# CHINA PROPERTIES GROUP LIMITED

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

**(Stock Code: 1838)**

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

The board of directors (the "Directors" or the "Board") of China Properties Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2018 together with comparative figures for the corresponding year as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended December 31, 2018*

| | *NOTES* | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|---|
| Revenue | *4* | **96,079** | 215,414 |
| Cost of sales | | **(52,954)** | (54,493) |
| Gross profit | | **43,125** | 160,921 |
| Other income, gains and losses, net | *4* | **5,218** | 10,856 |
| Net exchange (loss) gain | | **(45,579)** | 159,454 |
| Selling expenses | | **(9,491)** | (18,594) |
| Administrative expenses | | **(55,229)** | (62,817) |
| Finance costs | *6* | **—** | (179,156) |
| (Loss) profit from operation before changes in fair value of investment properties and conversion option derivative | | **(61,956)** | 70,664 |
| Changes in fair value of investment properties | | **560,886** | 256,980 |
| Changes in fair value of conversion option derivative | | **2,456** | 54,574 |
| Profit before tax | | **501,386** | 382,218 |
| Income tax expense | *7* | **(141,412)** | (97,546) |
| Profit and total comprehensive income for the year attributable to owners of the Company | *8* | **359,974** | 284,672 |
| Earnings per share | | | |
| — Basic *(RMB)* | *9* | **0.20** | 0.16 |
| — Diluted *(RMB)* | *9* | **0.18** | 0.11 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At December 31, 2018*

| | NOTES | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | **409,775** | 382,196 |
| Prepaid lease payments | | **89,785** | 92,934 |
| Investment properties | | **53,422,046** | 52,051,301 |
| | | **53,921,606** | 52,526,431 |
| **Current Assets** | | | |
| Properties under development for sales | | **6,000,219** | 5,585,706 |
| Properties held for sales | | **402,843** | 427,501 |
| Other receivables, deposits and prepayments | *10* | **186,121** | 170,210 |
| Pledged bank deposits | | **24,400** | 210,441 |
| Bank balances and cash | | **37,163** | 290,775 |
| | | **6,650,746** | 6,684,633 |
| **Current Liabilities** | | | |
| Contract liabilities | *11* | **865,363** | — |
| Deposits received for sales of properties | *11* | — | 439,603 |
| Construction costs accruals | | **295,734** | 207,660 |
| Other payables and accruals | | **193,252** | 154,145 |
| Amount due to a shareholder | | **3,498,137** | 2,083,409 |
| Tax payable | | **706,318** | 703,070 |
| Borrowings | | **4,906,423** | 1,789,332 |
| 13.5% fixed-rate senior notes, current portion | | — | 1,667,295 |
| 15.0% fixed-rate senior notes, current portion | | **49,393** | — |
| Convertible note, current portion | | — | 393,425 |
| Conversion option derivative | | — | 2,517 |
| | | **10,514,620** | 7,440,456 |
| **Net Current Liabilities** | | **(3,863,874)** | (755,823) |
| **Total Assets Less Current Liabilities** | | **50,057,732** | 51,770,608 |

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Non-current Liabilities** | | |
| Borrowings | **—** | 3,740,000 |
| 15.0% fixed-rate senior notes, non-current portion | **1,526,929** | — |
| Deferred tax liabilities | **10,981,238** | 10,841,017 |
| | **12,508,167** | 14,581,017 |
| **Net Assets** | **37,549,565** | 37,189,591 |
| **Capital and Reserves** | | |
| Share capital | **170,073** | 170,073 |
| Share premium and reserves | **37,379,492** | 37,019,518 |
| **Total Equity** | **37,549,565** | 37,189,591 |

*NOTES:*

## 1. GENERAL AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company is a public limited company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Hillwealth Holdings Limited ("Hillwealth"), a limited company incorporated in the British Virgin Islands. Its ultimate controlling shareholder is Mr. Wong Sai Chung ("Mr. Wong"), who is also the Managing Director of the Company. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is 14th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

The Company acts as an investment holding company. The subsidiaries of the Company are principally engaged in property development and property investment in the People's Republic of China (the "PRC").

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that as of December 31, 2018, the Group has net current liabilities of RMB3,863,874,000 including construction costs accruals: RMB295,734,000, other payables and accruals: RMB193,252,000, amount due to shareholder: RMB3,498,137,000, borrowings: RMB4,906,423,000 and 15.0% fixed-rate senior notes: RMB49,393,000, which (with the exception of amount due to shareholder, who has confirmed that he would not demand repayment until the Group has excess cash to repay) are due to be repaid within one year from the end of the reporting period. In addition, the Group is in dispute with certain lenders, who have taken legal action to demand for repayment of certain other borrowings. The Group also had commitments for future construction contracted for but not provided in the consolidated financial statements of approximately RMB2,195,366,000 as set out in note 12. These events and conditions may cast significant doubt on the Group's ability to continue as a going concern.

Included in the borrowings of RMB4,906,423,000 shown above are amounts totaling RMB4,677,982,000 for which the lender has demanded repayment as set out in the section headed "CONTINGENT LIABILITIES".

Nevertheless, the consolidated financial statements were prepared based on the going concern basis because the directors are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from December 31, 2018, after taking into consideration of the following factors and assumptions:

(1) the Group is in negotiations to obtain new credit facilities amounting to not less than RMB4,600,000,000;

(2) confirmation from a shareholder, Mr. Wong, that he would not demand repayment of the amount due to him until the Group has excess cash to repay; and

(3) the estimated proceeds from sales of its investment properties, properties held for sales and pre-sale of properties under development for sales.

