, under continuous investment, not only various sectors of society can benefit from the public welfare and charity undertakings, but also we can fulfill our social responsibilities at the same time, carrying out the Group's idea of "developing and giving back to society simultaneously" and promoting the harmonious development.

# INDEPENDENT AUDITOR'S REPORT

EY 安永

**To the shareholders of Logan Property Holdings Company Limited**

*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Logan Property Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 87 to 200 which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

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

## KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Valuation of investment properties* | |
| As at 31 December 2018, the Group held investment properties with a carrying amount of RMB18,338 million. The carrying amount of the investment properties represented 11% of the total assets of the Group as at 31 December 2018 and is significant to the consolidated financial statements.<br><br>The Group has engaged external valuers to determine the fair value of the investment properties at the end of the reporting period.<br><br>We identified this as a key audit matter because the carrying amount of the investment properties is significant to the Group and significant estimations are involved in determining the fair value of the investment properties. The determination of valuation models adopted also involved significant judgements.<br><br>Related disclosures are included in notes 3, 4 and 16 to the consolidated financial statements. | We evaluated the objectivity, independence and competence of the external valuers engaged by management of the Group. We also involved our internal valuation specialists to assist us with our audit in evaluating the valuation models, assumptions and parameters adopted in the valuation. We compared the management's external valuer valuations to the range provided by our internal valuation specialists. We also evaluated the significant inputs to the valuation used. |

## KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Recoverability of receivables from joint ventures and associates*<br><br>As at 31 December 2018, the Group had receivables from joint ventures and associates amounting to RMB30,054 million and RMB6,822 million, respectively. The aggregate amount of RMB36,876 million represented 22% of the total assets of the Group as at 31 December 2018 and is significant to the consolidated financial statements.<br><br>The measurement of impairment losses under HKFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, such as risk of default, loss given default and collateral recovery, changes in which can result in different levels of allowances.<br><br>The Group's expected credit loss calculations on receivables from joint ventures and associates are based on assumptions about risk of default and loss given default. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculations, based on credit risk of the debtors or comparable companies in the market, existing market conditions as well as forward looking estimates at the end of each reporting period.<br><br>The Group has engaged external valuers to determine the expected credit loss of receivables from joint ventures and associates at the end of the reporting period.<br><br>We identified this as a key audit matter because the carrying amount of the receivables from joint ventures and associates is significant to the Group and significant estimation and judgement are required by management to assess the recoverability of the receivables from joint ventures and associates.<br><br>Related disclosures are included in notes 3, 4, 17, 18 and 20 to the consolidated financial statements. | We evaluated the management's assessment on recoverability or expected credit losses of balances by performing the following procedures:<br><br>— We discussed with management to gain an understanding of the purpose and background of the underlying investments made by the joint ventures and associates.<br><br>— We examined the cooperation contracts and agreements for the projects acquired and title documents of the underlying assets acquired by the joint ventures and associates.<br><br>— We reviewed the valuation reports or investment return analyses of the projects acquired and evaluated the key estimates and assumptions adopted in the valuation reports or investment return analyses.<br><br>— We examined supporting documents for significant payments made by the joint ventures and associates and obtained direct confirmations from joint ventures and associates on the balance of receivables.<br><br>— We inspected the title documents of land or development right agreements held by the joint ventures and associates.<br><br>— We performed site visit to evaluate the status of construction and existence of projects.<br><br>— We evaluated the impairment assessment of the receivables from joint ventures and associates made by management.<br><br>— We involved our internal specialists to assist us to evaluate the assumptions and other inputs including probability of default, loss given default and forward looking element in determining the expected credit loss on receivables from joint ventures and associates. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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.

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

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

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

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

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

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

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

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| REVENUE | 6 | **44,136,908** | 27,689,658 |
| Cost of sales | | **(29,250,015)** | (18,172,475) |
| Gross profit | | **14,886,893** | 9,517,183 |
| Other income and gains | 6 | **1,368,665** | 696,303 |
| Other expenses | 7 | **(56,655)** | (10,056) |
| Selling and marketing expenses | | **(1,231,356)** | (928,729) |
| Administrative expenses | | **(1,133,851)** | (748,045) |
| Net increase in fair value of investment properties | 16 | **1,740,726** | 2,942,276 |
| Net increase/(decrease) in fair value of derivative financial instruments | | **45,970** | (113,214) |
| Share of profits and losses of associates | | **(42,958)** | 278,497 |
| Share of losses of joint ventures | | **(141,431)** | (73,097) |
| PROFIT FROM OPERATIONS | | **15,436,003** | 11,561,118 |
| Finance costs | 8 | **(1,416,943)** | (672,154) |
| PROFIT BEFORE TAX | 9 | **14,019,060** | 10,888,964 |
| Income tax expense | 12 | **(5,023,154)** | (3,880,514) |
| PROFIT FOR THE YEAR | | **8,995,906** | 7,008,450 |
| Attributable to: | | | |
| Owners of the parent | | **8,288,398** | 6,527,400 |
| Non-controlling interests | | **707,508** | 481,050 |
| | | **8,995,906** | 7,008,450 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB cents) | 14 | | |
| Basic | | **147.95** | 117.03 |
| Diluted | | **145.69** | 115.39 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| PROFIT FOR THE YEAR | **8,995,906** | 7,008,450 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR (after tax and reclassification adjustments) | | |
| Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of financial statements of group entities | **(283,783)** | 80,000 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **8,712,123** | 7,088,450 |
| Attributable to: | | |
| Owners of the parent | **8,004,615** | 6,607,400 |
| Non-controlling interests | **707,508** | 481,050 |
| | **8,712,123** | 7,088,450 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Investment properties | 16 | **18,338,011** | 15,664,830 |
| Other property, plant and equipment | 15 | **176,014** | 147,867 |
| Deferred tax assets | 28 | **649,725** | 330,206 |
| Investments in associates | 17 | **1,447,180** | 2,653,386 |
| Investments in joint ventures | 18 | **18,042,573** | 9,261,913 |
| Assets under cross-border guarantee arrangements | 21 | **526,335** | — |
| Restricted and pledged deposits | 22 | **274,350** | 218,102 |
| Total non-current assets | | **39,454,188** | 28,276,304 |
| CURRENT ASSETS | | | |
| Inventories | 19 | **54,780,698** | 38,457,739 |
| Trade and other receivables, prepayments and other assets | 20 | **37,816,369** | 20,448,286 |
| Tax recoverable | | **773,299** | 753,256 |
| Assets under cross-border guarantee arrangements | 21 | **1,827,322** | 1,745,380 |
| Restricted and pledged deposits | 22 | **6,990,339** | 2,311,691 |
| Cash and cash equivalents | 22 | **28,452,462** | 19,878,192 |
| Total current assets | | **130,640,489** | 83,594,544 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 23 | **47,449,771** | 37,275,788 |
| Contract liabilities | 24 | **16,784,879** | — |
| Liabilities under cross-border guarantee arrangements | 21 | **2,515,233** | 1,745,380 |
| Bank and other loans | 25 | **9,577,092** | 5,597,885 |
| Senior notes | 26 | **—** | 2,965,541 |
| Other current liabilities | 27 | **7,652,449** | 7,000,000 |
| Tax payable | | **4,559,087** | 2,709,162 |
| Total current liabilities | | **88,538,511** | 57,293,756 |
| NET CURRENT ASSETS | | **42,101,978** | 26,300,788 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **81,556,166** | 54,577,092 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **81,556,166** | 54,577,092 |
| NON-CURRENT LIABILITIES | | | |
| Liabilities under cross-border guarantee arrangements | 21 | **526,335** | — |
| Bank and other loans | 25 | **11,966,970** | 14,191,435 |
| Senior notes | 26 | **16,764,667** | 5,924,103 |
| Corporate bonds | 27 | **12,980,000** | 5,162,449 |
| Deferred tax liabilities | 28 | **2,572,408** | 2,135,296 |
| Total non-current liabilities | | **44,810,380** | 27,413,283 |
| Net assets | | **36,745,786** | 27,163,809 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 29 | **434,041** | 433,828 |
| Perpetual capital securities | 31 | **2,363,346** | 2,363,346 |
| Reserves | 32 | **26,451,419** | 20,509,047 |
| | | **29,248,806** | 23,306,221 |
| Non-controlling interests | | **7,496,980** | 3,857,588 |
| Total equity | | **36,745,786** | 27,163,809 |

**Lai Zhuobin**
*Director*

**Xiao Xu**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

| | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (note 29) | Share premium RMB'000 (note 32(i)) | Share-based compensation reserve RMB'000 (note 30) | Exchange reserve RMB'000 (note 32(ii)) | PRC statutory reserves RMB'000 (note 32(iii)) | Other reserve RMB'000 | Retained profits RMB'000 | Perpetual capital securities RMB'000 (note 31) | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2017 | 434,591 | 1,899,444 | 95,062 | (123,177) | 832,451 | 2,902,849 | 13,385,629 | – | 19,426,849 | 6,324,497 | 25,751,346 |
| Profit for the year | – | – | – | – | – | – | 6,527,400 | – | 6,527,400 | 481,050 | 7,008,450 |
| Other comprehensive income – | | | | | | | | | | | |
| Exchange differences on translation of financial statements of group entities | – | – | – | 80,000 | – | – | – | – | 80,000 | – | 80,000 |
| Total comprehensive income for the year | – | – | – | 80,000 | – | – | 6,527,400 | – | 6,607,400 | 481,050 | 7,088,450 |
| Transfer to PRC statutory reserves | – | – | – | – | 89,213 | – | (89,213) | – | – | – | – |
| Repurchase and cancellation of own shares | (1,308) | (92,153) | – | – | – | – | – | – | (93,461) | – | (93,461) |
| Dividends declared | – | (1,825,290) | – | – | – | – | (333,416) | – | (2,158,706) | – | (2,158,706) |
| Issuance of shares in connection with the exercise of share options | 545 | 17,999 | (5,779) | – | – | – | – | – | 12,765 | – | 12,765 |
| Equity-settled share-based transactions | – | – | 14,237 | – | – | – | – | – | 14,237 | – | 14,237 |
| Effect of forfeited share options | – | – | (14,372) | – | – | – | 14,372 | – | – | – | – |
| Dividends declared to non-controlling shareholders | – | – | – | – | – | – | – | – | – | (88,200) | (88,200) |
| Acquisition of a subsidiary | – | – | – | – | – | – | – | – | – | 5,394 | 5,394 |
| Acquisition of additional interests in subsidiaries | – | – | – | – | – | (3,088,139) | – | – | (3,088,139) | (3,162,204) | (6,250,343) |
| Capital contribution from non-controlling shareholders | – | – | – | – | – | 301,597 | – | – | 301,597 | 297,051 | 598,648 |
| Issuance of perpetual capital securities | – | – | – | – | – | – | – | 2,363,346 | 2,363,346 | – | 2,363,346 |
| Distribution to holders of perpetual capital securities | – | – | – | – | – | – | (79,667) | – | (79,667) | – | (79,667) |
| At 31 December 2017 | 433,828 | –* | 89,148* | (43,177)* | 921,664* | 116,307* | 19,425,105* | 2,363,346 | 23,306,221 | 3,857,588 | 27,163,809 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

| | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (note 29) | Share premium RMB'000 (note 32(i)) | Share-based compensation reserve RMB'000 (note 30) | Exchange reserve RMB'000 (note 32(ii)) | PRC statutory reserves RMB'000 (note 32(iii)) | Other reserve RMB'000 | Retained profits RMB'000 | Perpetual capital securities RMB'000 (note 31) | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2018 | 433,828 | –* | 89,148* | (43,177)* | 921,664* | 116,307* | 19,425,105* | 2,363,346 | 23,306,221 | 3,857,588 | 27,163,809 |
| Profit for the year | – | – | – | – | – | – | 8,288,398 | – | 8,288,398 | 707,508 | 8,995,906 |
| Other comprehensive income — Exchange differences on translation of financial statements of group entities | – | – | – | (283,783) | – | – | – | – | (283,783) | – | (283,783) |
| Total comprehensive income for the year | – | – | – | (283,783) | – | – | 8,288,398 | – | 8,004,615 | 707,508 | 8,712,123 |
| Transfer to PRC statutory reserves | – | – | – | – | 196,078 | – | (196,078) | – | – | – | – |
| Repurchase and cancellation of own shares | (1,339) | (50,033) | – | – | – | – | (63,383) | – | (114,755) | – | (114,755) |
| 2017 final and special dividends declared | – | – | – | – | – | – | (914,828) | – | (914,828) | – | (914,828) |
| 2018 interim and special dividends declared | – | – | – | – | – | – | (1,346,229) | – | (1,346,229) | – | (1,346,229) |
| Issuance of shares in connection with the exercise of share options | 1,552 | 50,033 | (14,824) | – | – | – | – | – | 36,761 | – | 36,761 |
| Equity-settled share-based transactions | – | – | 20,963 | – | – | – | – | – | 20,963 | – | 20,963 |
| Effect of forfeited share options | – | – | (7,082) | – | – | – | 7,082 | – | – | – | – |
| Dividends declared to non-controlling shareholders | – | – | – | – | – | – | – | – | – | (121,500) | (121,500) |
| Deemed disposal of subsidiaries | – | – | – | – | – | 133,095 | (18,221) | – | 114,874 | – | 114,874 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | 47,383 | 47,383 |
| Acquisition of additional interests in subsidiaries | – | – | – | – | – | 185,887 | – | – | 185,887 | (3,890,745) | (3,704,858) |
| Capital contribution from non-controlling shareholders | – | – | – | – | – | 103,254 | – | – | 103,254 | 6,896,746 | 7,000,000 |
| Distribution to holders of perpetual capital securities | – | – | – | – | – | – | (147,957) | – | (147,957) | – | (147,957) |
| At 31 December 2018 | 434,041 | –* | 88,205* | (326,960)* | 1,117,742* | 538,543* | 25,033,889* | 2,363,346 | 29,248,806 | 7,496,980 | 36,745,786 |

* These reserve accounts comprise the consolidated reserves of RMB26,451,419,000 (2017: RMB20,509,047,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **14,019,060** | 10,888,964 |
| Interest income | 6 | **(1,013,967)** | (581,797) |
| Finance costs | 8 | **1,416,943** | 672,154 |
| Depreciation | 9 | **57,295** | 64,421 |
| Net loss on disposal of items of other property, plant and equipment | 9 | **3** | 65 |
| Share of losses of joint ventures | | **141,431** | 73,097 |
| Share of profits and losses of associates | | **42,958** | (278,497) |
| Net increase in fair value of investment properties | 16 | **(1,740,726)** | (2,942,276) |
| Net (increase)/decrease in fair value of derivative financial instruments | | **(46,205)** | 113,214 |
| Gain on bargain purchase | 34 | **(38)** | (514) |
| Gain on remeasurement of pre-existing interests in joint ventures | 34 | **(47,384)** | — |
| Gain on deemed disposal of subsidiaries upon loss of control, net | 35(b) | **(188,368)** | (35,298) |
| Gain on disposal of subsidiaries, net | 35(a) | **—** | (830) |
| Equity-settled share-based transactions | 9 | **20,963** | 14,237 |
| | | **12,661,965** | 7,986,940 |
| (Increase)/decrease in inventories and land deposits | | **(2,713,760)** | 1,245,716 |
| Increase in trade and other receivables, prepayments and other assets | | **(5,462,668)** | (3,539,068) |
| (Decrease)/increase in trade and other payables | | **(14,336,249)** | 8,501,730 |
| Increase in contract liabilities | | **16,784,879** | — |
| Cash generated from operations | | **6,934,167** | 14,195,318 |
| Tax paid | | **(2,365,717)** | (2,679,500) |
| Net cash flows from operating activities | | **4,568,450** | 11,515,818 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **595,912** | 581,797 |
| Addition to investment properties | 16 | **(906,514)** | (472,488) |
| Addition to other property, plant and equipment | 15 | **(52,019)** | (36,287) |
| Disposal of subsidiaries | 35(a) | **–** | 249,113 |
| Deemed disposal of subsidiaries | 35(b) | **(1,036,835)** | (521,364) |
| Acquisition of subsidiaries that are not a business | 34(a) | **148,226** | (1,376,662) |
| Acquisition of subsidiaries | 34(b) | **2,688,973** | – |
| Investments in joint ventures | | **(111,500)** | (172,521) |
| Investments in associates | | **(20,000)** | (3,000) |
| Advances to joint ventures | | **(18,980,006)** | (5,968,585) |
| Advances to associates | | **(1,639,228)** | (2,835,482) |
| Proceeds from disposal of other property, plant and equipment | | **1,979** | 3,640 |
| Increase in restricted and pledged deposits | | **(4,734,896)** | (1,292,317) |
| Net cash flows used in investing activities | | **(24,045,908)** | (11,844,156) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Interest paid | | **(2,497,094)** | (2,557,927) |
| Proceeds from bank and other loans | | **17,925,640** | 14,144,113 |
| Repayment of bank and other loans | | **(14,579,569)** | (7,674,671) |
| Proceeds from issuance of senior notes | | **10,096,410** | 7,149,799 |
| Repayment of senior notes | | **(3,108,477)** | (3,576,859) |
| Proceeds from issuance of corporate bonds | | **8,490,000** | – |
| Repayment of corporate bonds | | **(20,000)** | (237,551) |
| Proceeds from issuance of perpetual capital securities | 31 | **–** | 2,363,346 |
| Proceeds from cross-border guarantee arrangements | | **687,911** | – |
| Proceeds from issuance of shares in connection with the exercise of share options | | **36,761** | 12,765 |
| Repurchase of own shares | | **(114,755)** | (93,461) |
| Increase in amounts due to non-controlling shareholders | | **10,590,550** | 14 |
| (Repayment to)/advances from joint ventures | | **(926,526)** | 3,935,168 |
| Capital contribution from non-controlling shareholders | | **7,000,000** | 598,648 |
| Payments for acquisition of non-controlling interests subject to repurchase obligations | | **–** | (2,021,956) |
| Payments for acquisition of non-controlling interests | | **(3,621,778)** | (4,199,773) |
| Dividends paid to non-controlling shareholders | | **(121,500)** | (88,200) |
| Proceeds from loans from a non-controlling shareholder | | **94,000** | – |
| Distribution paid to holders of perpetual capital securities | | **(147,957)** | (79,667) |
| Dividends paid to ordinary equity shareholders of the Company | | **(1,515,782)** | (656,528) |
| Net cash flows from financing activities | | **28,267,834** | 7,017,260 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

| | Note | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **8,790,376** | 6,688,922 |
| Cash and cash equivalents at beginning of year | | **19,878,192** | 13,559,827 |
| Effect of foreign exchange rate changes | | **(216,106)** | (370,557) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **28,452,462** | 19,878,192 |
| ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | **18,162,528** | 15,880,566 |
| Non-pledged time deposits | | **10,289,934** | 3,997,626 |
| Cash and cash equivalents as stated in the consolidated statement of cash flows and the consolidated statement of financial position | 22 | **28,452,462** | 19,878,192 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 1. CORPORATE AND GROUP INFORMATION

Logan Property Holdings Company Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in property development, property investment, construction and decoration and primary land development in the People's Republic of China (the "PRC") during the year.

In the opinion of the directors, the ultimate controlling party of the Company is Ms. Kei Perenna Hoi Ting, who is a non-executive director of the Company.

