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中國城市基礎設施集團有限公司
China City Infrastructure Group Limited

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 2349)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

## KEY HIGHLIGHTS

– Revenue from continuing operations is approximately HK$293,593,000 for the year, while approximately HK$628,890,000 was recorded in 2017, decreased by approximately 53.3%.

– Revenue from property development business is approximately HK$191,940,000 for the Current Year, a decrease of approximately 65.6% compared with the revenue of the same business of approximately HK$558,419,000 in 2017.

– The Group's investment properties recorded a fair value loss of approximately HK$28,863,000.

– During Current Year, the Group incurred one-off non-cash impairment loss on goodwill of property development business approximately HK$31,000,000.

– The Group's net loss for the year is approximately HK$176,350,000, decreased by 39.0% compared with approximately HK$289,222,000 was recorded in the year of 2017.

– As at 31 December 2018, the Group's total assets amounted to approximately HK$2,867,835,000.

## ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of China City Infrastructure Group Limited (the "Company") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively refer to as the "Group") for the year ended 31 December 2018 (the "Current Year"), together with the comparative figures for previous financial year.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2018*

| | | **2018** | 2017 |
|---|---|---|---|
| | *NOTES* | ***HK$'000*** | *HK$'000* |
| **CONTINUING OPERATIONS** | | | |
| Revenue | *3* | **293,593** | 628,890 |
| Cost of sales | | **(171,382)** | (539,756) |
| Gross profit | | **122,211** | 89,134 |
| Fair value loss in respect of investment properties revaluation | | **(28,863)** | (56,992) |
| Gain on disposal of subsidiaries | | **7,644** | 96,661 |
| Gain on disposal of an associate | | **–** | 19,800 |
| Share of result of an associate | | **–** | (4,318) |
| Share of result of a joint venture | | **(1,331)** | – |
| Other operating income | | **49,504** | 17,958 |
| Other operating expenses | | **(39,776)** | (86,619) |
| Selling and distribution expenses | | **(54,301)** | (58,139) |
| Administrative expenses | | **(84,381)** | (122,330) |
| Finance costs | *4* | **(138,824)** | (185,553) |
| Loss before tax | | **(168,117)** | (290,398) |
| Income tax (expense) credit | *5* | **(8,233)** | 6,513 |
| Loss for the year from continuing operations | *6* | **(176,350)** | (283,885) |

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **DISCONTINUED OPERATION** | | | |
| Loss for the year from discontinued operation | 7 | **–** | (5,337) |
| **Loss for the year** | | **(176,350)** | (289,222) |
| **Loss attributable to:** | | | |
| Owners of the Company | | | |
| – Loss from continuing operations | | **(174,883)** | (282,229) |
| – Loss from discontinued operation | | **–** | (4,686) |
| | | **(174,883)** | (286,915) |
| Non-controlling interests | | | |
| – Loss from continuing operations | | **(1,467)** | (1,656) |
| – Loss from discontinued operation | | **–** | (651) |
| | | **(1,467)** | (2,307) |
| | | **(176,350)** | (289,222) |
| **Loss per share** | 9 | ***HK cents*** | *HK cents* |
| **From continuing and discontinued operations** | | | |
| – Basic | | **(5.67)** | (10.80) |
| – Diluted | | **(5.67)** | (10.80) |
| **From continuing operations** | | | |
| – Basic | | **(5.67)** | (10.62) |
| – Diluted | | **(5.67)** | (10.62) |

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

*For the year ended 31 December 2018*

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,924** | 18,231 |
| Investment properties | | **1,988,636** | 2,100,000 |
| Goodwill | | **48,605** | 79,605 |
| Interest in a joint venture | | **2,139** | – |
| | | **2,041,304** | 2,197,836 |
| **Current assets** | | | |
| Inventories | | **136** | 380 |
| Inventory of properties | | **393,484** | 1,285,390 |
| Trade and other receivables | *10* | **382,931** | 460,153 |
| Bank balances and cash | | **49,980** | 64,501 |
| | | **826,531** | 1,810,424 |
| **TOTAL ASSETS** | | **2,867,835** | 4,008,260 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | | **308,228** | 308,228 |
| Reserves | | **953,135** | 1,204,276 |
| Equity attributable to owners of the Company | | **1,261,363** | 1,512,504 |
| Non-controlling interests | | **–** | 99,830 |
| **TOTAL EQUITY** | | **1,261,363** | 1,612,334 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2018*

## 1. General

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

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

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

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

In prior years and up to 15 December 2017, the Group was also engaged in the construction of natural gas pipeline and operation of exclusive concession rights in the PRC (collectively "Natural Gas Business"). Details are set out in Note 7.