There is a material uncertainty related to the outcomes of the above events or conditions that may cast significant doubt on the Group's ability to continue as a going concern, and, therefore that the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to write down the values of the assets to their net realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of such adjustments has not yet been reflected in the financial statements.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| Amendments to HKAS 40 | Transfers of Investment Property |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15) |
| HK(IFRIC)—Int 22 | Foreign Currency Transactions and Advance Consideration |
| Annual Improvements to HKFRSs 2014–2016 Cycle | Amendments to HKAS 28, Investments in Associates and Joint Ventures |

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

***Amendments to HKFRS 2 — "Classification and Measurement of Share-based Payment Transactions"***

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

***HKFRS 9 "Financial Instruments"***

*(i) Classification and measurement of financial instruments*

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: (i) classification and measurement; (ii) impairments; and (iii) hedge accounting. The adoption of HKFRS 9 from January 1, 2018 has resulted in changes in accounting policies of the Group and the amounts recognized in the consolidated financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (i.e. trade receivables that do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortized cost; (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives are no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortized cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or FVOCI at FVTPL if doing so, eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

| | |
|---|---|
| FVTPL | FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognized in profit or loss. |
| Financial assets at amortized cost | Financial assets at amortized cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain on derecognition is recognized in profit or loss. |

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at January 1, 2018:

| **Financial assets** | **Original classification under HKAS 39** | **New classification under HKFRS 9** | **Carrying amount as at January 1, 2018 under HKAS 39** *RMB'000* | **Carrying amount as at January 1, 2018 under HKFRS 9** *RMB'000* |
|---|---|---|---|---|
| Other receivables, deposits and prepayments | Loans and receivables | Financial assets at amortized cost | 170,210 | 170,210 |
| Pledged bank deposits | Loans and receivables | Financial assets at amortized cost | 210,441 | 210,441 |
| Bank balances and cash | Loans and receivables | Financial assets at amortized cost | 290,775 | 290,775 |

*(ii) Impairment of financial assets*

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognize ECLs for trade receivables, financial assets at amortized costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Other receivables, deposits and prepayments, pledged bank deposits and bank balances and cash are subject to ECLs model but the impairment is immaterial under this model at the date of initial application (that is January 1, 2018) and for the current period.

Under HKFRS 9, the loss allowances are measured on either of the following bases: (i) twelve months ECLs: these are the ECLs that result from possible default events within the twelve months after the reporting date; and (ii) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

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. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

For financial assets measured at amortized cost, the ECLs are based on the twelve months ECLs. The twelve months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within twelve months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience, informed credit assessment and relevant forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

*(iii) Hedge accounting*

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not carry any significant hedge transaction.

*(iv) Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at December 31, 2017, but are recognized in the consolidated statement of financial position on January 1, 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognized in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

***HKFRS 15 "Revenue from Contracts with Customers"***

HKFRS 15 supersedes HKAS 11 "Construction Contracts", HKAS 18 "Revenue" and related interpretations. HKFRS 15 has established a five steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognized at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognized the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, January 1, 2018). As a result, the financial information presented for 2017 has not been restated.

The following table summarized the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018:

| | **RMB'000 Increase/ (Decrease)** |
|---|---:|
| **LIABILITIES** | |
| **Current liabilities** | |
| Deposits received for sales of properties | (865,363) |
| Contract liabilities | 865,363 |
| **Total current liabilities** | — |
| **Total liabilities** | — |

There was no material impact on the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2018.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

| Product or service | Nature of the goods or services, satisfaction of performance obligations and payment terms | Nature of change in accounting policy and impact on January 1, 2018 |
|---|---|---|
| Sales of properties | Customers obtain control of the properties when the properties are delivered to and have been accepted. Revenue is thus recognized when the customers accept the properties. There is no other goods or services agreed to be provided in the contract and in practice. There is generally only one performance obligation. Payments are usually received in advance and recognized as a contract liabilities. | **Impact**<br>As of January 1, 2018, deposits received for sales of properties of RMB439,603,000 was reclassified to contract liabilities. |
| Service income | Customers receive the services, which contain certain performance obligation with the same pattern of transfer, such as security service and cleaning service, when those services are provided. Revenue is recognized over time as those services are provided. Invoices are usually payable on presentation. | **Impact**<br>HKFRS 15 did not result in any significant change or impact on the Group's accounting policies as the recognition method is the same under HKAS 18 and HKFRS 15. |

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

## 4. REVENUE AND OTHER INCOME, GAINS AND LOSSES, NET

| | 2018 *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Revenue | | |
| Sales of properties | **85,416** | 205,168 |
| Property rental income | **1,558** | 2,523 |
| Property management income | **9,105** | 7,723 |
| | **96,079** | 215,414 |
| Other income, gains and losses, net | | |
| Gain on disposal of investment properties | **4,673** | 6,207 |
| Interest on bank deposits | **499** | 4,109 |
| Gain (Loss) on disposal of property, plant and equipment | **—** | 268 |
| Others | **46** | 272 |
| | **5,218** | 10,856 |
| Total revenue and other income, gains and losses, net | **101,297** | 226,270 |

Contract liabilities mainly relate to the deposits received from customers for sales of properties. RMB11,818,000 of the contract liabilities as of January 1, 2018 were recognised as revenue for the year ended December 31, 2018 from acceptance of properties by customers.