### Information about subsidiaries

The following list contains particulars of the Company's principal subsidiaries. All of them are established in the PRC unless otherwise stated.

| | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|
| Name of subsidiaries | Particulars of issued and paid up capital | Group's effective interest | Held by the Company | Held by subsidiary | Principal activities |
| Logan Construction Co., Ltd.* (note) (龍光工程建設有限公司) | RMB80,000,000 | 91% | – | 91% | Property construction |
| Shenzhen Logan Holdings Co., Ltd.*# (note) (深圳市龍光控股有限公司) | RMB443,000,000 | 100% | – | 100% | Investment holding |
| Zhongshan Logan Property Co., Ltd.* (note) (中山市龍光房地產有限公司) | RMB30,000,000 | 100% | – | 100% | Property development |
| Nanning Logan Property Development Co., Ltd.* (note) (南寧市龍光房地產開發有限公司) | RMB100,000,000 | 100% | – | 100% | Property development and investment |
| Guangzhou Logan Property Co., Ltd.* (note) (廣州市龍光房地產有限公司) | RMB40,000,000 | 100% | – | 100% | Property development and investment |
| Guangzhou Logan Realty Co., Ltd.* (note) (廣州市龍光置業有限公司) | RMB30,000,000 | 100% | – | 100% | Property development |
| Huizhou Daya Bay Logan Property Co., Ltd.* (note) (惠州大亞灣龍光房地產有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |

# 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

| Name of subsidiaries | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by subsidiary | Principal activities |
|---|---|---|---|---|---|
| Shantou Logan Property Co., Ltd.* (note) (汕頭市龍光房地產有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |
| Zhuhai Logan Property Development Co., Ltd.* (note) (珠海市龍光房地產開發有限公司) | RMB30,000,000 | 100% | – | 100% | Property development and investment |
| Foshan Shunde Logan Realty Co., Ltd.* (note) (佛山市順德區龍光置業房產有限公司) | RMB35,295,000 | 100% | – | 100% | Property development |
| Huizhou Logan Property Co., Ltd.* (note) (惠州市龍光房地產有限公司) | RMB30,000,000 | 100% | – | 100% | Property development |
| Dongguan Logan Property Co., Ltd.* (note) (東莞市龍光房地產有限公司) | RMB50,000,000 | 100% | – | 100% | Property development |
| Shantou Jinfengyuan Realty Co., Ltd.* (note) (汕頭市金鋒園置業有限公司) | RMB66,000,000 | 100% | – | 100% | Property development |
| Nanning Logan Jinjun Property Development Co., Ltd.* (note) (南寧市龍光金駿房地產開發有限公司) | RMB50,000,000 | 100% | – | 100% | Property development and investment |
| Hainan Logan Property Development Co., Ltd.* (note) (海南龍光房地產開發有限公司) | RMB20,000,000 | 100% | – | 100% | Property development |
| Chengdu Logan Property Co., Ltd.* (note) (成都市龍光房地產有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |
| Shantou Logan Realty Co., Ltd.* (note) (汕頭市龍光置業有限公司) | RMB33,000,000 | 100% | – | 100% | Property development and investment |

## 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

| Name of subsidiaries | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by subsidiary | Principal activities |
|---|---|---|---|---|---|
| Shantou Jiarun Property Co., Ltd.* (note) (汕頭市佳潤房地產有限公司) | RMB50,000,000 | 100% | – | 100% | Property development |
| Hainan Jinjun Realty Co., Ltd.* (note) (海南金駿置業有限公司) | RMB351,800,000 | 100% | – | 100% | Property development |
| Foshan Shancheng Logan Property Co., Ltd.* (note) (佛山市禪城區龍光房地產有限公司) | RMB10,500,000 | 100% | – | 100% | Property development |
| Nanning Logan Bojun Property Development Co., Ltd.* (note) (南寧市龍光鉑駿房地產開發有限公司) | RMB700,000,000 | 100% | – | 100% | Property development |
| Chengdu Logan Jinjun Realty Co., Ltd.* (note) (成都市龍光金駿置業有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |
| Chengdu Logan Donghua Property Development Co., Ltd.* (note) (成都市龍光東華房地產開發有限公司) | RMB558,059,600 | 100% | – | 100% | Property development |
| Shantou Weida Property Co., Ltd.*# (note) (汕頭市偉達房地產有限公司) | RMB54,200,441 | 100% | – | 100% | Property development |
| Shenzhen Logan Dongzhen Realty Co., Ltd.* (note) (深圳市龍光東圳置業有限公司) | RMB30,000,000 | 100% | – | 100% | Investment holding |
| Huizhou Daya Bay Dongzhen Property Co., Ltd.* ("Huizhou Dongzhen") (note) (惠州大亞灣東圳房地產有限公司) | RMB100,000,000 | 82% | – | 82% | Property development and investment |
| Shenzhen Logan Property Co., Ltd.* (note) (深圳市龍光房地產有限公司) | RMB80,000,000 | 100% | – | 100% | Property development and investment |

# 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

| Name of subsidiaries | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by subsidiary | Principal activities |
|---|---|---|---|---|---|
| Shenzhen Yongjing Decorating Construction Co., Ltd.* (note) (深圳市潤景裝飾工程有限公司) | RMB200,000,000 | 91% | – | 100% | Provision of decoration services to joint ventures and associates |
| Shenzhen Logan Media Planning Co., Ltd.* (note) (深圳市龍光傳媒策劃有限公司) | RMB2,200,000 | 100% | – | 100% | Provision of advertising services to joint ventures and associates |
| Nanning Logan Junchi Property Development Co., Ltd.* (note) (南寧市龍光駿馳房地產開發有限公司) | RMB35,000,000 | 100% | – | 100% | Property development |
| Zhongshan Jinjun Property Co., Ltd.* (note) (中山市金駿房地產有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |
| Foshan Nanhai Logan Realty Co., Ltd.* (note) (佛山市南海區龍光置業房產有限公司) | RMB58,820,000 | 100% | – | 100% | Property development |
| Shenzhen Logan Investment Consultancy Co., Ltd.* (note) (深圳市龍光投資顧問有限公司) | RMB10,000,000 | 100% | – | 100% | Investment holding |
| Dongguan Logan Realty Co., Ltd.* (note) (東莞市龍光置業有限公司) | RMB10,500,000 | 100% | – | 100% | Property development |
| Shantou Logan Jinjun Property Co., Ltd.* (note) (汕頭市龍光金駿房地產有限公司) | RMB50,000,000 | 100% | – | 100% | Property development |
| Zhongshan Junchi Property Co., Ltd.* (note) (中山市駿馳房地產有限公司) | RMB10,500,000 | 100% | – | 100% | Property development |

NOTES TO FINANCIAL STATEMENTS
31 December 2018

# 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

| Name of subsidiaries | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by subsidiary | Principal activities |
|---|---|---|---|---|---|
| Foshan Runjing Property Co., Ltd.* (note) (佛山市順德區龍光潤景房地產有限公司) | RMB50,000,000 | 100% | – | 100% | Property development |
| Foshan Logan Realty Co., Ltd.* (note) (佛山市龍光置業房產有限公司) | RMB10,500,000 | 100% | – | 100% | Property development |
| Shantou Logan Junjing Property Co., Ltd.* (note) (汕頭市龍光駿景房地產有限公司) | RMB49,908,125 | 100% | – | 100% | Property development |
| Shenzhen Jinjun Property Co., Ltd.* (note) (深圳市金駿房地產有限公司) | RMB198,000,000 | 100% | – | 100% | Property development |
| Guilin Logan Bojun Property Development Co., Ltd.* (note) (桂林市龍光鉑駿房地產開發有限公司) | RMB50,000,000 | 100% | – | 100% | Property development |
| Haikou Logan Property Development Co., Ltd.* (note) (海口市龍光房地產開發有限公司) | RMB102,500,000 | 100% | – | 100% | Property development |
| Shenzhen Logan Junchi Property Development Co., Ltd.* (note) (深圳市龍光駿馳房地產開發有限公司) | RMB5,000,000 | 51% | – | 51% | Property development |
| Foshan Logan Sunshine Seaward Property Co., Ltd.* (note) (佛山市龍光陽光海岸房地產有限公司) | RMB50,000,000 | 66% | – | 66% | Property development |
| Guangxi King Kerry Realty Co., Ltd.* (note) (廣西金凱利置業有限公司) | US$18,000,000 | 95% | – | 95% | Property development |
| Zhuhai Junjing Property Development Co., Ltd.* (note) (珠海市駿景房地產開發有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |

## 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

| Name of subsidiaries | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by subsidiary | Principal activities |
|---|---|---|---|---|---|
| Shantou Logan Runjing Property Co., Ltd.* (note) (汕頭市龍光潤璟房地產有限公司) | RMB50,000,000 | 100% | – | 100% | Property development |
| Nanning Logan Mingjun Property Development Co., Ltd.* (note) (南寧市龍光銘駿房地產開發有限公司) | RMB50,000,000 | 100% | – | 100% | Property development |
| Shenzhen Logan Junjing Property Development Co., Ltd.*@ ("Shenzhen Logan Junjing") (note) (深圳市龍光駿景房地產開發有限公司) | RMB20,400,000 | 50% | – | 50% | Property development |
| Shenzhen Junteng Realty Co., Ltd.* (note) (深圳市駿騰置業有限公司) | RMB10,500,000 | 100% | – | 100% | Property development |
| Zhuhai Junchi Property Development Co., Ltd.* (note) (珠海市駿馳房地產開發有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |
| Shenzhen Logan Junfei Realty Co., Ltd.* (note) (深圳市龍光駿飛置業有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |
| Shenzhen Logan Junyu Property Development Co., Ltd.* (note) (深圳市龍光駿譽房地產開發有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |
| Huizhou Logan Junjing Property Co., Ltd.* (note) (惠州市龍光駿景房地產有限公司) | RMB10,000,000 | 100% | – | 100% | Property development and investment |
| Huizhou Logan Jinjun Property Co., Ltd.* (note) (惠州市龍光金駿房地產有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |
| Beijing Runjing Property Development Co., Ltd.* (note) (北京潤璟房地產開發有限公司) | RMB5,000,000 | 100% | – | 100% | Property development |

## 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

| Name of subsidiaries | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by subsidiary | Principal activities |
|---|---|---|---|---|---|
| Nanning Yaohui Property Development Co., Ltd.* (note) (南寧市耀輝房地產開發有限公司) | RMB50,000,000 | 100% | – | 100% | Property development |
| Shenzhen Logan Bojun Property Co., Ltd.* (note) (深圳市龍光鉑駿房地產有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |
| Shanghai Logan Property Co., Ltd.* (note) (上海市龍光房地產有限公司) | RMB10,000,000 | 100% | – | 100% | Property development |
| Nanning Logan Jiarun Property Development Co., Ltd.* (note) (南寧市龍光佳潤房地產開發有限公司) | RMB50,000,000 | 100% | – | 100% | Property development |
| Foshan Shanhu Electric Company Ltd.* (note) (佛山市山湖電器有限公司) | RMB170,637,644 | 100% | – | 100% | Primary land development |
| Foshan Logan Junjing Property Co., Ltd.*@ ("Foshan Logan Junjing") (note) (佛山市龍光駿景房地產有限公司) | RMB21,000,000 | 50% | – | 50% | Property development |
| Huizhou Boshen Property Co., Ltd.* (note) (惠州市鉑紳房地產有限公司) | RMB10,000,000 | 51% | – | 51% | Property development |
| Liuzhou Logan Mingjun Property Development Co., Ltd.* (note) (柳州市龍光銘駿房地產開發有限公司) | RMB102,040,000 | 100% | – | 100% | Property development |
| Chengdu Zhonghui Investment Co., Ltd.* (note) (成都中暉投資有限公司) | RMB1,000,000 | 100% | – | 100% | Property development |
| Shantou Logan Hongsheng Property Development Co., Ltd.* (note) (汕頭市龍光宏盛房地產有限公司) | RMB100,000,000 | 100% | – | 100% | Property development |

# 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

| Name of subsidiaries | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by subsidiary | Principal activities |
|---|---|---|---|---|---|
| Shantou Logan Junyu Property Development Co., Ltd.* (note) (汕頭市龍光駿譽房地產有限公司) | RMB100,000,000 | 100% | – | 100% | Property development |
| Shantou Logan Hongbo Property Development Co., Ltd.* (note) (汕頭市龍光宏博房地產有限公司) | RMB100,000,000 | 100% | – | 100% | Property development |
| Zhongshan Haixin Property Co., Ltd.* (note) (中山市海心置業有限公司) | RMB224,624,902 | 100% | – | 100% | Property development |

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

\# Registered as a wholly-foreign-owned enterprise under PRC law

@ These entities are accounted for as subsidiaries of the Group because the Group owns more than half of the voting rights even though the equity interests in these entities attributable to the Group is 50%.

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

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

# 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and derivative financial instruments which have been measured at fair value.

These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

## 2.1 BASIS OF PREPARATION (CONTINUED)

### Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

The Group applies HKFRS 9 and HKFRS 15 that require restatement of previous financial statements. Other than as explained below regarding the impact of HKFRS 9, HKFRS 15 and HKAS 40, the adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

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

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

Upon the adoption of HKFRS 9, the Group's loans and receivables are reclassified as financial assets at amortised cost and there was no significant impact on the measurement of financial instruments on the financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECL").

NOTES TO FINANCIAL STATEMENTS
31 December 2018

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

**(b)** HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and they apply, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 6 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 3 to the financial statements.

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

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

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

| | Note | Increase/ (decrease) RMB'000 |
|---|---|---|
| **Liabilities** | | |
| Trade and other payables | (i) | (19,614,745) |
| Contract liabilities | (i) | 19,614,745 |
| Total liabilities | | — |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

**(b) (Continued)**

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

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

| | | Amounts prepared under | | |
|---|---|---|---|---|
| | Note | HKFRS 15 RMB'000 | Previous HKFRS RMB'000 | Increase/ (decrease) RMB'000 |
| Selling and marketing expenses | | (1,231,356) | (1,334,709) | (103,353) |
| Profit before tax | (ii) | 14,019,060 | 13,915,707 | 103,353 |
| Income tax expense | | (5,023,154) | (4,997,316) | 25,838 |
| Profit for the year | | 8,995,906 | 8,918,391 | 77,515 |
| Attributable to: | | | | |
| Owners of the parent | | 8,288,398 | 8,210,883 | 77,515 |
| Non-controlling interests | | 707,508 | 707,508 | — |
| | | 8,995,906 | 8,918,391 | 77,515 |
| Earnings per share attributable to ordinary equity holders of the parent | | | | |
| Basic (RMB cents) | | 147.95 | 146.53 | 1.42 |
| Diluted (RMB cents) | | 145.69 | 144.30 | 1.39 |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

### (b) (Continued)

Consolidated statement of financial position as at 31 December 2018:

| | Note | Amounts prepared under HKFRS 15 RMB'000 | Previous HKFRS RMB'000 | Increase/ (decrease) RMB'000 |
|---|---|---|---|---|
| Trade and other receivables, prepayments and other assets | (ii) | 37,816,369 | 37,713,016 | 103,353 |
| Trade and other payables | (i) | 47,449,771 | 64,234,650 | (16,784,979) |
| Contract liabilities | (i) | 16,784,879 | – | 16,784,879 |
| Tax payable | | 4,559,087 | 4,533,249 | 25,838 |
| Net assets | | 36,745,786 | 36,668,271 | 77,515 |
| Retained profits | | 25,033,889 | 24,956,374 | 77,515 |
| Total equity | | 36,745,786 | 36,668,271 | 77,515 |

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

(i) **Consideration received from customers in advance**

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

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB19,614,745,000 from trade and other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB16,784,879,000 was reclassified from trade and other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of properties.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

**(b) (Continued)**

(ii) **Sales commission**

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

As at 31 December 2018, under HKFRS 15, RMB103,353,000 was capitalised and recorded in trade and other receivables, prepayments and other assets in relation to the sales commission associated with obtaining agreement for the sale of properties.

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

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

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases.

The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group expects to adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemption allowed by the standard on lease contracts whose lease term end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that the adoption of HKFRS 16 does not have any significant impact on the financial statements as a lessor.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of 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.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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. 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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity 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 fair value. Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combinations and goodwill (Continued)

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

### Fair value measurement

The Group measures its investment properties and derivative financial instruments 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.

## 3. 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 properties under development for sale, completed properties for sale, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

### Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Related parties (Continued)

(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.

### Other property, plant and equipment and depreciation

Other property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of other 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 other property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of other 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.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Other property, plant and equipment and depreciation (Continued)

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

| | |
|---|---|
| Land and buildings | Over the lease terms |
| Leasehold improvements | Over the shorter of the lease terms and 20% |
| Furniture, fixtures and other plant and equipment | 3 to 10 years |

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

## Properties held for development for sale

The cost of leasehold land, which is held for development for sale, represents the cost of acquisition. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

## Properties under development for sale

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

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

## Completed properties for sale

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Construction contracts (applicable before 1 January 2018)

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

### Investment properties

Investment properties include both completed investment properties and investment properties under construction.

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

Investment properties under construction or development for future use as investment properties are classified as investment properties under construction. Such properties under construction are measured initially at cost, including transaction costs, and stated at fair value, subsequent to initial recognition, at the end of the reporting period when the fair value can be determined reliably.

Gains or losses arising from changes in the fair values of completed investment properties and investment properties under construction are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of a completed investment property or an investment property under construction are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. For a transfer from inventories to investment properties, any difference between the fair value of the property at the date of change in use and its then carrying amount is recognised in the statement of profit or loss.

### 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 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 on the straight-line basis over the lease terms.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### Initial recognition and measurement

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

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

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

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

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

#### Subsequent measurement

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

*Financial assets at amortised cost (debt instruments)*

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### Subsequent measurement (Continued)

*Financial assets at fair value through profit or loss*

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

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### Initial recognition and measurement

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

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

#### Subsequent measurement

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

#### Financial assets at fair value through profit or loss

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

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

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

#### Loans and receivables

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

#### General approach

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

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### General approach (Continued)

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

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

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

#### Simplified approach

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

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

**Financial assets carried at amortised cost**

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

**Initial recognition and measurement**

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

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

The Group's financial liabilities include trade and other payables, accruals, bank and other loans, senior notes and corporate bonds.

**Subsequent measurement**

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

*Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)*

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 incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. 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 profit or loss. The net fair value gain or loss recognised in profit or loss 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 initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (Continued)

**Subsequent measurement (Continued)**

*Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)*

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 profit or loss. The net fair value gain or loss recognised in profit or loss 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.

*Loans and borrowings*

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

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

*Senior notes*

Senior notes issued by the Company that contain both liability and early redemption option (which is not closely related to the host contract) are classified separately into respective items on initial recognition. At the date of issue, both the liability and early redemption option components are recognised at fair value.

In subsequent periods, the liability component of the senior notes is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the senior notes are allocated to the liability and early redemption components in proportion to their relative fair values. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the senior notes using the effective interest method.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (Continued)

**Subsequent measurement (Continued)**

*Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

*Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)*

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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

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

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

### Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Cash and cash equivalents

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

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

### Perpetual capital securities

Perpetual capital securities with no contractual obligation to repay its principal or to pay any distribution are classified as part of equity.

### Provisions

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

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

### Income tax

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

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

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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income tax (Continued)

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, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, 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, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (applicable from 1 January 2018)

#### Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

*(a) Sale of completed properties*

Revenue from the sale of properties is recognised at the point in time when the purchasers obtained the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

*(b) Construction and decoration services*

Revenue from the provision of construction and decoration services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction and decoration services.

*(c) Provision of management services*

Revenue from provision of management service is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

*(d) Land development*

Revenue from land development is recognised at a point in time, when the customer obtains control of the assets and the Group has present right to payment and the collection of the consideration is probable.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (applicable from 1 January 2018) (Continued)

#### Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

#### Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

### Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of completed properties, when the significant risks and rewards of ownership of the properties are transferred to the purchasers, that is when the construction of the relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement, and the collectability of related receivables is reasonably assured;

(b) from construction contracts, using the percentage of completion basis, as further explained in the accounting policy for "Construction contracts (applicable before 1 January 2018)" above;

(c) from the rendering of services, when the services have been rendered;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

### Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

### Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Contract costs (applicable from 1 January 2018)

*Cost to fulfil a contract*

Other than the costs which are capitalised as properties under development for sale and other property, plant and equipment, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

*Costs of obtaining contracts*

Incremental costs of obtaining a contract were those costs that the Group incurs to obtain a contract with a customer it would not have incurred if the contract had not been obtained e.g., commission to sales agents. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

### Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("Equity-Settled Transactions").

The cost of Equity-Settled Transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

The cost of Equity-Settled Transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Share-based payments (Continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### Other employee benefits

#### Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions cannot be used to reduce the contributions payable by the Group.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Other employee benefits (Continued)

#### Pension schemes (Continued)

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme (the "Pension Scheme") operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the Pension Scheme. The only obligation of the Group with respect to the Pension Scheme is to pay the ongoing contributions under the Pension Scheme. The contributions are charged to statement of profit or loss as they become payable in accordance with the rules of the Pension Scheme.

### Borrowing costs

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

### Dividends

Final dividends are recognised as a liability when they have been approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in RMB, which is the Group's presentation currency. The functional currency of the Company is Hong Kong dollars ("HK$") while RMB is used as the presentation currency of the financial statements of the Company for the purpose of aligning with the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to statement of profit or loss. Tax charges and credits attributable to exchange differences on these monetary items are also recorded in other comprehensive income.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies (Continued)

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries, joint ventures and associates operating outside the PRC are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of non-PRC entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

# 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

## Judgements

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

### Determining the timing of satisfaction of contracts related to sale of properties

The Group determined that the sales contract with customers requires the Group to complete the development of property before transferring the legal title of the relevant property to customers. The Group also determined that the Group does not have an enforceable right to payment from customers for performance completed to date before the transfer of legal title of the relevant property to customers. Consequently, the Group concluded that the timing of transfer of properties is at the point of time that the purchasers obtained the physical possession or the legal title of the completed property.

### Classification between investment properties and owner-occupied properties

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

### Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development for sale included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as investment properties under construction included in investment properties if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are subject to revaluation at the end of each reporting period.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (Continued)

#### Allocation of construction cost on properties under development for sale

When developing properties, the Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to each phase are allocated to each phase based on the saleable floor area of each phase as a percentage of the total saleable floor area of the entire project. The cost of the unit sold is determined by the floor area in square metres sold during the year multiplied by the average cost per square metre of that particular phase of the project.

#### Whether the presumption that investment properties stated at fair value are recovered through sale is rebutted in determining deferred tax

The Group has investment properties located in the PRC which are measured at fair value. Investment property is property held to earn rentals or for capital appreciation or both. In considering whether the presumption in HKAS 12 Income Taxes that an investment property measured at fair value will be recovered through sale is rebutted in determining deferred tax, the Group has developed certain criteria in making that judgement, such as whether an investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time or through sale. The presumption is rebutted only in the circumstance that there is sufficient evidence such as a historical transaction, future development plan and management's intention to demonstrate that the investment property is held with the objective to consume substantially all of the economic benefits over time, rather than through sale. Continuous assessments on the presumption will be made by management at each reporting date.

### 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.

#### Valuation of properties under development for sale and completed properties for sale

Properties under development for sale and completed properties for sale are stated at the lower of cost and net realisable value. The cost of each unit in each phase of development is determined using the weighted average method. The estimated net realisable value is the estimated selling price less selling expenses and the estimated cost of completion (if any), which are estimated based on the best available information.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in a provision for properties under development for sale and completed properties for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Estimation uncertainty (Continued)

#### Investments in joint ventures and associates

The Group has cooperated with certain third parties to engage in certain property development projects through the investments in and advances to joint ventures and associates. Significant estimation and judgement are required to assess the recoverability of the receivables from joint ventures and associates because the profitability of the future development of properties by the joint ventures and associates over a number of years can be difficult to predict and can be influenced by broader political and economic factors.

#### Estimation of fair value of investment properties

Investment properties, including completed investment properties and investment properties under construction, were revalued at each reporting date during the year based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each reporting date.

#### PRC land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculation and payments with the tax authorities for certain of its property development projects. The final outcome could be different from the amounts that were initially recorded.

#### Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

#### Provision for expected credit losses on receivables form joint ventures and associates

The measurement of impairment losses under HKFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, such as risk of default, loss given default and collateral recovery, changes in which can result in different levels of allowances.

The Group's expected credit loss ("ECL") calculations on receivables from joint ventures and associates are based on assumptions about risk of default and loss given default. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculations, based on credit risks of the debtors or comparable companies in the market, existing market conditions as well as forward looking estimates at the end of each reporting period. It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Estimation uncertainty (Continued)

#### Provision for expected credit losses on receivables form joint ventures and associates (Continued)

For other receivables already in place at 1 January 2018, the Group applies the general model for expected credit loss prescribed by HKFRS 9, since credit risk has not significantly increased after initial recognition, the loss allowance recognised was therefore limited to 12 months expected losses.

At 31 December 2018, the carrying amount of the Group's receivables from joint ventures and associates amounted to RMB36,876 million (2017: RMB25,266 million), and ECL is insignificant. Further details of the Group's receivables from joint ventures and associates, and the key assumptions and inputs used for impairment calculations are given in notes 17, 18 and 20 to the financial statements.

## 5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) the property development segment develops and sells residential properties and retail shops;

(b) the property leasing segment leases office units and retail shops to generate rental income and to gain from the appreciation in the properties' values in the long term;

(c) the construction and decoration contracts segment engages in construction of office premises and residential buildings and provides decoration services for external customers and for group companies, and provides interior decoration services to property buyers; and

(d) the primary land development segment engages in the sale of land held for development.

The Group's revenue from external customers from each operating segment is set out in note 6 to the financial statements.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that depreciation, other income and gains, other expenses, finance costs, share of profits of losses of joint ventures and associates, fair value gains or losses of investment properties and derivative financial instruments and head office and corporate income and expenses are excluded from such measurement.

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.

## 5. OPERATING SEGMENT INFORMATION (CONTINUED)

Information regarding the reportable segments is presented below.

| | Property development RMB'000 | Property leasing RMB'000 | Construction and decoration contracts RMB'000 | Primary land development RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Year ended 31 December 2018 | | | | | |
| Gross revenue from external customers (note 6) | **39,062,896** | **91,676** | **4,191,649** | **1,067,449** | **44,413,670** |
| Less: Sales related taxes | **(258,518)** | **(8,530)** | **(9,519)** | **(195)** | **(276,762)** |
| Net revenue from external customers | **38,804,378** | **83,146** | **4,182,130** | **1,067,254** | **44,136,908** |
| Inter-segment revenue | **—** | **37,421** | **10,000,602** | **—** | **10,038,023** |
| Reportable segment revenue | **38,804,378** | **120,567** | **14,182,732** | **1,067,254** | **54,174,931** |
| Reportable segment profit | **11,895,962** | **93,574** | **3,500,457** | **640,574** | **16,130,567** |

| | Property development RMB'000 | Property leasing RMB'000 | Construction and decoration contracts RMB'000 | Primary land development RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Year ended 31 December 2017 | | | | | |
| Gross revenue from external customers (note 6) | 26,951,179 | 87,843 | 966,373 | — | 28,005,395 |
| Less: Sales related taxes | (309,102) | (4,460) | (2,175) | — | (315,737) |
| Net revenue from external customers | 26,642,077 | 83,383 | 964,198 | — | 27,689,658 |
| Inter-segment revenue | — | 24,241 | 4,844,974 | — | 4,869,215 |
| Reportable segment revenue | 26,642,077 | 107,624 | 5,809,172 | — | 32,558,873 |
| Reportable segment profit | 8,083,576 | 93,283 | 932,552 | — | 9,109,411 |

## 5. OPERATING SEGMENT INFORMATION (CONTINUED)

### Information about a major customer

During the years ended 31 December 2018 and 2017, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Reconciliation of reportable segment revenue and profit or loss

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue | **54,174,931** | 32,558,873 |
| Elimination of inter-segment revenue | **(10,038,023)** | (4,869,215) |
| Consolidated revenue | **44,136,908** | 27,689,658 |
| **Profit** | | |
| Reportable segment profit | **16,130,567** | 9,109,411 |
| Elimination of inter-segment profits | **(3,201,660)** | (865,450) |
| Reportable segment profit derived from the Group's external customers | **12,928,907** | 8,243,961 |
| Other income and gains | **1,368,665** | 696,303 |
| Other expenses | **(56,655)** | (10,056) |
| Depreciation | **(57,295)** | (64,421) |
| Finance costs | **(1,416,943)** | (672,154) |
| Share of profits and losses of associates | **(42,958)** | 278,497 |
| Share of losses of joint ventures | **(141,431)** | (73,097) |
| Net increase in fair value of investment properties | **1,740,726** | 2,942,276 |
| Net increase/(decrease) in fair value of derivative financial instruments | **45,970** | (113,214) |
| Unallocated head office and corporate expenses | **(349,926)** | (339,131) |
| Consolidated profit before tax | **14,019,060** | 10,888,964 |

### Geographic information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the segment assets of the Group are located in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

## 6. REVENUE, OTHER INCOME AND GAINS

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Revenue from contracts with customers** | | |
| Sale of properties* | **39,062,896** | 26,951,179 |
| Construction and decoration income | **4,191,649** | 966,373 |
| Primary land development income | **1,067,449** | — |
| **Revenue from other sources** | | |
| Gross rental income | **91,676** | 87,843 |
| | **44,413,670** | 28,005,395 |
| Less: Sales related taxes | **(276,762)** | (315,737) |
| | **44,136,908** | 27,689,658 |

* The invoiced amount billed to buyers of properties was RMB41,771,393,000 (2017: RMB28,503,441,000) including value-added tax of RMB2,708,497,000 (2017: RMB1,552,262,000).

### Revenue from contracts with customers

(i) Disaggregated revenue information

**For the year ended 31 December 2018**

| | Sale of properties RMB'000 | Construction and decoration income RMB'000 | Primary land development income RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Timing of revenue recognition: | | | | |
| Goods transferred at a point in time | 38,804,378 | — | 1,067,254 | 39,871,632 |
| Services transferred over time | — | 4,182,130 | — | 4,182,130 |
| Total revenue from contracts with customers | 38,804,378 | 4,182,130 | 1,067,254 | 44,053,762 |

NOTES TO FINANCIAL STATEMENTS
31 December 2018

## 6. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### Revenue from contracts with customers (Continued)

**(i) Disaggregated revenue information (Continued)**

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

**For the year ended 31 December 2018**

| | Property development RMB'000 | Construction and decoration contracts RMB'000 | Primary land development RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Revenue from contracts with customers | | | | |
| External customers | 38,804,378 | 4,182,130 | 1,067,254 | 44,053,762 |
| Intersegment sales | – | 10,000,602 | – | 10,000,602 |
| | 38,804,378 | 14,182,732 | 1,067,254 | 54,054,364 |
| Intersegment adjustments and eliminations | – | (10,000,602) | – | (10,000,602) |
| Total revenue from contracts with customers | 38,804,378 | 4,182,130 | 1,067,254 | 44,053,762 |

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

| | 2018 RMB'000 |
|---|---|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | |
| Sales of properties | 19,122,825 |
| Construction income | 240,814 |

**(ii) Performance obligations**

Information about the Group's performance obligations is summarised below:

*Sales of properties*

The performance obligation is satisfied when the physical possession or the legal title of the completed property is obtained by the purchaser.

*Construction and decoration income*

The performance obligation is satisfied over time as services are rendered. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

## 6. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### Revenue from contracts with customers (Continued)

#### (ii) Performance obligations (Continued)

*Primary land development income*

The performance obligation is satisfied when the customer obtains control of the assets.

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Other income and gains** | | | |
| Bank interest income | | **215,669** | 102,863 |
| Interest income on amounts due from associates and joint ventures | | **798,298** | 478,934 |
| Forfeiture income on deposits received | | **25,428** | 13,309 |
| Government subsidies | | **6,760** | 8,735 |
| Gain on deemed disposal of subsidiaries upon loss of control, net | 35(b) | **188,368** | 36,128 |
| Gains on remeasurement of pre-existing interests in joint ventures to the date of obtaining control and acquisition | 34(b) | **47,384** | — |
| Gains on bargain purchase | 34(b) | **38** | — |
| Foreign exchange differences, net | | **—** | 21,374 |
| Others | | **86,720** | 34,960 |
| | | **1,368,665** | 696,303 |

## 7. OTHER EXPENSES

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Charitable donations | **42,394** | 4,072 |
| Foreign exchange differences, net | **14,074** | — |
| Net loss on disposal of items of other property, plant and equipment | **3** | 65 |
| Others | **184** | 5,919 |
| | **56,655** | 10,056 |

## 8. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Interest on bank and other loans and other borrowing costs | **1,339,967** | 1,246,238 |
| Interest on senior notes | **881,605** | 680,162 |
| Interest on corporate bonds | **975,814** | 615,117 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **3,197,386** | 2,541,517 |
| Less: Interest capitalised | **(1,780,443)** | (1,869,363) |
| | **1,416,943** | 672,154 |

NOTES TO FINANCIAL STATEMENTS
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## 9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Cost of properties sold | | **24,996,099** | 17,329,719 |
| Cost of services provided | | **4,253,916** | 842,756 |
| Depreciation | 15 | **62,423** | 67,105 |
| Less: Amount capitalised | | **(5,128)** | (2,684) |
| | | **57,295** | 64,421 |
| Minimum lease payments under operating leases for land and buildings | | **17,339** | 15,486 |
| Auditor's remuneration | | **6,360** | 6,800 |
| Employee benefit expenses (including directors' remuneration (note 10)): | | | |
| Salaries and other staff costs | | **1,113,402** | 977,661 |
| Equity-settled share option expense | | **20,963** | 14,237 |
| Pension scheme contributions | | **79,311** | 65,524 |
| Less: Amount capitalised | | **(377,683)** | (334,398) |
| | | **835,993** | 723,024 |
| Foreign exchange differences, net^/* | | **14,074** | (21,374) |
| Gain on deemed disposal of subsidiaries upon loss of control, net^ | 35(b) | **(188,368)** | (36,128) |
| Net loss on disposal of items of other property, plant and equipment* | 7 | **3** | 65 |
| Gains on remeasurement of pre-existing interests in joint ventures to the date of obtaining control and acquisition^ | 34(b) | **(47,384)** | — |
| Gains on bargain purchase^ | 34(b) | **(38)** | — |

^ The amounts are included in "Other income and gains" in the consolidated statement of profit or loss.

* The amounts are included in "Other expenses" in the consolidated statement of profit or loss.

## 10. DIRECTORS' REMUNERATION

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Fees | **3,582** | 3,250 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **21,263** | 21,942 |
| Discretionary performance related bonuses | **38,846** | 40,639 |
| Equity-settled share option expense | **8,346** | 3,674 |
| Retirement scheme contributions | **327** | 295 |
| | **68,782** | 66,550 |
| | **72,364** | 69,800 |

During the year and in prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current and prior years are included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS
31 December 2018

## 10. DIRECTORS' REMUNERATION (CONTINUED)

The remuneration of each of the directors is set out below:

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary performance related bonuses RMB'000 | Equity-settled share option expense RMB'000 | Retirement scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| 2018 | | | | | | |
| Executive Directors: | | | | | | |
| Kei Hoipang ("Mr. Kei", also act as the Chairman of the Group) | – | 8,000 | 12,568 | 3,085 | 75 | 23,728 |
| Ji Jiande | – | 5,501 | 13,424 | 2,449 | 75 | 21,449 |
| Xiao Xu | – | 3,001 | 4,194 | 1,076 | 78 | 8,349 |
| Lai Zhuobin | – | 3,001 | 4,947 | 1,068 | 78 | 9,094 |
| Chen Guanzhan* | – | 1,760 | – | – | 5 | 1,765 |
| Non-executive Director: | | | | | | |
| Kei Perenna Hoi Ting ("Ms. Kei") | 2,400 | – | 3,713 | 668 | 16 | 6,797 |
| Independent non-executive Directors: | | | | | | |
| Zhang Huaqiao | 394 | – | – | – | – | 394 |
| Liu Ka Ying, Rebecca | 394 | – | – | – | – | 394 |
| Cai Suisheng | 394 | – | – | – | – | 394 |
| | 3,582 | 21,263 | 38,846 | 8,346 | 327 | 72,364 |
| 2017 | | | | | | |
| Executive Directors: | | | | | | |
| Mr. Kei | – | 7,754 | 12,860 | 1,412 | 73 | 22,099 |
| Ji Jiande | – | 5,085 | 13,548 | 1,065 | 73 | 19,771 |
| Xiao Xu | – | 2,751 | 5,075 | 482 | 74 | 8,382 |
| Lai Zhuobin | – | 2,751 | 4,377 | 453 | 75 | 7,656 |
| Chen Guanzhan* | – | 3,601 | – | 34 | – | 3,635 |
| Non-executive Director: | | | | | | |
| Ms. Kei | 2,248 | – | 4,779 | 228 | – | 7,255 |
| Independent non-executive Directors: | | | | | | |
| Zhang Huaqiao | 334 | – | – | – | – | 334 |
| Liu Ka Ying, Rebecca | 334 | – | – | – | – | 334 |
| Cai Suisheng | 334 | – | – | – | – | 334 |
| | 3,250 | 21,942 | 40,639 | 3,674 | 295 | 69,800 |

* Mr. Chen Guanzhan was appointed as an executive director of the Company with effect from 17 July 2017 and resigned as an executive director of the Company with effect from 29 January 2018.

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

## 11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2017: three directors), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining two (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **6,002** | 5,536 |
| Discretionary bonuses | **10,515** | 11,490 |
| Share-based payments | **2,050** | 1,743 |
| Retirement scheme contributions | **115** | 73 |
| | **18,682** | 18,842 |

The emoluments of the two (2017: two) individuals who are neither a director nor chief executive of the Company with the highest emoluments are within the following bands:

| | Number of employees | |
|---|---|---|
| | **2018** | 2017 |
| HK$9,500,001 to HK$10,000,000 | **1** | — |
| HK$10,500,001 to HK$11,000,000 | **—** | 1 |
| HK$11,000,001 to HK$11,500,000 | **1** | — |
| HK$11,500,001 to HK$12,000,000 | **—** | 1 |
| | **2** | 2 |

No individual waived or agreed to waive any emoluments during the year.

During the year and in prior years, share options were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current and prior years are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

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## 12. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the cities in which the Group's subsidiaries operate.

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Current charge for the year: | | |
| PRC CIT | **3,108,577** | 1,910,435 |
| PRC LAT | **1,731,850** | 1,454,355 |
| Dividend withholding tax | **210,000** | — |
| (Overprovision)/underprovision in prior years, net: | | |
| PRC CIT | **(9,857)** | 64,228 |
| | **5,040,570** | 3,429,018 |
| Deferred (note 28) | **(17,416)** | 451,496 |
| Total tax charge for the year | **5,023,154** | 3,880,514 |

A reconciliation of the tax expense applicable to profit before tax at the statutory/applicable rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Profit before tax | **14,019,060** | 10,888,964 |
| At the statutory/applicable rates of different jurisdictions | **3,517,808** | 2,737,627 |
| Adjustments in respect of current tax of previous periods | **(9,857)** | 64,228 |
| Income not subject to tax | **(47,345)** | (57,094) |
| Expenses not deductible for tax | **91,450** | 42,616 |
| Effect of withholding tax at prevailing tax rate on the distributable profits of the Group's PRC subsidiaries | **210,000** | — |
| Tax losses utilised from previous periods | **(85,937)** | — |
| Tax losses not recognised | **48,147** | 2,371 |
| LAT | **1,731,850** | 1,454,355 |
| Tax effect of LAT deductible for PRC CIT | **(432,962)** | (363,589) |
| Tax charge at the Group's effective rate | **5,023,154** | 3,880,514 |

No share of tax charge for the year ended 31 December 2018 was attributable to associates. The share of tax charge for the year ended 31 December 2017 attributable to an associate amounting to RMB98,323,000 is included in "Share of profits of associates" in the consolidated statement of profit or loss.