## 5. SEGMENT INFORMATION

The Company's Chief Executive Officer is the chief operating decision maker ("CODM"). The Group is principally operating in two operating locations and engaged in three principal business activities. Information reported to the CODM for the purposes of resource allocation and assessment of segment performance focuses on the operating locations of each principal business activity. The principal locations are Shanghai and Chongqing in the PRC. The Group's operating segments under HKFRS 8 are therefore as follows:

Property development (developing and selling of properties) — Shanghai
— Chongqing

Property investment (leasing of investment properties) — Shanghai
— Chongqing

Others

No operating segments identified by CODM have been aggregated in arriving at the reportable segments of the Group.

Information regarding the above segments is presented below.

**Segment revenue and results**

The following is an analysis of the Group's revenue and results by reportable and operating segment:

*For the year ended December 31, 2018*

| | **Property development** | | **Property investment** | | | |
|---|---|---|---|---|---|---|
| | **Shanghai** | **Chongqing** | **Shanghai** | **Chongqing** | **Others** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Revenue | | | | | | |
| External sales | **12,732** | **72,684** | **176** | **1,382** | **9,105** | **96,079** |
| Segment profit (loss) | **10,302** | **44,971** | **267,472** | **294,973** | **(998)** | **616,720** |
| Other income, gains and losses, net | | | | | | **5,218** |
| Net exchange loss | | | | | | **(45,579)** |
| Unallocated items | | | | | | **(74,973)** |
| Profit before tax | | | | | | **501,386** |

*For the year ended December 31, 2017*

| | Property development | | Property investment | | | |
|---|---|---|---|---|---|---|
| | Shanghai | Chongqing | Shanghai | Chongqing | Others | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | | | | | | |
| External sales | 195,825 | 9,343 | 896 | 1,627 | 7,723 | 215,414 |
| Segment profit (loss) | 159,689 | 1,025 | 149,239 | 110,265 | (2,317) | 417,901 |
| Other income, gains and losses, net | | | | | | 10,856 |
| Net exchange gain | | | | | | 159,454 |
| Finance costs | | | | | | (179,156) |
| Unallocated items | | | | | | (26,837) |
| Profit before tax | | | | | | 382,218 |

Segment result represents the profit earned by (loss incurred from) each segment including the changes in fair value of investment properties, without allocation of other income, gains and losses, finance costs, net exchange gains and losses, changes in fair value of conversion option derivative, selling expenses and administrative expenses including directors' emoluments. This is the measure reported to the Company's Chief Executive Officer for the purposes of resource allocation and performance assessment.

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable and operating segment which is also the information presented to the Company's Chief Executive Officer:

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Segment assets:** | | |
| Property development | | |
| — Shanghai | **1,280,661** | 1,298,577 |
| — Chongqing | **5,122,401** | 4,625,338 |
| Property investment | | |
| — Shanghai | **42,032,724** | 41,213,425 |
| — Chongqing | **11,389,322** | 10,837,876 |
| Others | **464,831** | 434,718 |
| Segment total | **60,289,939** | 58,409,934 |
| Unallocated assets | **282,413** | 801,130 |
| **Consolidated assets** | **60,572,352** | 59,211,064 |
| **Segment liabilities:** | | |
| Property development | | |
| — Shanghai | **881,661** | 678,977 |
| — Chongqing | **1,967,357** | 1,946,078 |
| Property investment | | |
| — Shanghai | **3,215,828** | 3,601,511 |
| — Chongqing | **1,400,514** | 1,800,179 |
| Others | **247,824** | 282,252 |
| Segment total | **7,713,184** | 8,308,997 |
| Unallocated liabilities | **15,309,603** | 13,712,476 |
| **Consolidated liabilities** | **23,022,787** | 22,021,473 |

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

- all assets are allocated to operating and reporting segments other than certain property, plant and equipment, certain prepaid lease payments, other receivables, deposits and prepayments, pledged bank deposits, and bank balances and cash, which are commonly used among segments or used for corporate operation.

- all liabilities are allocated to operating and reporting segments other than certain other payables and accruals, amount due to a shareholder, tax payable and deferred tax liabilities, which are corporate liabilities that are not allocated to any segment. Borrowings, fixed-rate senior notes and convertible note are allocated on a consistent basis with certain finance costs capitalised. The conversion option derivative is allocated according to the portion of convertible note allocated.

**Other segment information**

*For the year ended December 31, 2018*

| | Property development | | Property investment | | | Segments' | | |
|---|---|---|---|---|---|---|---|---|
| | **Shanghai** | **Chongqing** | **Shanghai** | **Chongqing** | **Others** | **total** | **Adjustments** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** *(Note (a))* | ***RMB'000*** |
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | | | |
| Changes in fair value of investment properties | — | — | **267,296** | **293,590** | — | **560,866** | — | **560,866** |
| Additions to non-current assets *(Note (b))* | — | — | **565,882** | **280,679** | **11** | **846,572** | **4,769** | **851,341** |
| Depreciation of property, plant and equipment | — | — | — | — | — | — | **2,679** | **2,679** |
| Gain on disposal of investment properties | — | — | — | — | — | — | **4,673** | **4,673** |
| Amortisation of prepaid lease payments | — | — | — | — | **3,105** | **3,105** | **44** | **3,149** |

*For the year ended December 31, 2017*

| | Property development | | Property investment | | | Segments' | | |
|---|---|---|---|---|---|---|---|---|
| | Shanghai | Chongqing | Shanghai | Chongqing | Others | total | **Adjustments** | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* *(Note (a))* | *RMB'000* |
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | | | |
| Changes in fair value of investment properties | — | — | 148,342 | 108,638 | — | 256,980 | — | 256,980 |
| Additions to non-current assets *(Note (b))* | — | — | 80,481 | 293,119 | 34,306 | 407,906 | 662 | 408,568 |
| Depreciation of property, plant and equipment | — | — | — | — | 40 | 40 | 2,547 | 2,587 |
| Gain on disposal of investment properties | — | — | — | — | — | — | 6,207 | 6,207 |
| Amortisation of prepaid lease payments | — | — | — | — | 3,105 | 3,105 | 44 | 3,149 |

*Notes:*

(a) All amounts included in the measure of segment profit or loss or segment assets are allocated to operating segments other than certain additions to non-current assets, depreciation of property, plant and equipment, gain on disposal of investment properties and amortisation of prepaid lease payments which are related to unallocated assets commonly used between segments or used for corporate operation.

(b) Non-current assets include investment properties, property, plant and equipment and prepaid lease payments.

**Geographical information**

All revenue of the Group are derived from operations in the PRC.

Non-current assets of the Group are mainly located in the PRC (group entities' country of domicile).

**Information about major customer**

For the years ended December 31, 2018 and 2017, no revenue from a customer of the corresponding year contributed over 10% of the total revenue of the Group.

In the following table, revenue under HKFRS 15 is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition.

***Disaggregation of revenue***

*For the year ended December 31*

| | Sales of properties | | | | Property management income | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Shanghai | | Chongqing | | | | | |
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | **2017** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Timing of revenue recognition | | | | | | | | |
| At a point in time | **12,732** | 195,825 | **72,684** | 9,343 | **—** | — | **85,416** | 205,168 |
| Transferred over time | **—** | — | **—** | — | **9,105** | 7,723 | **9,105** | 7,723 |
| | **12,732** | 195,825 | **72,684** | 9,343 | **9,105** | 7,723 | **94,521** | 212,891 |

## 6. FINANCE COSTS

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on other borrowings | **581,690** | 588,144 |
| Interest on bank borrowings | **718** | 2,728 |
| Effective interest expense on 13.5% fixed-rate senior notes | **183,720** | 237,975 |
| Effective interest expense on 15.0% fixed-rate senior notes | **49,289** | — |
| Effective interest expense on convertible note | **45,681** | 68,562 |
| Total finance costs | **861,098** | 897,409 |
| Less: Amount capitalised in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales | **(861,098)** | (718,253) |
| | **—** | 179,156 |

Borrowing costs capitalised during the year arising on specific borrowings amounted to approximately RMB490,003,000 (2017: RMB258,354,000). Borrowing costs capitalised during the year arising on the general borrowing pool amounted to approximately RMB371,095,000 (2017: RMB459,899,000) and was calculated by applying a capitalisation rate of 17.36% (2017: 12.51%) per annum to expenditure on qualifying assets.

## 7. INCOME TAX EXPENSE

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current tax: | | |
| Enterprise Income Tax/Land Appreciation Tax ("LAT") in the PRC | **1,191** | 33,301 |
| Deferred tax: | | |
| Current year | **140,221** | 64,245 |
| | **141,412** | 97,546 |

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC group entities is 25% for both years.

Under the Provisional Regulations on Land Appreciation Tax implemented upon the issuance of the Provisional Regulations of the PRC on January 27, 1995, all gains arising from transfer of real estate property in the PRC effective from January 1, 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including land costs, borrowings costs and all property development expenditures.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

Income tax expense for the year can be reconciled from the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **501,386** | 382,218 |
| Tax at PRC enterprise income tax rate of 25% | **125,347** | 95,555 |
| Tax at PRC LAT rates ranging from 30% to 60% | **490** | — |
| Tax effect of expenses not deductible for tax purpose | **26,524** | 57,025 |
| Tax effect of income not taxable for tax purpose | **(17,568)** | (55,034) |
| Tax loss not recognised | **6,619** | — |
| Income tax expense for the year | **141,412** | 97,546 |

## 8. PROFIT FOR THE YEAR

| | 2018 *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Directors' emoluments | **1,255** | 1,304 |
| Other staff costs | | |
| — salaries and other benefits | **23,835** | 24,608 |
| — contributions to retirement benefits schemes | **6,248** | 5,421 |
| Total staff costs | **31,338** | 31,333 |
| Less: Amount capitalised in investment properties under construction and properties under development for sales | **(4,328)** | (5,877) |
| | **27,010** | 25,456 |
| Auditors' remuneration | **2,223** | 2,927 |
| Amortisation of prepaid lease payments | **3,149** | 3,149 |
| Less: Amount capitalised in construction in progress under property, plant and equipment | **(3,105)** | (3,105) |
| | **44** | 44 |
| Depreciation of property, plant and equipment | **2,679** | 2,587 |
| Less: Amount capitalised in properties under development for sales | **(1,385)** | (1,211) |
| | **1,294** | 1,376 |
| Cost of properties sold (included in cost of sales) | **42,851** | 44,456 |
| Gross rental income from investment properties | **1,558** | 2,523 |
| Less: Direct operating expenses incurred for investment properties that generated rental income during the year | **(33)** | (93) |
| | **1,525** | 2,430 |

## 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company) | **359,974** | 284,672 |
| Effect of dilutive potential ordinary shares: | | |
| — Changes in fair value of conversion option derivative | **(2,456)** | (54,574) |
| Earnings for the purpose of diluted earnings per share | **357,518** | 230,098 |

| | 2018<br>*'000* | 2017<br>*'000* |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares in issue during the year for the purpose of basic earnings per share | **1,809,077** | 1,809,077 |
| Effect of dilutive potential ordinary shares: | | |
| — Convertible note | **206,612** | 206,612 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **2,015,689** | 2,015,689 |

## 10. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Considerations in respect of completed properties sold are received from customers in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the agreement date.