## 13. DIVIDENDS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Interim and special dividends — HK20 cents and HK8 cents respectively (2017: HK19 cents and HK3 cents) per ordinary share | **1,346,229** | 1,010,458 |
| Proposed final and special dividends — HK40 cents and HK7 cents respectively (2017: HK17 cents and HK2 cents) per ordinary share | **2,210,076** | 842,076 |
| | **3,556,305** | 1,852,534 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the parent, adjusted for the distribution related to perpetual capital securities, and the weighted average number of ordinary shares of 5,490,496,000 (2017: 5,495,128,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to owners of the parent, adjusted for the distribution related to perpetual capital securities. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to owners of the parent | **8,288,398** | 6,527,400 |
| Distribution related to perpetual capital securities | **(165,434)** | (96,503) |
| Profit used in the basic and diluted earnings per share calculations | **8,122,964** | 6,430,897 |

| | Number of shares | |
|---|---|---|
| | 2018 '000 | 2017 '000 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **5,490,496** | 5,495,128 |
| Effect of dilution — weighted average number of ordinary shares: Share options | **84,912** | 77,848 |
| Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation | **5,575,408** | 5,572,976 |

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## 15. OTHER PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings RMB'000 | Leasehold improvements RMB'000 | Furniture, fixtures and other plant and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| At 31 December 2017 and 1 January 2018: | | | | | |
| Cost | 42,598 | 191,184 | 194,102 | 1,645 | 429,529 |
| Accumulated depreciation | (14,772) | (119,907) | (146,983) | – | (281,662) |
| Net carrying value | 27,826 | 71,277 | 47,119 | 1,645 | 147,867 |
| At 1 January 2018, net of accumulated depreciation | 27,826 | 71,277 | 47,119 | 1,645 | 147,867 |
| Additions | – | 27,798 | 24,221 | – | 52,019 |
| Acquisition of subsidiaries (note 34) | – | – | 41,808 | – | 41,808 |
| Depreciation | (2,180) | (38,456) | (21,787) | – | (62,423) |
| Disposals | (452) | – | 115 | (1,645) | (1,982) |
| Deemed disposal of subsidiaries (note 35(b)) | – | – | (632) | – | (632) |
| Exchange realignment | – | 216 | (859) | – | (643) |
| At 31 December 2018, net of accumulated depreciation | 25,194 | 60,835 | 89,985 | – | 176,014 |
| At 31 December 2018: | | | | | |
| Cost | 41,683 | 219,185 | 257,591 | – | 518,459 |
| Accumulated depreciation | (16,489) | (158,350) | (167,626) | – | (342,445) |
| Net carrying value | 25,194 | 60,835 | 89,965 | – | 176,014 |

## 15. OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Land and buildings RMB'000 | Leasehold improvements RMB'000 | Furniture, fixtures and other plant and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2017** | | | | | |
| At 1 January 2017: | | | | | |
| Cost | 42,598 | 181,061 | 178,483 | — | 402,142 |
| Accumulated depreciation | (12,598) | (88,346) | (116,881) | — | (217,825) |
| Net carrying value | 30,000 | 92,715 | 61,602 | — | 184,317 |
| At 1 January 2017, net of accumulated depreciation | 30,000 | 92,715 | 61,602 | — | 184,317 |
| Additions | — | 9,943 | 24,699 | 1,645 | 36,287 |
| Acquisition of subsidiaries (note 34) | — | 1,200 | — | — | 1,200 |
| Depreciation | (2,174) | (31,615) | (33,316) | — | (67,105) |
| Disposals | — | (488) | (3,217) | — | (3,705) |
| Deemed disposal of subsidiaries upon loss of control (note 35(b)) | — | — | (1,400) | — | (1,400) |
| Exchange realignment | — | (478) | (1,249) | — | (1,727) |
| At 31 December 2017, net of accumulated depreciation | 27,826 | 71,277 | 47,119 | 1,645 | 147,867 |
| At 31 December 2017: | | | | | |
| Cost | 42,598 | 191,184 | 194,102 | 1,645 | 429,529 |
| Accumulated depreciation | (14,772) | (119,907) | (146,983) | — | (281,662) |
| Net carrying value | 27,826 | 71,277 | 47,119 | 1,645 | 147,867 |

## 16. INVESTMENT PROPERTIES

| | Completed RMB'000 | Under construction RMB'000 | Total RMB'000 |
|---|---|---|---|
| Carrying amount at 1 January 2017 | 6,364,578 | 5,526,301 | 11,890,879 |
| Additions | 108,835 | 363,653 | 472,488 |
| Acquisition of subsidiaries (note 34) | 106,729 | — | 106,729 |
| Disposals | (20,616) | — | (20,616) |
| Transfer from properties under development for sale | 224,654 | — | 224,654 |
| Transfer from completed properties for sale | 81,236 | — | 81,236 |
| Transfer upon completion of construction | 890,941 | (890,941) | — |
| Net gain from a fair value adjustment | 1,147,950 | 1,794,326 | 2,942,276 |
| Exchange realignment | (32,816) | — | (32,816) |
| Carrying amount at 31 December 2017 and 1 January 2018 | **8,871,491** | **6,793,339** | **15,664,830** |
| Additions | **301,685** | **604,829** | **906,514** |
| Transfer upon completion of construction | **2,632,413** | **(2,632,413)** | **—** |
| Net gain from a fair value adjustment | **1,137,543** | **603,183** | **1,740,726** |
| Exchange realignment | **25,941** | **—** | **25,941** |
| Carrying amount at 31 December 2018 | **12,969,073** | **5,368,938** | **18,338,011** |

The Group's investment properties were revalued on 31 December 2018 based on valuations performed by APAC Asset Valuation and Consulting Limited and Vocation (Beijing) International Assets Appraisal Co., Ltd., independent professionally qualified valuers, at RMB18,338,011,000 (2017: RMB15,664,830,000).

At 31 December 2018, certain of the Group's investment properties were pledged to secure certain bank and other loans granted to the Group (note 38).

The Group's completed investment properties are leased to third parties under operating leases, further summary details of which are included in (note 39(a)).

### Fair value hierarchy

For the years ended 31 December 2018 and 2017, the fair value measurements of all investment properties of the Group were categorised within Level 3 of the fair value hierarchy and details of their movements are disclosed above.

In the opinion of the directors, for all investment properties that are measured at fair value, the properties have been used in their highest best use.

# 16. INVESTMENT PROPERTIES (CONTINUED)

## Fair value hierarchy (Continued)

The following table illustrates the fair value measurement of the Group's investment properties:

| | Fair value measurement using significant unobservable inputs (Level 3) 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Recurring fair value measurement for: | | |
| Leasehold land — Hong Kong | **1,557,226** | 626,932 |
| Commercial — Mainland China | **11,411,847** | 8,244,559 |
| Investment properties under development | **5,368,938** | 6,793,339 |
| | **18,338,011** | 15,664,830 |

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 (2017: Nil).

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

| | Valuation techniques | Significant unobservable inputs | Range 2018 | 2017 |
|---|---|---|---|---|
| Investment properties | | | | |
| — Leasehold land — Hong Kong | Direct comparison approach | Market unit sale rate (RMB/sq.m.) | **241,326–245,473** | 230,077–249,530 |
| — Commercial — Mainland China | Direct comparison approach | Market unit sale rate (RMB/sq.m.) | **16,676–150,380** | 9,020–122,443 |
| — Commercial — Mainland China | Income approach | Risk-adjusted discount rate | **3.3% to 5%** | 2.1% to 3.3% |
| | | Expected market rental growth | **2% to 10%** | 3.33% to 10% |
| | | Expected occupancy rate | **95% to 100%** | 85% to 100% |
| | | Expected yearly unit rental income (RMB/sq.m.) | **260–2,292** | 252–2,294 |
| | | Capitalisation rate | **3.5% to 6.5%** | 3.5% to 7.0% |
| Investment properties under construction | Residual approach | Development profit | **20%** | 20% to 30% |
| | | Risk-adjusted discount rate | **4.35% to 8%** | 4.75% |

## 16. INVESTMENT PROPERTIES (CONTINUED)

### Fair value hierarchy (Continued)

The valuations of completed investment properties were based on either the income approach by capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary rental income potential of the properties, which is positively correlated to the market rental growth rate, and negatively correlated to risk-adjusted discount rate, or the direct comparison method by reference to comparable market transactions, which is positively correlated to the market unit sale rate.

The valuations of investment properties under construction were based on the residual approach, and have taken into account the expended construction costs and the costs that will be expended to complete the development to reflect the quality of the completed development on the basis that the properties will be developed and completed in accordance with the Group's latest development plan. The valuations of investment properties under construction are positively correlated to the development profit and negatively correlated to the capitalisation rate.

## 17. INVESTMENTS IN ASSOCIATES

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Share of net assets | **537,180** | 153,386 |
| Due from an associate | **910,000** | 2,500,000 |
| | **1,447,180** | 2,653,386 |

Note: As at 31 December 2018, the amount due from an associate is unsecured, bearing interest at fixed interest rate of 7.98% (2017: 5.8%) per annum and repayable in 2021 (2017: 2019).

The particulars of material associates, which are unlisted corporate entities, are as follows:

| Name of associate | Form of business structure | Place of incorporation and business | Particulars of registered/paid-up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|---|---|
| Shenzhen Kaifeng Industrial Co., Ltd. ("Shenzhen Kaifeng") (note) (深圳市凱豐實業有限公司) | Incorporated | The PRC | Registered capital RMB15,000,000 | 50% | – | 50% | Property development |
| Delight Prime Limited ("Delight Prime") (悅盛有限公司) | Incorporated | BVI | Paid-up capital US$50,000 | 20% | – | 20% | Property development |

Note: The English translation of the name is for reference only. The official name of the entity is in Chinese.

The directors consider that the Group can only exercise significant influence over Shenzhen Kaifeng and Delight Prime based on their board composition, and accordingly they are classified as associates of the Group. The associates are accounted for using the equity method in the consolidated financial statements.

## 17. INVESTMENTS IN ASSOCIATES (CONTINUED)

Amount due from an associate represented an interest-bearing loan granted to an associate. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2018, the probability of default applied was 41.03% and the loss given default was approximately 0%.

Summarised financial information of the material associates, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Gross amounts of Shenzhen Kaifeng** | | |
| Current assets | 16,794,752 | 14,609,288 |
| Non-current assets | 3,768,356 | 3,106,283 |
| Current liabilities | (15,361,935) | (12,155,513) |
| Non-current liabilities | (4,616,561) | (4,923,428) |
| Equity | 584,612 | 636,630 |
| Revenue | — | — |
| (Loss)/profit for the year | (52,108) | 558,184 |
| Other comprehensive income for the year | — | — |
| Total comprehensive (loss)/income for the year | (52,108) | 558,184 |
| **Reconciled to the Group's interest in Shenzhen Kaifeng** | | |
| Gross amounts of net assets of Shenzhen Kaifeng | 584,612 | 636,630 |
| Group's effective interest | 50% | 50% |
| Group's share of net assets of Shenzhen Kaifeng | 292,306 | 318,315 |
| Elimination of interest income | (227,605) | (142,418) |
| Elimination of other downstream transaction | (25,538) | (24,917) |
| Amount due from Shenzhen Kaifeng | — | 2,500,000 |
| Carrying amount in the consolidated financial statements | 39,163 | 2,650,980 |

## 17. INVESTMENTS IN ASSOCIATES (CONTINUED)

| | 2018<br>RMB'000 |
|---|---|
| **Gross amounts of Delight Prime** | |
| Current assets | 4,426,295 |
| Non-current assets | 19,903 |
| Current liabilities | (2,901,168) |
| Equity | 1,545,030 |
| Revenue | – |
| Loss for the year | (13,649) |
| Other comprehensive loss for the year | – |
| Total comprehensive loss for the year | (13,649) |
| **Reconciled to the Group's interest in Delight Prime** | |
| Gross amounts of net assets of Delight Prime | 1,545,030 |
| Group's effective interest | 20% |
| Group's share of net assets of Delight Prime | 309,006 |
| Elimination of other downstream transaction | (7,376) |
| Amount due from Delight Prime | 910,000 |
| Carrying amount in the consolidated financial statements | 1,211,630 |

All associates have been accounted for using the equity method in these financial statements and their financial year end dates are coterminous with that of the Group.

The following table illustrates the financial information of the Group's other associates that are not individually material:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Share of the associates' loss and total comprehensive loss for the year | (14,219) | (595) |
| Aggregate carrying amount of the Group's investments in the associates | 196,387 | 2,406 |

## 18. INVESTMENTS IN JOINT VENTURES

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Share of net assets | **6,679,464** | 1,147,949 |
| Due from joint ventures | **11,363,109** | 8,113,964 |
| | **18,042,573** | 9,261,913 |

Note: As at 31 December 2018, all amounts due from joint ventures are unsecured, bear interest at floating or fixed interest rate ranging from 3.4% to 7.30% (2017: ranging from 3.4% to 5.8%) per annum and mature from two to three years.

To address increasing land premium in public bidding, the Group started in 2016 to secure land by teaming up with resourceful joint venture partners. These joint ventures are engaged in urban development projects in Shenzhen and the nearby cities.

Details of the Group's interests in the principal joint ventures, which are accounted for using the equity method in the consolidated financial statements, are as follows:

| Name of joint venture | Form of business structure | Place of incorporation and business | Particulars of issued and paid-up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|---|---|
| Shenzhen Yingrui Industrial Co., Ltd. ("Shenzhen Yingrui") (note) (深圳市盈睿實業有限公司) | Incorporated | The PRC | Registered capital RMB10,000,000 | 50% | – | 50% | Investment holding |
| LN Development (STIRLING) PTE. LTD | Incorporated | Singapore | Registered capital SG$4,000,000 | 51% | – | 51% | Property investment |
| Shenzhen Huiyi Investment Co., Ltd. ("Shenzhen Huiyi") (note) (深圳市惠益投資有限公司) | Incorporated | The PRC | Registered capital RMB10,000,000 | 50% | – | 50% | Investment holding |
| Shenzhen Yurongshun Industrial Co., Ltd. (note) (深圳市裕榮順實業有限公司) | Incorporated | The PRC | Registered capital RMB10,000,000 | 50% | – | 50% | Investment holding |
| Shantou Logan Hongjing Property Co., Ltd. ("Shantou Hongjing") (note) (汕頭市龍光宏璟房地產有限公司) | Incorporated | The PRC | Registered capital RMB100,000,000 | 50% | – | 50% | Property development |
| Unicorn Bay Limited ("Unicorn Bay") (麒灣有限公司) | Incorporated | BVI | Paid-up capital US$50,000 | 50% | 50% | – | Investment holding |

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

The Group shares control in the above entities with other shareholders, accordingly they are classified as joint ventures of the Group. All the joint ventures in which the Group held interest are unlisted corporate entities whose quoted market prices are not available.

Amounts due from joint ventures represented interest-bearing loans granted to joint ventures. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2018, the probability of default applied was 0.68% and the loss given default was approximately 0%.

## 18. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Summarised financial information of the material joint ventures, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

| | 2018<br>RMB'000 |
|---|---|
| **Gross amounts of Shantou Hongjing** | |
| Cash and cash equivalents | 41,110 |
| Current assets | 5,093,084 |
| Non-current assets | 606 |
| Trade and other payables | (2,718,919) |
| Current liabilities (excluding trade and other payables) | (449,713) |
| Non-current liabilities | (1,898,480) |
| Equity | 67,688 |
| Revenue | — |
| Loss for the year | (32,160) |
| Other comprehensive loss for the year | — |
| Total comprehensive loss for the year | (32,160) |
| **Reconciled to the Group's interest in Shantou Hongjing** | |
| Gross amounts of net assets of Shantou Hongjing | 67,688 |
| Group's effective interest | 50% |
| Group's share of net assets of Shantou Hongjing | 33,844 |
| Elimination of interest income | (13,392) |
| Elimination of other downstream transaction | (18,186) |
| Amount due from the joint venture | 1,190,000 |
| Carrying amount in the consolidated financial statements | 1,192,266 |

## 18. INVESTMENTS IN JOINT VENTURES (CONTINUED)

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Gross amounts of Shenzhen Yingrui** | | |
| Cash and cash equivalents | 859 | 21 |
| Current assets | 4,562,559 | 2,155,590 |
| Non-current assets | 7,237 | 29,516 |
| Trade and other payables | (4,728,402) | (1,474,674) |
| Non-current liabilities | — | (800,000) |
| Equity | (157,747) | (89,547) |
| Revenue | — | — |
| Loss for the year | (68,200) | (1,726) |
| Other comprehensive loss for the year | — | — |
| Total comprehensive loss for the year | (68,200) | (1,726) |
| **Reconciled to the Group's interest in Shenzhen Yingrui** | | |
| Gross amounts of net liabilities of Shenzhen Yingrui | (157,747) | (89,507) |
| Group's effective interest | 50% | 50% |
| Group's share of net liabilities of Shenzhen Yingrui (note) | — | (2) |
| Elimination of interest income | — | 2 |
| Amount due from the joint venture | 1,700,000 | 1,000,000 |
| Carrying amount in the consolidated financial statements | 1,700,000 | 1,000,000 |

Note: The share of net liabilities of Shenzhen Yingrui does not include the share of accumulated losses exceeding the investment made by the Group amounting to RMB77,128,000 (2017: RMB43,028,000).

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## 18. INVESTMENTS IN JOINT VENTURES (CONTINUED)

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| **Gross amounts of Unicorn Bay** | | |
| Cash and cash equivalents | **16,574** | 4,561 |
| Current assets | **15,684,655** | 14,114,731 |
| Non-current assets | **161,688** | 94 |
| Trade and other payables | **(552,424)** | (8,125,624) |
| Current liabilities (excluding trade and other payables) | **—** | (6,269,535) |
| Non-current liabilities | **(6,228,659)** | — |
| Equity | **9,081,834** | (275,773) |
| Revenue | **—** | — |
| Loss for the year | **(7,877)** | (275,773) |
| Other comprehensive loss for the year | **—** | — |
| Total comprehensive loss for the year | **(7,877)** | (275,773) |
| **Reconciled to the Group's interest in Unicorn Bay** | | |
| Gross amounts of equity/(net liabilities) of Unicorn Bay | **9,081,834** | (275,773) |
| Group's effective interest | **50%** | 50% |
| Group's share of equity of Unicorn Bay (note) | **4,540,917** | — |
| Amount due from the joint venture | **483,043** | 4,057,114 |
| Carrying amount in the consolidated financial statements | **5,023,960** | 4,057,114 |

Note: During the year ended 31 December 2017, the share of net liabilities of Unicorn Bay did not include the share of accumulated losses exceeding the investment made by the Group amounting to RMB137,887,000.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Share of joint ventures' loss for the year, net | **(125,351)** | (68,091) |
| Share of the joint ventures' other comprehensive loss for the year | **—** | — |
| Share of the joint ventures' total comprehensive loss for the year | **(125,351)** | (68,091) |
| Aggregate carrying amount of the Group's investments in the joint ventures | **10,126,347** | 3,004,799 |

## 19. INVENTORIES

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Construction: | | |
| Raw materials | **200,232** | 43,802 |
| Property development: | | |
| Properties held for development for sale | **26,047,401** | 5,114,830 |
| Properties under development for sale | **20,277,085** | 25,504,340 |
| Completed properties for sale | **8,255,980** | 7,794,767 |
| | **54,580,466** | 38,413,937 |
| | **54,780,698** | 38,457,739 |
| Properties expected to be recovered within normal operating cycle: | | |
| Within one year | **16,917,665** | 12,204,332 |
| After one year | **37,662,801** | 26,209,605 |
| | **54,580,466** | 38,413,937 |

All the completed properties held for sale are stated at the lower of cost and net realisable value.