Considerations in respect of properties sold under pre-sale contracts will be fully received prior to the delivery of the properties to the purchasers.

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* |
|---|---|---|
| Prepayment of business taxes and other PRC taxes | **55,826** | 35,133 |
| Other receivables, deposits and prepayments | **130,295** | 135,077 |
| | **186,121** | 170,210 |

## 11. CONTRACT LIABILITIES AND DEPOSITS RECEIVED FOR SALES OF PROPERTIES

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contract liabilities/Deposits received for sales of properties — expected to be realised within twelve months | **865,363** | 439,603 |

## 12. OTHER COMMITMENTS

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Commitments for future construction contracted for but not provided | **2,195,366** | 1,530,143 |

## FINAL DIVIDEND

The directors of the Company have resolved not to propose any payment of a final dividend of the Company for the year ended December 31, 2018 (2017: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, June 25, 2019 to Friday, June 28, 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend the annual general meeting to be held on June 28, 2019, all completed transfer forms accompanies by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 pm on Monday, June 24, 2019.

## ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held at 14th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong at 10:00 am on Friday, June 28, 2019. The notice of the annual general meeting will be published on the websites of the Stock Exchange and the Company and sent to the shareholders of the Company in due course.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND OUTLOOK

### Group Strategies

Looking ahead, the Group would continue to master property development projects, both residential and commercial, with sizable and distinct quality, in prime locations in the People's Republic of China ("PRC"). Our overall objectives are to exploit business opportunities, achieve sales growth, and enhance income as planned.

Key property development projects are as follows:

- *High-end and sizable middle-class residential projects*

  There are both high-end residential and well-located projects for the growing middle-class in both Shanghai and Chongqing. Luxurious design and leading residential projects, characterised by themes and motifs, are connected with mass transit system with rapid, convenient and efficient transportation.

- *Modern and upscale theme shopping street developments*

  These are modern, well-designed architectural projects situated at prime retail areas in major cities in the PRC which combines retail, residential, entertainment, cultural and recreational users with great accessibility, a focal point with attractions for residential, investment and business operations.

## BUSINESS ENVIRONMENT

### Overview of the Mainland Property Market

China's GDP in 2018 was recorded at RMB90,030.9 billion, representing a 6.6% year-on-year growth.

The residential property market of China remained positive in 2018 as the sales area and investment amount of residential properties grew by 2.2% year-on-year and 13.4% year-on-year respectively, according to the National Statistics Bureau. President Xi reiterated the principle of "housing should be built for residing, but not for speculation" in the government work report in March 2018. Local city-level governments had implemented different housing policies in an attempt to maintain a stable market. The leasing market as a long-term mechanism for China's residential property market development had gained noticeable momentum.

The retail property market of China was buoyant in 2018 as the total retail sales expanded to RMB38,098.7 billion, representing a growth of 9.0% year-on-year. The e-commerce market continued to develop in an expeditious pace. In 2018, the national online retail sales of goods & services amounted to RMB9,006.5 billion, implying an increment of 23.9% year-on-year, of which the online retail sales of commodities was recorded at RMB7,019.8 billion, increased by 25.4%, accounting for 18.4% of the total retail sales of consumer goods. Among the online retail sales of physical goods, food, clothing and daily necessities went up by 33.8%, 22.0% and 25.9% respectively. F&B and entertainment retailers were the fastest growing trades, while the increasing popularity of sports had made sportswear retailers the most active fashion categories.

The office property market of China was dynamic in 2018 evidenced by the positive net take up of office spaces in most major cities. While the technology, media and telecommunications ("TMT") and finance industries remained the key drivers in the office demand, flexible workspace operators had taken up a sizeable market share, especially in first-tier cities. The robust leasing demand from these industries drove a steady vacancy rate and a healthy rental growth.

**Overview of the Shanghai Property Market**

Shanghai had maintained a steady economic growth. As of 2018, Shanghai's GDP grew by 6.6% year-on-year to RMB3,268.0 billion.

New commodity residential supply rebounded from the low levels in 2017 and recorded at 8.1 million square metres in 2018. The average commodity residential price in the same period grew 24.5% year-on year to about RMB61,000 per square metre, despite a strict intervention from the government since 2016. New policies regulating the speculative real estate investment through shell companies, which only allowed enterprises with at least five years of operation, RMB1 million tax payment and 10 staffs to purchase residential properties in Shanghai, had been launched. The government had also investigated entities releasing fake information, speculate, and act as illegal brokers and sellers in order to stabilize the market.

The retail sales was recorded at RMB1,266.9 billion in 2018, representing a growth of 7.9% year-on-year. The solid performance of retail sales was a positive indicator of the retail property market. A total of seven new shopping malls were completed in 2018 H2, adding 740,000 square metres of new supply to the market. The vacancy rate and net absorption stayed healthy as supported by the strong demand, while the average rent remained stable despite the new supply and tenant mix reshuffling in existing projects. Experimental consumption continued to be the trend in 2018. E-sports, technology, anime, indoor zoo, culture and innovation were some of the new themes in shopping malls.

According to the Shanghai Statistics Bureau, tertiary industry contributed about 70% of the total GDP in 2018, grown by 8.7% year-on-year to RMB2,284.3 billion. Despite a new office supply of 780,000 square metres in core areas in 2018, the overall vacancy rate of Grade A office buildings still dropped to about 10.0% in 2018. Finance, insurance and professional services sector continued to dominate the office demand while flexible workspace operators were expanding in core business areas.

**Overview of the Chongqing Property Market**

Chongqing's economy continued to grow positively. Chongqing's GDP was recorded at a growth of 6.0% year-on-year to RMB2,036.3 billion in 2018.

The residential property market grew steadily despite a series of new government policies regulating and raising the investment threshold. The transaction volume reached 28.4 million square metres in 2018, representing a 12.9% year-on-year growth. The strong demand were supported by buyers looking for improvements in their living environment, and the average price was surged to about RMB11,900 per square metre, implying a 24.5% increment year-on-year.

The retail sales grew by 8.7% year-on-year in 2018. Nine shopping malls were completed in 2018, totaling a new supply of 600,000 square metres. Several international brands and foreign catering retailers were attracted to Chongqing due to the increasing consumption power. Landlords were keen to welcome Internet celebrity brands as they could attract a high level of footfall and had a high affordability of rent.

According to the Chongqing Statistics Bureau, tertiary industry grew by 9.1% year-on-year to RMB1,065.6 billion in 2018. The supply of Grade A office buildings was relatively stable in 2018 while the demand remained strong. This drove a lower overall vacancy rate. While finance and professional services sectors remained the main demand generators, flexible workspace operators had been rapidly expanding, occupying a considerable market share. The TMT industry had also shown a substantial need of office spaces since the launch of "Innovating China in Chongqing".

**Outlook of the Mainland Property Market**

After reiterating the principle of "housing should be built for residing, but not for speculation" in the government work report in 2018, the determination of suppressing the investment sentiment of housing market by the central government is anticipated to remain unchanged in 2019. To maintain a stable market, the likelihood of a more stringent policy is expected to be low. Overall, the residential market is expected to remain healthy and the price is expected to grow steadily. Meanwhile, the rental market would be favourable under the current market stabilization policy on purchasing market. More for-lease residential land plots are anticipated to be launched onto the market.

The retail leasing momentum is expected to remain stable with experimental retailers, Internet celebrity F&B stores and child-focused brands being the key demand drivers. Landlords are expected to enrich the shopping experiences and reshuffle the tenant mix regularly to bring a fresh image to customers. All in all, the retail property market in China is anticipated to be further developed steadily.

The office leasing demand is expected to stay strong supported by the steady economic growth. While the robust demand from TMT and finance industries will continue to support a stable rental growth, flexible workspace operators are expected to further take up the market share, especially in first-tier cities. These operators will be more creative in improving the working experience and optimization of space in order to stay competitive.

## FINANCIAL REVIEW

The Group's profit attributable to equity holders for the year amounted to RMB360 million (2017: RMB285 million), increased by 26.3% when compared to 2017. Basic earnings per share were RMB0.20 (2017: RMB0.16).

As at December 31, 2018, the total assets increased to RMB60,572 million from RMB59,211 million in last year. Net assets, the equivalent of shareholders' funds, similarly increased to RMB37,550 million (2017: RMB37,190 million). In terms of value per share, net assets value per share is RMB20.76 at the end of the reporting period, as compared to RMB20.56 as at December 31, 2017. As the Group continues its investment of premium property developments in PRC with attendant appreciation in fair value, there was a RMB561 million fair value gain from the current portfolio. In addition, the approximate 2.1% depreciation of RMB to HK$ and United States dollar has resulted in the recognition of a RMB46 million exchange translation loss reported in this fiscal year.

The Group's revenue of RMB96 million (2017: RMB215 million) decreased by 55.4% when compared with last year, and was mainly due to the decrease in revenue from sales of properties.

The revenue from sales of properties amounted to RMB85 million (2017: RMB205 million), decreased by 58.5% as compared to 2017. The Group sold properties with total gross floor area ("GFA") of approximately 140,000 sq. ft. (2017: 52,000 sq. ft) in 2018, a 169.2% increase as compared with last year.

Gross profit margin for sales of properties was 49.8% (2017: 78.3%), a 36.4 percentage point decrease when compared with last year.

Income from property leasing decreased by 36.0% to RMB1.6 million (2017: RMB2.5 million). The decrease was mainly attributable to less carparks rental income during the year. Property management income was RMB9 million (2017: RMB8 million).

During the year, the Group generated income of RMB13 million, RMB25 million and RMB47 million from sales of residential properties of Shanghai Concord City Phase I, residential properties and car parking spaces of Chongqing Manhattan City Phase I, residential properties and car parking spaces of Chongqing Manhattan City Phase II respectively.

Contract liabilities/deposits received on sales of properties increased to RMB865 million as at December 31, 2018 from RMB440 million as at December 31, 2017. This was primarily due to the increase in deposits received on sales of Shanghai Concord City Phase I and the pre-sale of residential properties of Chongqing Manhattan City Phase III during the year.

Other income, gains and losses, net were RMB5 million (2017: RMB11 million). The decrease was mainly attributable to the decrease in gain on disposal of investment properties of Shanghai Cannes car parking spaces.

During the year, selling expenses were RMB9 million (2017: RMB19 million) which decreased by 52.6%. It was resulted from the decrease in advertising expenses incurred for pre-sale of residential properties.

Administrative expenses during the year were RMB55 million (2017: RMB63 million) which decreased by 12.7%. The decrease was mainly attributable to the decrease in project consultancy fees as well as other tax and related expenses during the year.

Finance costs represent mainly interest expenses and other borrowing costs in relation to bank and other borrowings, effective interest of convertible note and the fixed-rate senior notes. Finance costs of approximately RMB861 million (2017: RMB718 million) were capitalised on various projects, and no finance costs were charged to the profit or loss during the year (2017: RMB179 million).