At 31 December 2018, certain of the Group's properties held for development for sale, properties under development for sale and completed properties for sale were pledged to secure certain bank and other loans granted to the Group (note 38).

## 20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND OTHER ASSETS

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| Trade receivables | (i) | **18,214** | 486,042 |
| Prepayments and other receivables | (vii) | **8,175,454** | 3,929,825 |
| Land deposits | (ii) | **3,046,119** | 1,230,892 |
| Amounts due from related companies | (iii) | **181,658** | 130,751 |
| Amounts due from non-controlling shareholders | (iii) | **1,623,294** | — |
| Amounts due from associates | (iv) | **5,911,652** | 3,606,723 |
| Amounts due from joint ventures | (v) | **18,691,077** | 11,045,375 |
| Costs of obtaining contracts | (vi) | **103,353** | — |
| Derivative financial instruments: | | | |
| Senior notes redemption call options (note 26(xiv)) | | **65,548** | 18,678 |
| | | **37,816,369** | 20,448,286 |

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## 20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND OTHER ASSETS (CONTINUED)

Notes:

(i) The Group's trade receivables arise from the sale of properties, leasing of investment properties and provision of construction services.

Consideration in respect of properties is payable by the purchasers in accordance with the terms of the related sale and purchase agreements. The Group normally requires its customers to make payment of monthly/quarterly charges in advance in relation to the leasing of investment properties and provision of property management services.

Since the Group's trade receivables are related to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. All trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the revenue recognition date or invoice date and net of loss allowance, is as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Current to 30 days | 488 | 317,566 |
| 31 days to 90 days | 8,190 | 800 |
| 91 to 180 days | 1,057 | 138,454 |
| 181 to 365 days | 8,375 | 27,990 |
| Over 365 days | 104 | 1,232 |
| | 18,214 | 486,042 |

**Impairment under HKFRS 9 for the year ended 31 December 2018**

The financial impact of expected credit losses for trade receivables under HKFRS 9 is insignificant for the year ended 31 December 2018.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

| | 2017<br>RMB'000 |
|---|---|
| Neither past due nor impaired | 456,820 |
| Less than 90 days past due | 27,990 |
| 181 days to 365 days past due | 1,232 |
| | 486,042 |

Receivables that were past due but not impaired had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

(ii) The amounts represented deposits for the acquisition of land.

(iii) The amounts due from related companies and non-controlling shareholders are unsecured, interest-free and repayable on demand.

(iv) Except for the amount of RMB2,490 million (2017: Nil) which is unsecured, bearing interest at 6.88% per annum and repayable in 2019, other amounts due from associates are unsecured, interest-free and repayable on demand.

## 20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND OTHER ASSETS (CONTINUED)

Notes: (Continued)

(v) Except for the amounts of RMB862 million (2017: Nil) which are unsecured, bearing interest ranging from 4.79% to 5.35% per annum and repayable in 2019, other amounts due from joint ventures are unsecured, interest-free and repayable on demand.

(vi) The amount represents prepaid agency fees in connection with the sale of properties.

(vii) The financial impact of expected credit losses for financial assets stated at amortised cost included in prepayments and other receivables amounting to RMB2,736 million (2017: RMB1,206 million) under HKFRS 9 was insignificant for the year ended 31 December 2018.

## 21. ASSETS AND LIABILITIES UNDER CROSS-BORDER GUARANTEE ARRANGEMENTS

During 2018 and 2017, the Group entered into some cross-border guarantee arrangements with certain financial institutions, whereby certain onshore funding (i.e. in the PRC) has been used as a pledge against advances to offshore (i.e. in Hong Kong) for the Group's general working capital.

Pursuant to these arrangements which are made in compliance with the relevant rules and regulations promulgated by the State Administration of Foreign Exchange, funds are advanced to the Group's subsidiaries in Hong Kong by depositing a certain amount of funds in the relevant financial institutions by the Group's subsidiaries in the PRC The net cost of such arrangements is less than 1% per annum of the total funds advanced.

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Assets under cross-border guarantee arrangements | **2,353,657** | 1,745,380 |
| Portion classified as current assets | **(1,827,322)** | (1,745,380) |
| Non-current portion | **526,335** | — |
| Liabilities under cross-border guarantee arrangements | **3,041,568** | 1,745,380 |
| Portion classified as current liabilities | **(2,515,233)** | (1,745,380) |
| Non-current portion | **526,335** | — |

# 22. CASH AND CASH EQUIVALENTS AND RESTRICTED AND PLEDGED DEPOSITS

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Cash and bank balances | **35,717,151** | 22,407,985 |
| Less: Restricted deposits (note (a)) | **(6,677,732)** | (1,726,734) |
| Pledged deposits (notes (b), (c)) | **(586,957)** | (803,059) |
| Cash and cash equivalents | **28,452,462** | 19,878,192 |

Notes:

(a) Pursuant to the relevant regulations in the PRC, certain property development companies of the Group are required to place at designated bank accounts certain amounts of pre-sales proceeds of properties as guarantee deposits for the construction of the related properties. The deposits can only be used for purchases of construction materials and payments of construction fees for the relevant property projects. The deposits will be released after completion of related pre-sold properties or issuance of the real estate ownership certificates of the properties, whichever is the earlier. As at 31 December 2018, such guarantee deposits amounted to RMB6,677,732,000 (2017: RMB1,726,734,000).

(b) According to the relevant mortgage facility agreements signed by certain subsidiaries of the Group with their banks, the subsidiaries are required to place at designated bank accounts certain amounts as deposits for potential default of mortgage loans advanced to property purchasers. Such guarantee deposits will be released after the property ownership certificates of the relevant properties are passed to the banks. As at 31 December 2018, such deposits amounted to RMB328,786,000 (2017: RMB578,438,000).

(c) As at 31 December 2018, certain bank deposits of the Group were pledged to secure certain bank and other loans granted to the Group (note 38).

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB31,603,370,000 (2017: RMB17,009,002,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Non-pledged time deposits are made for varying periods of between seven days and six months depending on immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. All the bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

## 23. TRADE AND OTHER PAYABLES

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Trade payables | (i) | **12,503,788** | 7,304,745 |
| Other payables and accrued charges | (ii) | **7,117,016** | 2,904,694 |
| Customer deposits received | | **41,630** | 68,421 |
| Rental and other deposits received | | **112,012** | 86,563 |
| Receipts in advance | (iii) | **—** | 19,614,745 |
| Proceeds from asset-backed securities | (iv) | **1,594,890** | 1,570,128 |
| Amounts due to non-controlling shareholders | (v) | **10,684,550** | — |
| Amounts due to related companies | (vi) | **14,250** | 7,401 |
| Amounts due to joint ventures | (vii) | **15,378,135** | 5,719,091 |
| Amounts due to associates | (viii) | **3,500** | — |
| | | **47,449,771** | 37,275,788 |

Notes:

(i) An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Current to 30 days | **3,512,217** | 2,385,566 |
| 31 to 90 days | **2,719,421** | 757,914 |
| 91 to 180 days | **1,411,230** | 383,827 |
| 181 to 365 days | **2,805,100** | 2,435,913 |
| Over 365 days | **2,055,820** | 1,341,525 |
| | **12,503,788** | 7,304,745 |

The trade payables are non-interest-bearing.

(ii) Other payables are non-interest-bearing and are expected to be settled within one year.

(iii) Receipts in advance represent sales proceeds received from buyers in connection with the Group's pre-sales of properties. The balance was reclassified to contract liabilities upon the adoption of HKFRS 15.

(iv) The balance represented proceeds, deduction of certain percentage of upfront fee, received from a specific purpose entity ("SPE") set up by a financial institution in the PRC for the issuance of asset-backed securities, to which the Group has transferred the right of receipt of the remaining sale proceeds of certain properties to be delivered by the Group. Under an assignment arrangement between the Group and the SPE, as and when the Group receives the sale proceeds from customers, the Group would remit to the holder of the asset-backed securities any cash flows it collects on behalf of the SPE.

(v) The amounts due to non-controlling shareholders are unsecured, interest-free and repayable on demand, except for amounts of RMB94,000,000 (2017: Nil) as at 31 December 2018 which bear interest at fixed interest rate ranging from 5.7% to 7.0% (2017: Nil) per annum.

(vi) The amounts due to related companies are unsecured, interest-free and repayable on demand.

(vii) The amounts due to joint ventures are unsecured, interest-free and repayable on demand, except for an amount of RMB7,542,163,000 (2017: Nil) which is repayable in December 2019.

(viii) The amounts due to associates are unsecured, interest-free and repayable on demand.

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## 24. CONTRACT LIABILITIES

Contract liabilities mainly represent sales proceeds received from buyers in connection with the Group's pre-sales of properties. The decrease in balance was mainly due to addition of contracted sales during the year and an amount of RMB8,698 million recognised in relation to acquisition of subsidiaries that are a business, partially offset by the delivery of properties in the current year.

## 25. BANK AND OTHER LOANS

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **RMB'000** | Effective interest rate (%) | Maturity | RMB'000 |
| Current | | | | | | |
| Bank loans — secured | **4.83–8.68** | **2019** | **2,024,692** | 4.75–7.95 | 2018 | 1,066,000 |
| Bank loans — unsecured | **4.13–8.50** | **2019** | **4,554,600** | 2.19–5.80 | 2018 | 1,670,285 |
| Other loans — secured | **6.50–10.13** | **2019** | **1,325,600** | 6.93–8.68 | 2018 | 1,064,400 |
| Other loans — unsecured | **4.99–8.40** | **2019** | **1,672,200** | 8.00–8.40 | 2018 | 1,797,200 |
| | | | **9,577,092** | | | 5,597,885 |
| Non-current | | | | | | |
| Bank loans — secured | **5.24–8.50** | **2020–2021** | **2,186,900** | 3.52–7.95 | 2019–2026 | 9,142,470 |
| Bank loans — unsecured | **3.06–8.50** | **2020–2023** | **7,004,670** | 3.11–5.80 | 2019–2020 | 1,988,965 |
| Other loans — secured | **6.41–8.00** | **2020** | **565,700** | 6.50–8.68 | 2019–2022 | 1,430,000 |
| Other loans — unsecured | **7.55–10.90** | **2020** | **2,209,700** | 4.99–5.70 | 2019 | 1,630,000 |
| | | | **11,966,970** | | | 14,191,435 |
| | | | **21,544,062** | | | 19,789,320 |

## 25. BANK AND OTHER LOANS (CONTINUED)

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | **6,579,292** | 2,736,285 |
| In the second year | **2,028,080** | 6,715,376 |
| In the third to fifth years, inclusive | **7,163,490** | 4,249,329 |
| Beyond five years | **–** | 166,730 |
| | **15,770,862** | 13,867,720 |
| Other loans repayable: | | |
| Within one year | **2,997,800** | 2,861,600 |
| In the second year | **2,775,400** | 2,590,000 |
| In the third to fifth years, inclusive | **–** | 470,000 |
| | **5,773,200** | 5,921,600 |
| | **21,544,062** | 19,789,320 |

Notes:

(a) Certain of the Group's bank and other loans are secured by the Group's equity interests in certain subsidiaries, bank deposits, land and buildings, investment properties, properties held for development for sale, properties under development for sale and completed properties for sale and other receivables, details of which are disclosed in note 38 to the financial statements.

(b) Except for certain bank and other loans of RMB3,403,248,000 (2017: RMB2,205,131,000) and RMB3,683,677,000 (2017: Nil) as at 31 December 2018 which were denominated in HK$ and Singapore dollars ("SG$"), respectively, all of the Group's bank and other loans were denominated in RMB.

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31 December 2018

## 26. SENIOR NOTES

| | Effective interest rate (% per annum) | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 |
|---|---|---|---|
| US$260m Senior Notes (notes (i), (xiv)) | 7.91 | **1,839,031** | 1,749,499 |
| US$200m Senior Notes (notes (ii), (xiv)) | 5.80 | **1,357,860** | 1,294,182 |
| US$450m Senior Notes (notes (iii), (xiv)) | 5.42 | **3,023,365** | 2,880,422 |
| US$256m Senior Notes (notes (iv)) | 5.19 | **–** | 1,664,865 |
| US$200m Senior Notes due 2018 (note (v)) | 5.45 | **–** | 1,300,676 |
| US$250m Senior Notes (notes (vi), (xiv)) | 6.75 | **1,720,840** | – |
| SG$200m Senior Notes (notes (vii), (xiv)) | 6.60 | **1,003,312** | – |
| US$300m Senior Notes (notes (viii), (xiv)) | 7.32 | **2,045,408** | – |
| US$100m Senior Notes (notes (ix), (xiv)) | 7.62 | **677,384** | – |
| US$300m Senior Notes due 2021 (notes (x), (xiv)) | 8.05 | **2,062,713** | – |
| US$80m Senior Notes (notes (xi), (xiv)) | 9.74 | **526,979** | – |
| US$370m Senior Notes (notes (xii), (xiv)) | 9.20 | **2,507,775** | – |
| | | **16,764,667** | 8,889,644 |
| Portion classified as current liabilities (note (xiii)) | | **–** | (2,965,541) |
| Non-current portion (note (xiii)) | | **16,764,667** | 5,924,103 |

Notes:

(i) On 19 January 2016, the Company issued senior notes with a principal amount of US$260,000,000 due in 2020 (the "US$260m Senior Notes"). The senior notes are interest bearing at 7.70% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 19 January 2020. At any time and from time to time on or after 19 January 2019, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

(ii) On 3 January 2017, the Company issued senior notes with a principal amount of US$200,000,000 due in 2022 (the "US$200m Senior Notes"). The senior notes are interest bearing at 5.75% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 3 January 2022. At any time and from time to time on or after 3 January 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

(iii) On 23 May 2017, the Company issued senior notes with a principal amount of US$450,000,000 due in 2023 (the "US$450m Senior Notes"). The senior notes are interest bearing at 5.25% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 23 February 2023. At any time and from time to time on or after 23 May 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

(iv) On 3 November 2017, the Company issued senior notes with a principal amount of US$256,000,000 due in 2018 (the "US$256m Senior Notes"). The senior notes are interest bearing at 5.125% per annum which is payable semi-annually in arrears. The maturity date of the senior notes was 2 November 2018. At any time and from time to time on or after 3 November 2017, the Company might at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum. In October 2018, the Company redeemed the US$256m Senior Notes in full upon maturity at a redemption price equal to the principal amount thereof, being US$256,000,000, plus accrued and unpaid interest of US$6,524,000.

## 26. SENIOR NOTES (CONTINUED)

Notes: (Continued)

(v) On 4 December 2017, the Company issued senior notes with a principal amount of US$200,000,000 due in 2018 (the "US$200m Senior Notes due 2018"). The senior notes are interest bearing at 5.375% per annum which is payable semi-annually in arrears. The maturity date of the senior notes was 3 December 2018. At any time and from time to time on or after 4 December 2017, the Company might at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum. In November 2018, the Company redeemed the US$200m Senior Notes due 2018 in full upon maturity at a redemption price equal to the principal amount thereof, being US$200,000,000, plus accrued and unpaid interest of US$5,345,000.

(vi) On 7 March 2018, the Company issued senior notes with a principal amount of US$250,000,000 due in 2021 ("US$250m Senior Notes"). The senior notes are interest bearing at 6.375% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 7 March 2021. At any time and from time to time on or after 7 March 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

(vii) On 16 April 2018, the Company issued senior notes with a principal amount of SG$200,000,000 due in 2021 ("SG$200m Senior Notes"). The senior notes are interest bearing at 6.125% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 16 April 2021. At any time and from time to time on or after 16 April 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

(viii) On 24 April 2018, the Company issued senior notes with a principal amount of US$300,000,000 due in 2021 ("US$300m Senior Notes"). The senior notes are interest bearing at 6.875% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 24 April 2021. At any time and from time to time on or after 24 April 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

(ix) On 30 May 2018, the Company issued senior notes with a principal amount of US$100,000,000 due in 2021 ("US$100m Senior Notes"). The senior notes are consolidated and form a single series with the US$300m Senior Notes due 2021 issued on 24 April 2018. The senior notes are interest bearing at 6.875% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 24 April 2021. At any time and from time to time on or after 24 April 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

(x) On 27 August 2018, the Company issued senior notes with a principal amount of US$300,000,000 due in 2021 ("US$300m Senior Notes due 2021"). The senior notes are interest bearing at 7.5% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 27 August 2021. At any time and from time to time prior to 27 August 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

(xi) On 6 December 2018, the Company issued senior notes with a principal amount of US$80,000,000 due in 2020 ("US$80m Senior Notes"). The senior notes are interest bearing at 6.95% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 5 June 2020. At any time and from time to time prior to 5 June 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

(xii) On 12 December 2018, the Company issued senior notes with a principal amount of US$370,000,000 due in 2020 ("US$370m Senior Notes"). The senior notes are interest bearing at 8.75% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 12 December 2020. At any time and from time to time prior to 12 December 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.

(xiii) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the embedded derivatives.

(xiv) Redemption call options represent the fair value of the Company's options to early redeem the senior notes and are recorded as derivative financial instruments under "Trade and other receivables, prepayments and other assets" (note 20). The assumptions applied in determining the fair value of the redemption call options as at 31 December 2018 and 31 December 2017 are set out in note 43.

## NOTES TO FINANCIAL STATEMENTS
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# 27. CORPORATE BONDS

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Corporate bonds due in 2019 | **3,252,449** | 3,262,449 |
| Corporate bonds due in 2020 | **4,490,000** | 4,500,000 |
| Corporate bonds due in 2021 | **4,400,000** | 4,400,000 |
| Corporate bonds due in 2022 | **8,490,000** | — |
| | **20,632,449** | 12,162,449 |
| Portion classified as current liabilities | **(7,652,449)** | (7,000,000) |
| Non-current liabilities | **12,980,000** | 5,162,449 |

Notes:

(i) On 19 August 2015 and 27 August 2015 respectively, Shenzhen Logan Holdings Co., Ltd. ("Shenzhen Logan"), a company established in the PRC and a wholly-owned subsidiary of the Company, issued domestic corporate bonds on the Shanghai Stock Exchange. The coupon rates of the first and second tranche with principal amounts of RMB4,000,000,000 and RMB1,000,000,000 were fixed at 5% per annum and 4.77% per annum respectively. The terms of the first and second tranches of corporate bonds were 5 year and 4 years. At the end of third year and second year, Shenzhen Logan shall be entitled to adjust the coupon rate of first and second tranches of corporate bonds respectively and the bond holders shall be entitled to sell back the bonds to Shenzhen Logan.

The first tranche with a principal amount of RMB4,000,000,000 is classified as a current liability as at 31 December 2017. On 19 August 2018, Shenzhen Logan had adjusted the coupon rate of first tranche of corporate bonds from 5% per annum to 7.3% per annum and the first tranche of corporate bonds with an aggregate principal amount of RMB10,000,000 was sold back to Shenzhen Logan; the first tranche of corporate bonds with a remaining principal amount of RMB3,990,000,000 is due in August 2020 and is classified as a non-current liability as at 31 December 2018.