The changes in fair value of investment properties were RMB561 million (2017: RMB257 million), an increase of 118.3% when compared to 2017. The property price remained steady during the year because the underlying demand remained strong. On the other hand, the central government's blueprint that advocates Shanghai to become an international financial hub in 2020 also benefited local businesses including the retail and office property markets. Combining these factors, the valuation of investment properties in 2018 is still appreciating. The fair value of investment properties in Shanghai experienced an increase of RMB267 million (2017: RMB148 million) which was mainly contributed from valuation appreciation of the project of Shanghai Concord City Phase 2. The fair value of investment properties in Chongqing experienced an increase of RMB294 million (2017: RMB109 million) which was mainly contributed from the valuation appreciation of the projects of Chongqing International Commerce Centre and Chongqing Concord City.

Income tax expense was RMB141 million (2017: RMB98 million), an increase of 43.9%. The Group's effective income tax rate was 28.2% (2017: 25.5%). The increase in income tax expense was due to the increase in the amount of increase in fair value of investment properties for 2018 in comparison to last year.

## LIQUIDITY AND FINANCING

The Group monitors its liquidity requirements on a short to medium-term basis and arranges refinancing of the Group's borrowing when appropriate. During the year, the Group raised new external borrowings totaling of approximately RMB1,572 million (2017: RMB2,592 million); on the other hand, the Group also received advance from a shareholder amounted to RMB1,415 million (2017: RMB171 million) during the year.

At the end of the reporting period, the Group's senior notes, bank and other borrowings and amount due to a shareholder amounted to RMB1,576 million (2017: RMB1,667 million), RMB4,906 million (2017: RMB5,529 million), RMB3,498 million (2017: RMB2,083 million) respectively. As at 31 December 2017, the Group's debt component of convertible note amounted to RMB393 million, which was fully settled during the year. The Group's total borrowings were RMB9,980 million (2017: RMB9,672 million), an increase of RMB308 million when compared to December 31, 2017. RMB8,453 million (2017: RMB5,933 million) is repayable within one year whilst the remaining is repayable in the second to fifth year inclusive.

The gearing ratio of the Group as at December 31, 2018 was 26.4% (2017: 24.7%), determined as proportion of the Group's net borrowings (after deducting bank balances and cash and pledged bank deposits) to the shareholders' funds.

With bank balances and cash in hand, banking facilities available and those financing plans, in the opinion of the directors, the Group will have sufficient financial resources to satisfy its commitments and working capital requirements.

There was no material acquisition and disposal of group companies during the year.

## TREASURY POLICIES

At the end of the reporting period, approximately 84% (2017: 79%) of the Group's borrowings were in RMB. The Group derives its revenue mainly in RMB. Bank balances are maintained mainly in RMB and HK$.

The bank borrowings are principally on a floating-rate basis while the other borrowings and senior notes are on a fixed-rate basis.

The Group has not used any interest rate or foreign currency derivative instrument to hedge its exposure to interest rate and foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

## CHARGE ON ASSETS

As at December 31, 2018, the Group pledged assets with an aggregate carrying value of RMB48,388 million (2017: RMB45,319 million) to secure loan facilities utilised.

## CONTINGENT LIABILITIES

As at December 31, 2018, the Group guaranteed mortgage loans to purchasers of its properties in the aggregate outstanding principal amount of RMB473 million (2017: RMB492 million). During the year, there was no default case.

### Legal disputes

As at December 31, 2018, the Group is subjected to several legal claims mainly in relation to disputes under construction contracts in respect of its various property development projects which arose during the normal course of business. In these legal proceedings, the Group has received court orders to restrict the disposition of certain investment properties, properties under development for sales and properties held for sale in an aggregate amount of approximately RMB41 million (2017: RMB52 million) and the withdrawal of bank deposits of approximately RMB5 million (2017: RMB6 million) as at December 31, 2018. In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that not met the required standards and pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or in the process of making countered claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group. The management has sought advices from the independent legal advisors or internal legal counsel, as at December 31, 2018, the Group has provided the construction cost liabilities amounting to RMB49 million (2017: RMB69 million) in relation to the above mentioned construction contracts under dispute.

Outstanding legal claims that are subjected to legal proceedings and/or appeal amounted to approximately RMB74 million (2017: RMB42 million) in aggregate. No further provision has been made in the consolidated financial statements in respect of these claims. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

Except for the matters disclosed elsewhere, the Group has the following litigations with some of its lenders:

1) On August 28, 2015, Shanghai Jingan-Concord Real Estate Co., Ltd. ("Shanghai Jingan") and Shanghai Minhang Concord Property Development Co., Ltd.) ("Shanghai Minhang"), each a wholly-owned subsidiary of the Company, as borrowers entered into an entrusted loan agreement with 平安大華匯通財富管理有限公司 ("PinganDahua") whereby an entrusted loan in the aggregate amount of RMB1.3 billion was granted, originally repayable by August 31, 2018 and extended verbally to October 15, 2018. Since then, the above parties have been in negotiations on new repayment arrangements. PinganDahua, without notice to Shanghai Jingan and Shanghai Minhang, made an application to the notary office for an execution certificate at the end of December 2018 and filed an application for enforcement with the High Court of Shanghai.

   The Company has consulted with and obtained independent legal advice from PRC legal counsel, which is of the view that, given the actions of PinganDahua are misleading and constitute misconduct on its part, it is unlikely to cause any significant losses to the Group. Based on the aforesaid and according to the relevant information available as at the date of this announcement, the abovementioned is unlikely to have any material adverse impact on the performance and financial condition of the Group. The Company will take appropriate measures to resolve the above situation.

2) On November 9, 2016, Shanghai Jingan as borrower entered into an entrusted loan agreement (the Lujiazui Entrusted Loan Agreement") with 陸家嘴國際信託有限公司 ("Lujiazui") whereby an entrusted loan in the total aggregate amount of RMB1.3 billion was granted. Three tranches of loan will be due on May 23, 2019, June 6, 2019 and June 15, 2019. Pursuant to the Lujiazui Entrusted Loan Agreement, Shanghai Jingan was required to pay a deposit of RMB124 million to Lujiazui by December 15, 2018, failing which Lujiazui can demand the immediate repayment of the total loan together with liquidated charges and interest. The full RMB124 million was not paid by due date and since December 4, 2018, Shanghai Jingan and Lujiazui have been in discussion to make a partial prepayment of the loan principal by utilising proceeds from sale of certain residential properties which have been charged to Lujiazui as security for the loan. Without notice to Shanghai Jingan, Lujiazui filed a civil claim claiming the amount of RMB1.24 billion against Shanghai Jingan with the High Court of Shanghai on December 20, 2018.

The Company has consulted with and obtained independent legal advice from PRC legal counsel, which is of the opinion that given Shanghai Jingan has been acting in compliance with the terms of the Lujiazui Entrusted Loan Agreement, there is no breach of contract, and therefore the claim is unlikely to cause any significant losses to the Group. Based on the aforesaid and according to the relevant information available as at the date of this announcement, the abovementioned incident is unlikely to have any material adverse impact on the performance and financial condition of the Group. The Company will take appropriate measures to resolve the above situation.

3) On September 27, 2017, Shanghai Jingan as a borrower entered into an entrusted loan agreement (the "JIC Trust Entrusted Loan Agreement") with 中建投信託股份有限公司 ("JIC Trust") whereby an entrusted loan in the aggregate amount of RMB1.2 billion was granted in twelve tranches. The loan tenure for each tranch is 24 months and will be due from October 13, 2019 to December 29, 2019 (the "Loan Term"). Pursuant to the JIC Trust Entrusted Loan Agreement, the lender has the right to demand immediate repayment of the loan if the lender has doubt over the borrower's financial ability to repay the loan. On February 14, 2019, Shanghai Jingan received a notice from JIC Trust informing that the JIC Trust Entrusted Loan Agreement would be terminated on February 18, 2019 and the loan would be due on the same day. As the Loan Term has not yet expired, Shanghai Jingan did not repay the loan as demanded. On February 22, 2019, JIC Trust filed a civil claim against Shanghai Jingan and the Company declaring the termination of the JIC Trust Entrusted Loan Agreement and the loan due. The amount of claim is RMB1,452.35 million.

   The Company has consulted with and obtained independent legal advice from PRC legal counsel, which is of the opinion that given the loan has yet been due, the claim is unlikely to cause any significant losses to the Group. Based on the aforesaid and according to the relevant information available as at the date of this announcement, the abovementioned incident is unlikely to have any material adverse impact on the performance and financial condition of the Group. The Company will take appropriate measures to resolve the above situation.

## EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2018, the Group had 375 employees (2017: 346 employees) in Hong Kong and the PRC. The related employees' cost for the year amounted to approximately RMB31 million (2017: RMB31 million). The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis, together with reference to the profitability of the Group, remuneration benchmarks in the industry and prevailing market conditions. In addition, share options may be granted from time to time in accordance with the terms of the Group's approved share option scheme to provide incentives and rewards to the employees.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout 2018 and up to the date of this announcement, the Company has fully complied with all code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in amended Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. The Company made specific enquiries with each director and each of them confirmed compliance with the Model Code during the year ended December 31, 2018.

## AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements and continuing connected transactions of the Group for the year ended December 31, 2018.

## EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The followings is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended December 31, 2018.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 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 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.

## Material Uncertainty Related to Going Concern

We draw attention to note 1 in the consolidated financial statements, which indicates that as of December 31, 2018, the Group had net current liabilities of RMB3,863,874,000. In addition, the Group is dispute with certain lenders, who have taken legal action to demand for repayment of certain other borrowings. As stated in note 1, these events and conditions, along with other matters as set forth in note 1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## SCOPE OF WORK OF AUDITORS

Messrs. Deloitte Touche Tohmatsu, Certified Public Accountants, resigned and BDO Limited was appointed as auditor of the Company with effect from August 17, 2018.

The figures in respect of the Group's consolidated statement of financial position, the consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

## ANNUAL REPORT AND DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement is also published on the website of the Stock Exchange. The annual report for the year ended December 31, 2018 containing all information required by the Listing Rules will be dispatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

## APPRECIATION

The Directors would like to take this opportunity to express sincere gratitude to all shareholders for their continued support and to thank all staff members of the Group for their dedication and contribution to the Group.

By Order of the Board
**CHINA PROPERTIES GROUP LIMITED**
**Dr. Wang Shih Chang, George**
*Chairman*

Hong Kong, March 29, 2019

*As at the date of this announcement, the Board of the Company comprises Dr. Wang Shih Chang, George, Mr. Wong Sai Chung and Mr. Xu Li Chang as executive directors, Mr. Kwan Kai Cheong as non-executive director and Mr. Warren Talbot Beckwith, Mr. Luk Koon Hoo, Dr. Garry Alides Willinge and Mr. Cheng Chaun Kwan, Michael as independent non-executive directors.*