On 28 August 2017, Shenzhen Logan had adjusted the coupon rate of second tranche of corporate bonds from 4.77% per annum to 5.35% per annum and the second tranche of corporate bonds with an aggregate principal amount of RMB237,551,000 was sold back to Shenzhen Logan. The second tranche of the corporate bonds with a remaining principal amount of RMB762,449,000 is classified as a current liability as at 31 December 2018.

(ii) On 13 January 2016 and 16 May 2016 respectively, Shenzhen Logan issued non-public domestic corporate bonds on Shanghai Stock Exchange. The coupon rates of the first and second tranches with principal amounts of RMB2,500,000,000 and RMB500,000,000 were fixed at 5.8% per annum and 5.2% per annum respectively. The terms of the first and second tranches of corporate bonds were 3 years and 4 years. At the end of second year, Shenzhen Logan shall be entitled to adjust the coupon rate of first and second tranches of corporate bonds respectively and the bond holders shall be entitled to sell back the bonds to Shenzhen Logan.

On 13 January 2018, Shenzhen Logan had adjusted the coupon rate of first tranche of corporate bonds from 5.8% per annum to 6.88% per annum and the first tranche of corporate bonds with an aggregate principal amount of RMB10,000,000 was sold back to Shenzhen Logan; the first tranche of corporate bonds with a remaining principal amount of RMB2,490,000,000 is due and fully paid upon maturity in January 2019 and is classified as a current liability as at 31 December 2018.

On 16 May 2018, Shenzhen Logan had adjusted the coupon rate of second tranche of corporate bonds from 5.2% per annum to 6.99% per annum. The second tranche of corporate bonds is due in May 2020 and is classified as a non-current liability as at 31 December 2018.

## 27. CORPORATE BONDS (CONTINUED)

Notes: (Continued)

(iii) On 25 July 2016, Shenzhen Logan issued non-public domestic corporate bonds on Shenzhen Stock Exchange. The coupon rate of the domestic corporate bonds with a principal amount of RMB3,000,000,000 was 5.15% per annum. The terms of the domestic corporate bonds were 5 years. At the end of third year, Shenzhen Logan shall be entitled to adjust the coupon rate of domestic corporate bonds and bond holders shall be entitled to sell back the bonds to Shenzhen Logan. The corporate bonds with a principal amount of RMB3,000,000,000 is classified as a current liability as at 31 December 2018.

(iv) On 21 October 2016, Shenzhen Logan issued domestic corporate bonds on the Shenzhen Stock Exchange. The coupon rate of the domestic corporate bonds with a principal amount of RMB1,400,000,000 was 3.4% per annum. The terms of the domestic corporate bonds were 5 years. At the end of third year, Shenzhen Logan shall be entitled to adjust the coupon rate of domestic corporate bonds and bond holders shall be entitled to sell back the bonds to Shenzhen Logan. The corporate bonds with a principal amount of RMB1,400,000,000 is classified as a current liability as at 31 December 2018.

(v) On 1 February 2018, 22 March 2018, 21 May 2018 and 7 December 2018 respectively, Shenzhen Logan issued non-public domestic corporate bonds on the Shanghai Stock Exchange. The coupon rates of the first, second, third and fourth tranches with a principal amounts of RMB2,000,000,000, RMB2,000,000,000, RMB1,000,000,000 and RMB1,000,000,000 were fixed at 6.99% per annum, 7.20% per annum, 7.30% per annum and 7% per annum respectively. The terms of all these four domestic corporate bonds were 4 years. At the end of second year, Shenzhen Logan shall be entitled to adjust the coupon rate of all these four domestic corporate bonds and the bond holders shall be entitled to sell back the bonds to Shenzhen Logan. These four corporate bonds are due in 2022 and are classified as non-current liabilities as at 31 December 2018.

(vi) On 20 November 2018, Shenzhen Logan issued domestic corporate bonds on the Shenzhen Stock Exchange. The coupon rate of the domestic corporate bonds with a principal amount of RMB2,490,000,000 was 5.98% per annum. The terms of the domestic corporate bonds were 4 years. At the end of second year, Shenzhen Logan shall be entitled to adjust the coupon rate of domestic corporate bonds and bond holders shall be entitled to sell back the bonds to Shenzhen Logan. The corporate bonds is classified as a non-current liability as at 31 December 2018.

## 28. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

| | Revaluation of properties RMB'000 | Fair value adjustments arising from business combination RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2017 | 1,802,468 | 184,010 | 1,986,478 |
| Charged/(credited) to profit or loss during the year | 735,569 | (13,644) | 721,925 |
| **At 31 December 2017 and 1 January 2018** | **2,538,037** | **170,366** | **2,708,403** |
| Charged/(credited) to profit or loss during the year | **435,182** | **(3,680)** | **431,502** |
| Acquisition of subsidiaries (note 34(b)) | **–** | **135,009** | **135,009** |
| **At 31 December 2018** | **2,973,219** | **170,366** | **3,274,914** |

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## 28. DEFERRED TAX (CONTINUED)

### Deferred tax assets

| | Unrealised profits arising from intra-group transactions RMB'000 | Provision of LAT RMB'000 | Losses available for offsetting against future taxable profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2017 | 249,008 | 263,284 | 120,592 | 632,884 |
| Credited to profit or loss during the year | 16,187 | 235,746 | 18,496 | 270,429 |
| At 31 December 2017 and 1 January 2018 | **265,195** | **499,030** | **139,088** | **903,313** |
| Credited to profit or loss during the year | **204,418** | **156,471** | **88,029** | **448,918** |
| At 31 December 2018 | **469,613** | **655,501** | **227,117** | **1,352,231** |

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | **(649,725)** | (330,206) |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **2,572,408** | 2,135,296 |
| | **1,922,683** | 1,805,090 |

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB34,368,743,000 at 31 December 2018 (2017: RMB17,984,337,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 29. SHARE CAPITAL

A summary of movements in the Company's issued share capital is as follows:

| | 2018 Number of shares '000 | 2018 HK$'000 | 2017 Number of shares '000 | 2017 HK$'000 |
|---|---|---|---|---|
| **Ordinary shares, issued and fully paid:** | | | | |
| At 1 January | **5,487,167** | **548,717** | 5,496,322 | 549,632 |
| Repurchase of shares | **(15,086)** | **(1,509)** | (15,652) | (1,565) |
| Issuance of shares in connection with the exercise of share options | **18,116** | **1,812** | 6,497 | 650 |
| At 31 December | **5,490,197** | **549,020** | 5,487,167 | 548,717 |
| RMB'000 equivalent at 31 December | | **434,041** | | 433,828 |

Notes:

(a) Pursuant to section 37(3) of the Companies Law of the Cayman Islands, an amount equivalent to the fair value of the shares repurchased and cancelled of HK$130,949,000 (equivalent to approximately RMB114,755,000) (2017: HK$111,809,000 (equivalent to approximately RMB93,461,000) was transferred out from share capital and share premium.

(b) During the year, the subscription rights attached to 18,115,500 (2017: 6,497,250) share options were exercised at the subscription price of HK$2.340 (2017: HK$2.340) per share, resulting in the issue of an aggregate of 18,115,500 shares for a total cash consideration of HK$42,390,000 (equivalent to approximately RMB36,761,000) (2017: HK$15,204,000 (equivalent to approximately RMB12,765,000) before expenses. An amount of HK$18,519,000 (equivalent to approximately RMB14,824,000) (2017: HK$6,914,000 (equivalent to approximately RMB5,779,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

### Share options

Details of the Company's share option scheme are included in note 30 to the consolidated financial statements.

## 30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted by an ordinary resolution of the shareholders of the Company on 18 November 2013. Full-time and part-time employees, executives, officers or directors (including independent non-executive directors) of the Group and any advisors, consultants, agent, suppliers, customers, distributors and such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group are included in the eligible participants under the Scheme. The maximum number of shares may be granted is 10% of the shares in issue immediately upon completion of the Global offering. Each participant cannot be entitled to more than 0.1% of the total number of shares in issue in any 12-month period unless approval from the independent non-executive directors of the Company is obtained. The option shall expire, in any event, not later than 10 years from the date of grant of the option subject to the provision for early termination set out in the Scheme.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to directors, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of the share option is determinable by the directors, but should not be less than the highest of (i) the official closing price of the shares of the Company as stated in the Stock Exchange daily quotation sheet on the date of grant of the share options; (ii) the average official closing price of the shares of the Company as stated in the Stock Exchange for the five business days immediately preceding the date of the offer; and (iii) the nominal value of the shares of the Company.

## 30. SHARE OPTION SCHEME (CONTINUED)

Share options do not confer rights on the holders to dividends or to vote at shareholder's meetings.

The following share options were outstanding under the Scheme during the year:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$ per share** | **Number of options** | Weighted average exercise price HK$ per share | Number of options |
| At beginning of year | **4.49** | **167,160,500** | 2.34 | 120,264,658 |
| Granted during the year | **10.45** | **86,400,000** | 7.43 | 70,762,000 |
| Lapsed during the year | **7.43** | **(4,140,000)** | — | — |
| Forfeited during the year | **7.65** | **(14,587,000)** | 2.34 | (17,368,908) |
| Exercised during the year | **2.34** | **(18,115,500)** | 2.34 | (6,497,250) |
| At 31 December | **6.78** | **216,718,000** | 4.49 | 167,160,500 |

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

| **2018 Number of options** | 2017 Number of options | Exercise price HK$ | Exercise period |
|---|---|---|---|
| **11,216,000** | — | 7.64 | 10/22/2021–10/22/2028 |
| **12,592,000** | — | 7.64 | 10/22/2022–10/22/2028 |
| **12,592,000** | — | 7.64 | 10/22/2023–10/22/2028 |
| **15,407,666** | — | 12.5 | 6/8/2021–6/8/2028 |
| **15,407,667** | — | 12.5 | 6/8/2023–6/8/2028 |
| **15,407,667** | — | 12.5 | 6/8/2024–6/8/2028 |
| **14,631,000** | 17,690,500 | 7.43 | 8/25/2020–8/25/2027 |
| **14,771,000** | 17,690,500 | 7.43 | 8/25/2021–8/25/2027 |
| **14,771,000** | 17,690,500 | 7.43 | 8/25/2022–8/25/2027 |
| **14,771,000** | 17,690,500 | 7.43 | 8/25/2023–8/25/2027 |
| **4,100,000** | 10,609,000 | 2.34 | 5/29/2016–5/28/2020 |
| **20,856,000** | 33,122,500 | 2.34 | 5/29/2017–5/28/2020 |
| **34,358,500** | 34,892,500 | 2.34 | 5/29/2018–5/28/2020 |
| **15,836,500** | 17,774,500 | 2.34 | 5/29/2019–5/28/2020 |
| **216,718,000** | 167,160,500 | | |

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## 30. SHARE OPTION SCHEME (CONTINUED)

The fair value of the share options granted during the year was HK$268,802,000 (equivalent to RMB235,524,000) (ranging from HK$2.01 to HK$3.93 each) (2017: HK$100,867,000 (equivalent to RMB84,316,000)), of which the Group recognised a share option expense of HK$13,713,000 (equivalent to RMB12,015,000) (2017: HK$8,465,000 (equivalent to RMB7,076,000)) during the year.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted and the following table lists the major inputs used:

| | October 2018 | June 2018 | 2017 | 2014 |
|---|---|---|---|---|
| Dividend yield (%) | 5% | 3% | 5.5% | — |
| Expected volatility (%) | 37% | 35% | 32% | 56% |
| Risk-free interest rate (%) | 2.45% | 2.29% | 1.54% | 1.26% |
| Exit rates of the grantees of the options granted under the Scheme (%) | 7.5% | 7.5% | 0% | 0% |

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 216,718,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 216,718,000 additional ordinary shares of the Company and additional share capital of HK$21,672,000 (equivalent to RMB18,980,000) and share premium of HK$1,447,676,000 (equivalent to RMB1,268,454,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 211,404,000 share options outstanding under the Scheme, which represented approximately 3.85% of the Company's shares in issue as at that date.

## 31. PERPETUAL CAPITAL SECURITIES

On 31 May 2017, the Company issued perpetual capital securities with a principal amount of US$350,000,000 (equivalent to approximately RMB2,363,346,000).

The securities confer the holders a right to receive distributions at the applicable distribution rate of 7% per annum from and including 31 May 2017, payable semi-annually on 31 May and 30 November of each year. The Company may, at its sole discretion, elect to defer a distribution pursuant to the terms of the securities. Unless and until the Company satisfies in full all outstanding arrears of distribution and any additional distribution amount, the Company shall not declare or pay any dividends, distributions or make payment on, and will procure that no dividend or other payment is made on or redeem, reduce, cancel, buy-back or acquire for any consideration any share capital thereof. The securities may be redeemed at the option of the Company, in whole but not in part.

In the opinion of the directors, the Company is able to control the delivery of cash or other financial assets to the holders of the perpetual capital securities due to redemption other than an unforeseen liquidation of the Company. Accordingly, the perpetual capital securities are classified as equity instruments of the Company.

## 32. RESERVES

### (i) Share premium

The share premium account is governed by the Cayman Companies Law and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in paying distributions or dividends to equity shareholders.

### (ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of group entities. The reserve is dealt with in accordance with the accounting policy set out in note 3.

### (iii) PRC statutory reserves

PRC statutory reserves include the general reserve, statutory surplus reserve and statutory reserve fund.

#### General reserve

The general reserve is non-distributable and the transfer to this reserve is determined by the board of directors in accordance with the relevant laws and regulations of the PRC. This reserve can be used to offset accumulated losses and increase capital upon approval from the relevant authorities.

#### Statutory surplus reserve

According to the PRC Company Law, the PRC subsidiaries of the Group (excluding foreign investment enterprises) are required to transfer 10% of their profit after taxation, as determined under the PRC Accounting Regulations, to the statutory surplus reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

#### Statutory reserve fund

Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

### (iv) Share-based compensation reserve

Share-based compensation reserve represents the fair value of services in respect of share options granted under the share option scheme.

The share options lapsed due to the resignation of the certain mid-level managers. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the related share-based compensation reserve is transferred to retained profits.

## 33. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

The following table lists out the information relating to Huizhou Dongzhen and Shenzhen Logan Junjing, the subsidiaries of the Group which have material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

| | Huizhou Dongzhen | | Shenzhen Logan Junjing | |
|---|---|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 | **2018 RMB'000** | 2017 RMB'000 |
| NCI percentage | **18%** | 0% | **50%** | 28.6% |
| Current assets | **9,429,433** | – | **25,999,378** | 20,631,536 |
| Non-current assets | **2,513,183** | – | **7,726,011** | 6,022,018 |
| Current liabilities | **(3,257,267)** | – | **(12,609,400)** | (9,440,551) |
| Non-current liabilities | **(1,746,191)** | – | **(1,127,319)** | (5,126,741) |
| Net assets | **6,939,158** | – | **19,988,670** | 12,086,262 |
| Carrying amount of NCI | **1,500,000** | – | **3,500,000** | 3,456,673 |
| Revenue | **185,567** | – | **18,107,983** | – |
| (Loss)/profit for the year | **(136,229)** | – | **4,372,807** | 1,044,210 |
| Total comprehensive (loss)/income | **(136,229)** | – | **4,372,807** | 1,044,210 |
| Profit allocated to NCI | **–** | – | **48,601** | 433,331 |
| Cash (outflow)/inflow from operating activities | **(1,206,171)** | – | **954,694** | 2,879,802 |
| Cash outflow from investing activities | **–** | – | **(231,658)** | (679,292) |
| Cash inflow/(outflow) from financing activities | **1,683,000** | – | **(866,486)** | 1,900,000 |

# 34. ACQUISITIONS OF SUBSIDIARIES

## (a) Acquisition of subsidiaries that are not a business

### (i) Year ended 31 December 2018

During the year ended 31 December 2018, the Group acquired certain assets through acquisition of subsidiaries from the joint ventures of the Group. The following table summarises the financial information in relation to the acquisition of subsidiaries.

| | Shenzhen Xingze Investment Co. Ltd. RMB'000 | Zhongshan Lianan Property Co. Ltd. RMB'000 | Shenzhen Kangqiao Jiacheng Realty Investment Co. Ltd. RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Other property, plant and equipment | 37,806 | 93 | 397 | 38,296 |
| Inventories | 466,385 | 205,090 | 12,744,382 | 13,415,857 |
| Other receivables | — | 144,680 | 995 | 145,675 |
| Tax recoverable | 753 | 2,012 | 8,755 | 11,520 |
| Cash and cash equivalents | 60,777 | 253,693 | 17,305 | 331,775 |
| Trade and other payables | (144,721) | (172,019) | (2,411,834) | (2,728,574) |
| Bank and other loans | (421,000) | (250,000) | — | (671,000) |
| Net identifiable assets | — | 183,549 | 10,360,000 | 10,543,549 |
| Satisfied by: | | | | |
| Cash consideration | — | 183,549 | — | 183,549 |
| Offset against amount due from a joint venture included in trade and other receivables, prepayments and other assets | — | — | 2,817,837 | 2,817,837 |
| Amount due to a joint venture included in trade and other payables | — | — | 7,542,163 | 7,542,163 |
| | — | 183,549 | 10,360,000 | 10,543,549 |

An analysis of the cash flows in respect of the above acquisitions is as follows:

| | Shenzhen Xingze Investment Co. Ltd. RMB'000 | Zhongshan Lianan Property Co. Ltd. RMB'000 | Shenzhen Kangqiao Jiacheng Realty Investment Co. Ltd. RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Cash consideration paid | — | (183,549) | — | (183,549) |
| Cash and cash equivalents acquired | 60,777 | 253,693 | 17,305 | 331,775 |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | 60,777 | 70,144 | 17,305 | 148,226 |

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## 34. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

### (a) Acquisition of subsidiaries that are not a business (Continued)

#### (ii) Year ended 31 December 2017

During the year ended 31 December 2017, the Group acquired certain assets through acquisition of subsidiaries. The following table summarises the financial information in relation to the acquisition of subsidiaries.

| | Zhuhai Doumenfushen Property Development Co. Ltd. RMB'000 | Huizhou Aoda Property Development Co. Ltd. RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Other property, plant and equipment | – | – | 1,200 | 1,200 |
| Investment properties | – | – | 106,729 | 106,729 |
| Inventories | 391,331 | 399,059 | 340,828 | 1,131,218 |
| Trade and other receivables, prepayments and other assets | 3,430 | 30,945 | 1,525,938 | 1,560,313 |
| Tax recoverable | (1) | – | 10 | 9 |
| Cash and cash equivalents | 40 | 2 | 5,855 | 5,897 |
| Trade and other payables | (21,944) | (180,006) | (114,949) | (316,899) |
| Non-controlling interests | – | – | (5,394) | (5,394) |
| Bank and other loans | – | – | (1,100,000) | (1,100,000) |
| Net identifiable assets | 372,856 | 250,000 | 760,217 | 1,383,073 |
| Gain on bargain purchase | – | – | (514) | (514) |
| Total consideration | 372,856 | 250,000 | 759,703 | 1,382,559 |
| Cash consideration | 394,800 | 430,000 | 759,703 | 1,584,503 |
| Shareholder's loans | (21,944) | (180,000) | – | (201,944) |
| Cash and cash equivalents acquired | (40) | (2) | (5,855) | (5,897) |
| Net cash outflow arising from acquisitions | 372,816 | 249,998 | 753,848 | 1,376,662 |

### (b) Acquisition of subsidiaries that are a business

On 1 June 2018, the Group entered into a voting rights amendment agreement with a joint venture partner, which owns 50% of equity interest in Foshan Logan Junjing, a 50%-owned joint venture of the Group, pursuant to which the Group can exercise 51% of voting rights in shareholder's meeting and appoint three out of five directors in the board of directors of Foshan Logan Junjing. Upon execution of the voting rights amendment agreement on 1 June 2018, the Group is entitled to control the financial and operating activities of Foshan Logan Junjing. Foshan Logan Junjing is principally engaged in the business of property development in Foshan.

In December 2018, the Group entered into equity transfer agreements with certain joint venture partners for the acquisitions of remaining equity interests in six existing joint ventures. The equity interests acquired in the acquisitions are ranging from 50% to 100%. Upon completion of the acquisitions in December 2018, the six acquired companies became wholly-owned subsidiaries of the Group. These acquired companies are principally engaged in the business of property development in the PRC.

## 34. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

### (b) Acquisition of subsidiaries that are a business (Continued)

The fair values of the identifiable assets and liabilities of the above transactions as at the date of acquisition were as follows:

| | Notes | Foshan Logan Junjung RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Other property, plant and equipment | 15 | 40 | 3,472 | 3,512 |
| Inventories | | 3,911,527 | 5,257,193 | 9,168,720 |
| Trade and other receivables, prepayments and other assets | | 4,053,809 | 2,580,872 | 6,634,681 |
| Tax recoverable | | 533,646 | 342,398 | 876,044 |
| Cash and cash equivalents | | 997,377 | 1,691,596 | 2,688,973 |
| Trade and other payables | | (6,754,632) | (4,996,525) | (11,751,157) |
| Deferred tax liabilities | 28 | — | (135,009) | (135,009) |
| Bank and other loans | | (2,647,000) | (3,320,000) | (5,967,000) |
| Total identifiable net assets at fair value | | 94,767 | 1,423,997 | 1,518,764 |
| Gains on bargain purchase | | — | (38) | (38) |
| Gain on remeasurement of pre-existing interests in joint ventures | | (47,384) | — | (47,384) |
| Non-controlling interests | | (47,383) | — | (47,383) |
| Total consideration | | — | 1,423,959 | 1,423,959 |
| Satisfied by: | | | | |
| Trade and other payables | | — | 702,630 | 702,630 |
| Reclassification from pre-existing interests in joint ventures to investment in subsidiaries | | — | 721,329 | 721,329 |
| | | — | 1,423,959 | 1,423,959 |

An analysis of the cash flows in respect of the acquisitions is as follows:

| | RMB'000 |
|---|---|
| Cash consideration paid | — |
| Cash and cash equivalents acquired | 2,688,973 |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | 2,688,973 |

The fair value of the other receivables as at the date of the acquisition amounted to RMB6,521,491,000. The gross contractual amount of other receivables was RMB6,521,491,000, of which nil is expected to be uncollectible.

During the year ended 31 December 2018, the Group acquired six subsidiaries from the joint venture partners of the Group.

## 34. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

### (b) Acquisition of subsidiaries that are a business (Continued)

The results of the subsidiaries acquired during the year had no significant impact on the Group's consolidated revenue or profit for the year.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB44,136,908,000 and RMB8,879,414,000, respectively.

## 35. DISPOSAL OF SUBSIDIARIES

### (a) Disposal of subsidiaries

The effect of such disposals on the Group's assets and liabilities is set out below:

| | 2017<br>RMB'000 |
|---|---|
| Net assets disposed of: | |
| Inventories | 399,551 |
| Trade and other receivables | 30,945 |
| Cash and cash equivalents | 887 |
| Trade and other payables | (182,213) |
| Net assets attributable to the Group disposed of | 249,170 |
| Gain on disposal of subsidiaries, net | 830 |
| Total consideration | 250,000 |
| Total consideration received, satisfied in cash | 250,000 |
| Cash and cash equivalents disposed of | (887) |
| Net cash inflow arising from disposal | 249,113 |

# 35. DISPOSAL OF SUBSIDIARIES (CONTINUED)

## (b) Deemed disposal of subsidiaries

The effect of such disposals on the Group's assets and liabilities is set out below:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Net assets disposed of: | | |
| Other property, plant and equipment | **632** | 1,400 |
| Inventories | **10,491,830** | 2,306,812 |
| Trade and other receivables, prepayments and other assets | **5,219,089** | 2,010,588 |
| Tax recoverable | **42,593** | — |
| Cash and cash equivalents | **1,036,835** | 521,364 |
| Trade and other payables | **(8,241,548)** | (1,147,308) |
| Bank and other loans | **(8,317,484)** | (2,755,600) |
| Net assets attributable to the Group disposed of | **231,947** | 937,256 |
| Gain on deemed disposal of subsidiaries, net | **188,368** | 35,298 |
| Reclassification to investments in joint ventures at fair value at date of deemed disposal | **420,315** | 972,554 |

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries is as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Cash and bank balances deconsolidated and outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries | **(1,036,835)** | (521,364) |

# 36. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

## (a) Major non-cash transaction

During the year, the Group acquired a subsidiary that is not a business from a joint venture at a consideration of RMB10,360,000,000, of which RMB2,817,837,000 was settled through offsetting against the amount due from the joint venture. Further details are set out in note 34(a)(i) to the financial statements.

## (b) Changes in liabilities arising from financing activities

| | Interest payables included in trade and other payables RMB'000 | Bank and other loans RMB'000 | Senior notes RMB'000 | Dividend payable included in other payables RMB'000 | Corporate bonds RMB'000 | Liabilities under cross-border guarantee arrangements RMB'000 | Amounts due to non-controlling shareholders included in trade and other payables RMB'000 | Amounts due to joint ventures and associates included in trade and other payables RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2017 | 684,901 | 15,078,011 | 5,708,526 | – | 12,400,000 | – | – | 1,343,560 |
| Changes from financing cash flows | – | 6,469,442 | 3,572,940 | (656,528) | (237,551) | – | – | 3,935,168 |
| Changes from non-financing cash flows | – | – | – | – | – | 1,745,380 | – | 440,363 |
| Foreign exchange movement | (83,564) | (102,533) | (631,656) | – | – | – | – | – |
| Interest expense | 1,861,355 | – | 680,162 | – | – | – | – | – |
| Interest paid | (2,117,599) | – | (440,328) | – | – | – | – | – |
| Increase arising from acquisition of subsidiaries | – | 1,100,000 | – | – | – | – | – | – |
| Decrease arising from deemed disposal of subsidiaries | – | (2,755,600) | – | – | – | – | – | – |
| Dividends declared | – | – | – | 2,158,706 | – | – | – | – |
| At 31 December 2017 and 1 January 2018 | **345,093** | **19,789,320** | **8,889,644** | **1,502,178** | **12,162,449** | **1,745,380** | **–** | **5,719,091** |
| Changes from financing cash flows | **–** | **3,346,071** | **6,987,933** | **(1,515,782)** | **8,470,000** | **687,911** | **10,684,550** | **(926,526)** |
| Changes from non-financing cash flows | **–** | **–** | **–** | **–** | **–** | **608,277** | **–** | **3,046,907** |
| Foreign exchange movement | **75,969** | **88,155** | **466,028** | **–** | **–** | **–** | **–** | **–** |
| Interest expense | **2,315,781** | **–** | **881,605** | **–** | **–** | **–** | **–** | **–** |
| Interest paid | **(2,036,551)** | **–** | **(460,543)** | **–** | **–** | **–** | **–** | **–** |
| Increase arising from acquisition of subsidiaries | **–** | **5,967,000** | **–** | **–** | **–** | **–** | **–** | **–** |
| Increase arising from acquisition of subsidiaries that are not a business | **–** | **671,000** | **–** | **–** | **–** | **–** | **–** | **7,542,163** |
| Decrease arising from deemed disposal of subsidiaries | **–** | **(8,317,484)** | **–** | **–** | **–** | **–** | **–** | **–** |
| Dividends declared | **–** | **–** | **–** | **2,261,057** | **–** | **–** | **–** | **–** |
| At 31 December 2018 | **700,292** | **21,544,062** | **16,764,667** | **2,247,453** | **20,632,449** | **3,041,568** | **10,684,550** | **15,381,635** |

## 37. FINANCIAL GUARANTEES

At the end of the reporting period, the Group had the following financial guarantees:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Guarantees in respect of mortgage facilities provided for certain purchasers of the Group's properties (notes (i) and (ii)) | **23,975,464** | 18,416,334 |
| Guarantees given to banks and other lenders in connection with credit facilities granted to joint ventures and associates, net of counter-guarantees from joint venture partners | **12,355,419** | 9,353,489 |
| Add: Counter-guarantees provided by joint venture partners to the Group | **6,455,097** | — |
| Guarantees given to banks and other lenders in connection with credit facilities granted to joint ventures and associates provided by the Group (note (iii)) | **18,810,516** | 9,353,489 |
| | **42,785,980** | 27,769,823 |

The Group does not hold any collateral or other credit enhancements over the guarantees. The financial guarantee contracts are measured at the higher of the ECL allowance and the amount initially recognised less the cumulative amount of income recognised. The ECL allowance is measured by estimating the cash shortfalls, which are based on the expected payments to reimburse the holders for a credit loss that it incurs less any amounts that the Group expects to receive from the debtor. The amount initially recognised represents the fair value at initial recognition of the financial guarantees.

Notes:

(i) As at 31 December 2018, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, in the event of default on mortgage payments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks, net of any auction banks, net of any auction proceeds as described below.

Pursuant to the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans, in the event of default on mortgage repayments by these purchasers, the banks are entitled to take over the legal titles and will realise the pledged properties through open auction. The Group is responsible for repaying the banks when the proceeds from the auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties.

The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

(ii) The fair value of the guarantees at initial recognition and the ECL allowance are not significant as the directors of the Company consider that in the event of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalties.

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## 37. FINANCIAL GUARANTEES (CONTINUED)

Notes: (Continued)

(iii) As at 31 December 2018, the Group provided guarantees to the extent of RMB18,810,516,000 (2017: RMB9,353,489,000) in respect of credit facilities granted to the joint ventures and associates. In addition, as at 31 December 2018, the joint venture partners entered into counter-guarantee agreements with the Group, pursuant to which the joint venture partners provided counter-guarantees to the Group in proportion to those joint venture partners' respective interests in the joint ventures in respect of guarantees provided by the Group to the banks and other lenders on behalf of the joint venture partners. In the event of default on payment by the joint ventures, the Group is responsible for repaying the outstanding loan principals together with the accrued interest and penalties owed by the joint ventures, and the Group has the right to recover from the joint venture partners the attributable portion of liabilities paid pursuant to the counter-guarantee agreements.

In the opinion of the directors, the fair value of the guarantees at initial recognition and the ECL allowance are not significant.

## 38. PLEDGE OF ASSETS

At the end of the reporting period, the Group's equity interests in certain subsidiaries and the following assets of the Group were pledged to secure certain bank and other loans granted to the Group:

| | Notes | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|---|
| Bank deposits | 22 | **258,172** | 224,621 |
| Investment properties | 16 | **—** | 3,540,242 |
| Properties held for development for sale | 19 | **399,380** | — |
| Properties under development for sale | 19 | **6,469,391** | 4,567,749 |
| Completed properties for sale | 19 | **556,256** | 58,385 |
| Other receivables | 20 | **—** | 280,000 |
| | | **7,683,199** | 8,670,997 |

## 39. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms ranging from one to fifteen 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 the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Within one year | **87,797** | 92,933 |
| In the second to fifth years, inclusive | **171,252** | 207,276 |
| After five years | **37,697** | 34,299 |
| | **296,746** | 334,508 |

### (b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Within one year | **3,299** | 1,913 |
| In the second to fifth years, inclusive | **3,845** | 1,467 |
| | **7,144** | 3,380 |

## 40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39(b) above, the Group had the following capital commitments at the end of the reporting period:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Contracted, but not provided for | **14,410,259** | 16,064,280 |

## 41. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere to the financial statements, the Group had the following transactions with related parties during the year:

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Construction contracts income from related companies | (i) | **134,133** | 73,419 |
| Construction contracts income from joint ventures | (i) | **4,634,367** | 1,104,356 |
| Project management service income from joint ventures | (i) | **261,873** | — |
| Management service income fee from joint ventures | (i) | **194,217** | 23,885 |
| Decoration income from joint ventures | (i) | **241,213** | 20,104 |
| Decoration income from related companies | (i) | **8,754** | — |
| Design fee from related companies | (i) | **—** | 10,070 |
| Design fee from joint ventures | (i) | **181,822** | 75,442 |
| Rental income from related companies | (ii) | **1,532** | 6,705 |
| Rental income from associates | (ii) | **4,109** | — |
| Rental income from joint ventures | (ii) | **287** | 4,547 |
| Interest income from associates | (iii) | **182,448** | 144,205 |
| Interest income from joint ventures | (iii) | **717,551** | 406,832 |

Notes:

(i) The income was derived from the construction, management, decoration and design services provided to joint ventures and related companies controlled by Mr. Kei at rates similar to the terms and conditions set out in the contracts entered into with the other major customers of the Group.

(ii) The income was derived from the leasing of the Group's investment properties to related companies controlled by Mr. Kei and joint ventures at rates similar to the terms and conditions set out in the rental agreements entered into with the other tenants of the Group.

(iii) This represented the gross interest income from the associates and joint ventures, which is before the elimination of interest between the Group and associates or joint ventures. The Group has been providing funds to associates and joint ventures.

(b) Remuneration to key management personnel includes amounts paid to the directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11.

Transactions in connection with construction contracts income and decoration income from related companies above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 42. FINANCIAL INSTRUMENTS BY CATEGORY

Except for the derivative financial instruments, which are classified as financial assets at fair value through profit or loss, other financial assets and financial liabilities of the Group as at 31 December 2018 and 2017 were financial assets at amortised cost/loans and receivables, and financial liabilities at amortised cost, respectively.

## 43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments, other than derivative financial instruments, and senior notes and corporate bonds, reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, restricted cash, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, current portion of bank and other loans, amounts due from/to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

For the Group's assets and liabilities not measured at fair value in the consolidated statement of financial position but for which the fair value is disclosed, the carrying amounts of the non-current portion of deposits, bank and other loans and liabilities under cross-border guarantee arrangements approximated to their fair values and were determined as Level 3, and the fair values of the senior notes and corporate bonds were RMB16,388,433,000 and RMB20,712,514,000, respectively (2017: RMB8,943,147,000 and RMB11,966,207,000, respectively), and were determined as Level 1.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of deposits, bank and other loans and liabilities under cross-border guarantee arrangements have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of the senior notes and corporate bonds is calculated with reference to price quotations from financial institutions at the reporting date. The Group's own non-performance risk for bank and other loans as at 31 December 2018 and 2017 was assessed to be insignificant.

Derivative financial instruments are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of derivative financial instruments are the same as their fair values.

## 43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

### Assets measured at fair value:

As at 31 December 2018

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Senior notes redemption call options | — | — | 65,548 | 65,548 |

As at 31 December 2017

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Senior notes redemption call options | — | — | 18,678 | 18,678 |

Below is a summary of the valuation techniques used and the key inputs to the valuation of senior note redemption call options:

| | Valuation techniques | Significant unobservable inputs | Range | |
|---|---|---|---|---|
| | | | 2018 | 2017 |
| Senior note redemption call options | Residual method | Risk free rate | 1.870% to 2.598% | 1.234% to 2.216% |
| | | Option adjusted spread | 3.930% to 6.894% | 3.140% to 4.201% |
| | | Discount rate | 6.359% to 9.469% | 4.374% to 6.417% |

The fair values of derivative financial instruments are determined using the residual method by subtracting the fair value of the straight debt from the quoted market price of the notes at the date of valuation. The fair value measurement is negatively correlated to risk free rate, option adjusted spread and discount rate.

The Group did not have any financial liabilities measured at fair values as at 31 December 2018 and 2017.

During the year, there were no transfer of fair value measurements between level 1 and level 2 and no transfer into or out of level 3 for both financial assets and financial liabilities (2017: Nil).

# 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank and other loans and senior notes and corporate bonds, amounts due from/to related parties, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group's accounting policies related to derivatives are set out in note 3 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 income and operating cash flows are substantially independent of changes in market interest rates. Other than deposits held at banks, the Group does not have significant interest-bearing assets. Restricted deposits were held at banks in the PRC at the same savings rate of unrestricted deposits throughout the year. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank and other loans with floating interest rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no material impact on other components of the Group's equity.

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| 2018 | | |
| RMB | **1%** | **(81,458)** |
| HK$ | **1%** | **(48,375)** |
| US$ | **1%** | **(16,073)** |
| SG$ | **1%** | **(36,837)** |
| RMB | **(1%)** | **81,458** |
| HK$ | **(1%)** | **48,375** |
| US$ | **(1%)** | **16,073** |
| SG$ | **(1%)** | **36,837** |
| 2017 | | |
| RMB | 1% | (117,449) |
| HK$ | 1% | (29,750) |
| US$ | 1% | (9,755) |
| RMB | (1%) | 117,449 |
| HK$ | (1%) | 29,750 |
| US$ | (1%) | 9,755 |

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## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Foreign currency risk

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange Bureau by complying with certain procedural requirements. However, approval from appropriate PRC governmental authorities is required where RMB is to be converted into a foreign currency and remitted out of China to pay capital account items, such as the repayment of bank and other loans denominated in foreign currencies.

The Group's PRC subsidiaries may also retain foreign currencies in their current accounts to satisfy foreign currency liabilities or to pay dividends. Since foreign currency transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange Bureau, this could affect the Group's subsidiaries' ability to obtain required foreign currency through debt or equity financing, including by means of loans or capital contributions from the shareholders.

All the revenue-generating operations of the Group are transacted in RMB. The majority of the Group's assets and liabilities are denominated in RMB except for the Company and certain investment holding companies within the Group operating in Hong Kong and Singapore, in which bank and other loans, Senior Notes and other receivables were denominated either in HK$, US$ or SG$. The fluctuation of exchange rates of RMB against other foreign currencies will not have a material adverse effect on the operating results of the Group.

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

| | Increase/ (decrease) in exchange rate | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| 2018 | | |
| If HK$ weakens against RMB | **(5%)** | **(109,709)** |
| If HK$ strengthens against RMB | **5%** | **109,709** |
| If US$ weakens against RMB | **(5%)** | **709,366** |
| If US$ strengthens against RMB | **5%** | **(709,366)** |
| If SG$ weakens against RMB | **(5%)** | **133,056** |
| If SG$ strengthens against RMB | **5%** | **(133,056)** |
| | | |
| 2017 | | |
| If HK$ weakens against RMB | (5%) | (199,498) |
| If HK$ strengthens against RMB | 5% | 199,498 |
| If US$ weakens against RMB | (5%) | 453,135 |
| If US$ strengthens against RMB | 5% | (453,135) |
| If SG$ weakens against RMB | (5%) | (60,256) |
| If SG$ strengthens against RMB | 5% | 60,256 |

# 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

## Credit risk

It is the Group's policy that all customers are required to pay deposits in advance of the purchase of properties. In addition, the Group does not have any significant credit risk as the credit given to any individual or corporate entity is not significant. The Group performs appropriate and sufficient credit verification procedures for every credit sale transaction to minimise credit risk. There is no significant concentration of credit risk within the Group.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 37.

The credit risk of the Group's other financial assets, which mainly comprise investment in associates, investments in joint ventures, cash and short term deposits, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

## Maximum exposure and year-end staging as at 31 December 2018

The credit risk of the Group's trade receivables, other receivables, certain deposits, amounts due from related parties, non-controlling shareholders, joint ventures and associates, assets under cross-border guarantee arrangements, restricted and pledged deposits, and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Except for trade receivables which apply simplified approach in calculating ECLs, the credit quality of other financial assets measured at amortised cost is considered to be "normal" as they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition and hence, they are all classified under stage 1 for measurement of ECLs. The loss allowance provision for all financial assets measured at amortised cost were not significant as at 31 December 2018.

Guarantees given to banks and other lenders in connection with credit facilities granted to associates and joint ventures and in respect of mortgage facilities provided for certain purchasers of the Group's properties with aggregate amounts utilised of RMB42,785,980,000 (2017: RMB27,769,823,000) which are not yet past due and there is no information indicating of default and, hence, are all classified under stage 1 for measurement of ECLs.

## Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which mainly comprised investment in associates, investments in joint ventures, cash and short term deposits, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

# 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

## Liquidity risk

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other loans. In the opinion of the directors of the Company, the Group will have adequate sources of funding to finance its operation needs and manage its liquidity position.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

| | Within one year or on demand RMB'000 | In the second year RMB'000 | In the third to fifth years, inclusive RMB'000 | Over five years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| 2018 | | | | | |
| Bank and other loans | 10,662,577 | 5,363,835 | 7,606,908 | — | 23,633,320 |
| Senior notes | 1,147,516 | 7,135,799 | 11,206,852 | — | 19,490,167 |
| Corporate bonds | 8,789,282 | 5,263,956 | 9,337,265 | — | 23,390,503 |
| Trade payables | 10,447,968 | 1,457,829 | 597,991 | — | 12,503,788 |
| Financial liabilities included in other payables and accruals | 8,865,548 | — | — | — | 8,865,548 |
| Due to related parties | 14,250 | — | — | — | 14,250 |
| Due to non-controlling shareholders | 10,590,000 | 96,872 | — | — | 10,686,872 |
| Due to associates and joint ventures | 15,381,635 | — | — | — | 15,381,635 |
| Liabilities under cross-border guarantee arrangements | 2,555,035 | 200,933 | 365,545 | — | 3,121,513 |
| | 68,453,811 | 19,519,124 | 29,114,561 | — | 117,087,596 |
| Financial guarantees issued: Maximum amount guaranteed | 42,785,980 | — | — | — | 42,785,980 |

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Liquidity risk (Continued)

| | Within one year or on demand RMB'000 | In the second year RMB'000 | In the third to fifth years, inclusive RMB'000 | Over five years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| 2017 | | | | | |
| Bank and other loans | 6,547,142 | 9,940,326 | 4,395,806 | 199,378 | 21,082,652 |
| Senior notes | 3,463,289 | 360,349 | 3,504,972 | 2,902,794 | 10,231,404 |
| Corporate bonds | 617,921 | 3,722,311 | 9,358,495 | — | 13,698,727 |
| Trade payables | 5,963,220 | 811,640 | 529,885 | — | 7,304,745 |
| Financial liabilities included in other payables and accruals | 4,538,272 | 91,534 | — | — | 4,629,806 |
| Due to related parties | 7,401 | — | — | — | 7,401 |
| Due to joint ventures | 5,719,091 | — | — | — | 5,719,091 |
| Liabilities under cross-border guarantee arrangements | 1,767,242 | — | — | — | 1,767,242 |
| | 28,623,578 | 14,926,160 | 17,789,158 | 3,102,172 | 64,441,068 |
| Financial guarantees issued: | | | | | |
| Maximum amount guaranteed | 27,769,823 | — | — | — | 27,769,823 |

### Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a net debt to equity ratio, which is net debt divided by the total equity. Net debt includes total bank and other loans, senior notes and corporate bonds less cash and cash equivalents and restricted and pledged deposits. Total capital comprises all components of equity (i.e., share capital, non-controlling interests, perpetual capital securities and reserves). The Group aims to maintain a healthy and stable net debt to equity ratio.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Capital management (Continued)

The net debt to equity ratios as at 31 December 2018 and 2017 were as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Bank and other loans | **21,544,062** | 19,789,320 |
| Senior notes | **16,764,667** | 8,889,644 |
| Corporate bonds | **20,632,449** | 12,162,449 |
| Less: Cash and cash equivalents | **(28,452,462)** | (19,878,192) |
| Restricted and pledged deposits | **(7,264,689)** | (2,529,793) |
| Net debt | **23,224,027** | 18,433,428 |
| Total equity | **36,745,786** | 27,163,809 |
| Net debt to equity ratio | **63.2%** | 67.9% |

As at 31 December 2018, Shenzhen Logan, a wholly-owned subsidiary of the Company (established in the People's Republic of China) (the "Issuer"), has totally issued an amount of RMB20.6 billion of corporate bonds, of which RMB11.6 billion are publicly issued (2017: RMB7.2 billion). According to the Securities Law of the People's Republic of China, the accumulated bond balance constitutes no more than 40% of the net asset value of the Issuer. Other than the ratio, neither the Company nor any other of its subsidiaries are subject to externally imposed capital requirements.

## 45. EVENTS AFTER THE REPORTING PERIOD

(a) On 9 January 2019, the Company issued senior notes with a principal amount of US$50,000,000 due in 2022. The senior notes are consolidated and form a single series with the US$200m Senior Notes due 2022 issued on 3 January 2017. The senior notes are interest-bearing at 5.75% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 3 January 2022. The details of the redemption price are disclosed in the relevant offering memorandum.

(b) On 25 February 2019, the Company issued senior notes with a principal amount of US$300,000,000 due in 2022. The senior notes are interest-bearing at 7.50% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 25 August 2022. The details of the redemption price are disclosed in the relevant offering memorandum.

(c) On 19 March 2019, Shenzhen Logan issued public domestic corporate bonds on Shenzhen Stock Exchange. The coupon rate of the domestic corporate bonds with a principal amount of RMB1,510,000,000 was 5.50% per annum. The terms of the domestic corporate bonds were 5 years. At the end of the third year, Shenzhen Logan shall be entitled to adjust the coupon rate, and the bond holders shall be entitled to sell back the bonds to Shenzhen Logan.

## 46. 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<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investment in a subsidiary | **10,211** | 10,211 |
| Other property, plant and equipment | **7,661** | 6,060 |
| Total non-current assets | **17,872** | 16,271 |
| CURRENT ASSETS | | |
| Prepayments and other receivables | **29,289,626** | 16,333,333 |
| Cash and cash equivalents | **2,883,794** | 2,143,777 |
| Total current assets | **32,173,420** | 18,477,110 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | **5,226,108** | 3,881,868 |
| Bank loans | **3,644,615** | 554,961 |
| Senior notes | **–** | 2,965,541 |
| Total current liabilities | **8,870,723** | 7,402,370 |
| NET CURRENT ASSETS | **23,302,697** | 11,074,740 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **23,320,569** | 11,091,011 |
| NON-CURRENT LIABILITIES | | |
| Bank loans | **1,777,284** | 2,068,125 |
| Senior notes | **16,764,667** | 5,924,103 |
| Total non-current liabilities | **18,541,951** | 7,992,228 |
| Net assets | **4,778,618** | 3,098,783 |
| EQUITY | | |
| Share capital | **434,041** | 433,828 |
| Perpetual capital securities | **2,363,346** | 2,363,346 |
| Reserves (note) | **1,981,231** | 301,609 |
| Total equity | **4,778,618** | 3,098,783 |

## 46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

| | Share premium RMB'000 | Exchange reserve RMB'000 | Share-based compensation reserve RMB'000 | Retained profits/ (accumulated losses) RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2017 | 1,899,444 | 129,733 | 95,062 | (1,736,178) | 388,061 |
| Profit and total comprehensive income for the year | – | (154,669) | – | 2,372,286 | 2,217,617 |
| Repurchase of own shares | (92,153) | – | – | – | (92,153) |
| Equity-settled share-based transactions | – | – | 14,237 | – | 14,237 |
| Distribution to holders of perpetual capital securities | – | – | – | (79,667) | (79,667) |
| Effect of forfeited share options | – | – | (14,372) | 14,372 | – |
| Issuance of shares in connection with the exercise of share options | 17,999 | – | (5,779) | – | 12,220 |
| Dividends declared | (1,825,290) | – | – | (333,416) | (2,158,706) |
| At 31 December 2017 and 1 January 2018 | – | (24,936) | 89,148 | 237,397 | 301,609 |
| Profit and total comprehensive income for the year | – | 114,746 | – | 4,031,134 | 4,145,880 |
| Repurchase of own shares | (50,033) | – | – | (63,383) | (113,416) |
| Equity-settled share-based transactions | – | – | 20,963 | – | 20,963 |
| Distribution to holders of perpetual capital securities | – | – | – | (147,957) | (147,957) |
| Effect of forfeited share options | – | – | (7,082) | 7,082 | – |
| Issuance of shares in connection with the exercise of share options | 50,033 | – | (14,824) | – | 35,209 |
| Dividends declared | – | – | – | (2,261,057) | (2,261,057) |
| At 31 December 2018 | **–** | **89,810** | **88,205** | **1,803,216** | **1,981,231** |

## 47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2019.

# FIVE YEARS' FINANCIAL SUMMARY

## CONSOLIDATED RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 | 2016 RMB'000 | 2015 RMB'000 | 2014 RMB'000 |
| Revenue | **44,136,908** | 27,689,658 | 20,538,838 | 14,574,010 | 12,497,937 |
| Profit attributable to shareholders of the Company | **8,288,398** | 6,527,400 | 4,487,736 | 2,649,279 | 2,347,630 |

## CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 | 2016 RMB'000 | 2015 RMB'000 | 2014 RMB'000 |
| Non-current assets | **39,454,188** | 28,276,304 | 27,980,313 | 7,011,397 | 5,609,629 |
| Current assets | **130,640,489** | 83,594,544 | 58,521,396 | 49,760,269 | 39,226,124 |
| **Total assets** | **170,094,677** | 111,870,848 | 86,501,709 | 56,771,666 | 44,835,753 |
| Current liabilities | **88,538,511** | 57,293,756 | 31,054,870 | 22,621,261 | 17,827,322 |
| Non-current liabilities | **44,810,380** | 27,413,283 | 29,695,493 | 16,689,488 | 13,691,413 |
| **Total liabilities** | **133,348,891** | 84,707,039 | 60,750,363 | 39,310,749 | 31,518,735 |
| **Net assets** | **36,745,786** | 27,163,809 | 25,751,346 | 17,460,917 | 13,317,018 |
| **Total equity attributable to shareholders of the Company** | **29,248,806** | 23,306,221 | 19,426,849 | 13,548,779 | 11,209,886 |
| **Non-controlling interests** | **7,496,980** | 3,857,588 | 6,324,497 | 3,912,138 | 2,107,132 |
| **Total equity** | **36,745,786** | 27,163,809 | 25,751,346 | 17,460,917 | 13,317,018 |

# Schedule of Major Properties

## GROUP I — PROPERTY INTEREST HELD BY THE COMPANY UNDER DEVELOPMENT/FOR FUTURE DEVELOPMENT FOR SALE

| Property | Address | Type | Interest attributable to the Company | Land area (sq.m.) | GFA (sq.m.) | Stage of development (note) | Completion deadline |
|---|---|---|---|---|---|---|---|
| Logan Century Center 龍光世紀中心 | Zone of Chengdu University of Technology, Shengdeng Street, Chenghua District, Chengdu, PRC | Commercial | 100% | 31,803 | 308,963 | 3 | 2020 |
| Sunshine Coast 陽光海岸 | No.168 Beibuwan Avenue, Gangkou District, Fangchenggang, PRC | Residential | 100% | 784,173 | 1,937,132 | 3 | 2021 |
| Leliu Fuan Project 勒流富安項目 | South of Chonghe Section, Nanguo West Road, Leliu Street, Shunde District, Foshan, PRC | Residential | 50% | 52,352 | 234,165 | 3 | 2020 |
| Sky Lake Park 天湖名苑 | "Machang" Section of Danzao Fairy Lake Resort, Nanhai District, Foshan, PRC | Residential | 51% | 77,093 | 248,459 | 3 | 2019 |
| Sanshui Acesite Glory Mansion 三水玖譽府 | No. 14, C Section, Xincheng District, Leping Town, Sanshui District, Foshan, PRC | Residential | 50% | 65,828 | 227,124 | 3 | 2019 |
| Gaoming Acesite Park 高明玖龍府 | East of Yangxi Avenue, Yanghe Town, Gaoming District, Foshan, PRC | Residential | 50% | 43,354 | 165,698 | 3 | 2019 |
| Dragon Castle 龍馨華府 | No. 9, Center Area, Leping Town, Sanshui District, Foshan, PRC | Residential | 50% | 56,425 | 183,259 | 3 | 2019 |
| Acesite Park 玖龍台 | Green Island Lake, Chancheng District, Foshan, PRC | Residential | 100% | 82,078 | 711,733 | 1 | 2022 |
| Provence 普羅旺斯 | No.7 Kaifeng Road, Xiangshan District, Guilin, PRC | Residential | 100% | 225,552 | 588,156 | 3 | 2019 |
| Logan City 龍光城 | No. 88 Southwest Avenue, West of Daya Bay District, Huizhou, PRC | Residential | 100% | 1,707,115 | 5,031,477 | 3 | 2021 |
| Acesite Bay 玖龍灣 | Northwest of Dadun New Village, Li'an Town, Lingshui County, Hainan Province, PRC | Residential | 100% | 259,333 | 426,142 | 1 | No Plans |
| Acesite Park 玖瓏府 | North of Nahong Avenue, Economic Development Zone, Nanning, PRC | Residential | 100% | 56,999 | 382,020 | 3 | 2019 |
| Acesite Lake 玖瓏湖 | South of Fenghuang Road, Wuxiang New District, Nanning, PRC | Residential | 100% | 142,312 | 610,624 | 3 | 2019 |
| Jiuyu Lake 玖譽湖 | South of Liangqing Bridge, Wuxiang New District, Nanning, PRC | Residential | 50% | 119,935 | 666,446 | 3 | 2021 |
| Celestial Palace 御海天宸 | E-147 acres land, Xinjin Block, New East Coastal Area, Shantou, PRC | Residential | 50% | 97,915 | 344,051 | 3 | 2019 |
| Royal Sea Heaven Palace 御海天韻雅園 | Xinjin Block, New East Coastal Area, Shantou, PRC | Residential | 50% | 56,603 | 176,737 | 2 | 2019 |
| Sea & Sunshine 碧海陽光 | By the side of Yingbin Garden, Beishan Bay, Shantou, PRC | Residential | 100% | 310,273 | 394,487 | 3 | 2020 |
| Splendid Sunshine Palace 錦繡陽光御府 | Xiashan Street, Chaonan District, Shantou, PRC | Residential | 100% | 39,024 | 188,517 | 3 | 2019 |
| Joy Sunshine Garden 悅景陽光禧園 | Chengnan Street, Chaoyang District, Shantou, PRC | Residential | 100% | 28,977 | 170,696 | 3 | 2019 |

# GROUP I — PROPERTY INTEREST HELD BY THE COMPANY UNDER DEVELOPMENT/FOR FUTURE DEVELOPMENT FOR SALE (CONTINUED)

| Property | Address | Type | Interest attributable to the Company | Land area (sq.m.) | GFA (sq.m.) | Stage of development (note) | Completion deadline |
|---|---|---|---|---|---|---|---|
| Ap Lei Chau Project 鴨脷洲項目 | Lee Nam Road, Ap Lei Chau, Hong Kong Island, Hong Kong | Residential | 50% | 11,752 | 70,606 | 2 | 2022 |
| Queenstown Project 女皇鎮項目 | Stirling Road, Queenstown, Singapore | Residential | 51% | 21,098 | 88,657 | 2 | 2022 |
| Golden Sunshine Terrace 金色陽光悦府 | South of Dengfeng Road, Chenghai District, Shantou, PRC | Residential | 100% | 16,750 | 98,083 | 3 | 2019 |
| Acesite Mansion 玖龍璽 | Intersection of Mintang Road and Jinshi Road, Longhua New District, Shenzhen, PRC | Residential | 100% | 46,647 | 252,144 | 5 | 2016 |
| Logan Carat Complex 玖鑽 | West of Hongshan Metro Station, Longhua New District, Shenzhen, PRC | Commercial | 50% | 87,045 | 783,113 | 3 | 2019 |
| Acesite Park 玖龍台 | East Area of High-tech Park, Guangming New District, Shenzhen, PRC | Commercial and Residential | 50% | 152,442 | 787,277 | 3 | 2019 |
| Shenzhen Longhua Guanlan Project 深圳龍華觀瀾項目 | South of Hazens Guanlanhui, Fucheng Street, Longhua District, Shenzhen, PRC | Residential | 100% | 15,324 | 79,100 | 1 | 2021 |
| Hougang Avenue 2 Project 後港二道項目 | Hougang Avenue 2, District 19, Singapore | Residential | 100% | 36,161 | 101,251 | 1 | No Plans |
| Jiulong Bay Garden 九龍灣名園 | North of Changsheng Road, Zhuhai, PRC | Residential | 100% | 25,877 | 80,607 | 5 | 2018 |
| Acesite Park 玖龍府 | South of Jinhu Avenue, West Lake Block, Jinwan District, Zhuhai, PRC | Residential | 100% | 49,468 | 191,505 | 5 | 2018 |

notes:
1. Site formation or upfront set up works
2. Foundation works
3. Superstructure construction
4. Interior decoration
5. Completed for sale

# GROUP II — PROPERTY INTEREST HELD BY THE COMPANY FOR INVESTMENT

| Property | Address | Use | Interest attributable to the Company | GFA (sq.m.) | Completion date |
|---|---|---|---|---|---|
| Office of Logan Century Center 龍光世紀大廈辦公樓 | South of Xinhua Road, Baoan Center District, Shenzhen, PRC | Office | 100% | 42,090 | 2000 |
| Concentration Commerce Center of Acesite Mansion 玖龍璽集中商業 | Minzhi Street, Longhua New District, Shenzhen, PRC | Commercial | 100% | 4,963 | 2016 |
| Hotel of Jiuzhuan in Shenzhen 深圳玖鉆酒店 | North of Tenglong Road, Longhua New District, Shenzhen, PRC | Hotel | 71% | 58,000 | 2019 |
| Concentration Commerce Center of Jiuzhuan in Shenzhen 深圳玖鉆集中商業 | North of Tenglong Road, Longhua New District, Shenzhen, PRC | Commercial | 71% | 60,008 | 2019 |
| Office of Jiuzhuan in Shenzhen 深圳玖鉆辦公樓 | North of Tenglong Road, Longhua New District, Shenzhen, PRC | Office | 71% | 11,180 | 2019 |
| Hotel of Dragon City in Huizhou 惠州龍光城酒店 | Southwestern Avenue, West Dayawan District, Huizhou, PRC | Commercial | 100% | 19,810 | 2015 |
| Various retail units of Group 2, Phase 1, Dragon City in Huizhou 惠州龍光城一期2組的若干零售單位 | Southwestern Avenue, West Dayawan District, Huizhou, PRC | Commercial | 100% | 4,055 | 2012 |
| Concentration Commerce Center in North of Dragon City in Huizhou 惠州龍光城北集中商業 | Southwestern Avenue, West Dayawan District, Huizhou, PRC | Commercial | 100% | 88,387 | 2017 |
| Yangguang Qianhui in Nanning 南寧陽光千匯 | Shibu Road, New and Hi-tech Industrial Development Zone, Nanning, PRC | Commercial | 100% | 50,000 | 2020 |
| Chenghua Project 成華項目 | Ligong University Zone, Shengdeng Area, Chenghua District, Chengdu, PRC | Commercial/Office | 100% | 66,785 | 2020 |

LOGAN
PROPERTY

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