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

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

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

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

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

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

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

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

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

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

Summary of effects arising from initial application of HKFRS 15

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

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

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

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

*Impact on the consolidated statement of financial position*

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

2.2 *HKFRS 9 Financial Instruments*

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

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

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

*Impairment under ECL model*

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

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

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

***New and Amendments to HKFRSs in Issue but not yet effective***

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

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

[1] *Effective for annual periods beginning on or after 1 January 2019*

[2] *Effective for annual periods beginning on or after a date to be determined*

[3] *Effective for annual periods beginning on or after 1 January 2021*

[4] *Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020*

[5] *Effective for annual periods beginning on or after 1 January 2020*

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

*HKFRS 16 Leases ("HKFRS 16")*

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$42,118,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

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

## 3. Segment information

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

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

The Group's continuing operating segments are as follows:

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

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

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

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

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

***Segment revenues and results***

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

**For the year ended 31 December 2018**

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

For the year ended 31 December 2017

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

## 4. Finance costs

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

## 5. Income tax expense (credit)

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

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

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

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

## 6. Loss for the year from continuing operations

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss for the year has been arrived at after charging (crediting): | | |
| Cost of inventory of properties sold | **116,812** | 502,866 |
| Staff costs, including directors' emoluments | **35,879** | 45,378 |
| Retirement benefits scheme contributions, including contributions for directors | **2,048** | 2,150 |
| Total staff costs | **37,927** | 47,528 |
| Auditors' remuneration | **1,070** | 1,350 |
| Depreciation of property, plant and equipment | **10,342** | 11,268 |
| Gain on disposal of property, plant and equipment | **–** | (102) |
| Loss on disposal of investment property* | **–** | 21,351 |
| Impairment loss of other receivables* | **–** | 506 |
| Net gain on trading of financial assets at fair value through profit or loss | **–** | (188) |
| Impairment loss of goodwill* | **31,000** | 53,000 |
| Written-off of property, plant and equipment | **–** | 48 |
| Operating lease rental expenses in respect of rented premises | **28,757** | 22,325 |

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Gross rental income from investment properties | **(39,569)** | (25,967) |
| *Less:* Direct operating expenses from investment properties that generated rental income during the year | **6,187** | 1,766 |
| | **(33,382)** | (24,201) |

* *Those expenses for the year are included in "other operating expenses".*

## 7. Discontinued operation

On 23 November 2017, the Group entered into a sales and purchase agreement with Genview International Limited to dispose of the entire equity interest in Create Capital Development Limited and its subsidiaries at a total consideration of HK$65 million. The principal business and assets of Create Capital Development Limited is Natural Gas Business. The disposal was completed on 15 December 2017. The results of the discontinued operation included in the loss for the year are set out below.

(a) Loss for the year from discontinued operation:

| | **Period from 1.1.2017 to 15.12.2017** ***HK$'000*** |
|---|---|
| Revenue | **28,208** |
| Cost of sales | **(20,073)** |
| Other operating income | **27** |
| Other operating expenses | **–** |
| Administrative expenses | **(5,572)** |
| Selling and distribution expenses | **(1,461)** |
| Loss from operations | **1,129** |
| Finance costs | **(7,653)** |
| Loss before tax from discontinued operation | **(6,524)** |
| Income tax credit | **1,187** |
| Loss for the year from discontinued operation | **(5,337)** |
| Attributable to: | |
| Owners of the Company | **(4,686)** |
| Non-controlling interests | **(651)** |
| | **(5,337)** |

(b) Loss for the year from discontinued operation includes the following:

| | **Period from 1.1.2017 to 15.12.2017** |
|---|---|
| | ***HK$'000*** |
| Amortisation of intangible assets | **4,777** |
| Depreciation of property, plant and equipment | **6,519** |
| Staff costs | **4,561** |
| Operating lease rental expenses in respect of rental premises | **121** |

## 8. Dividends

The directors do not recommend the payment of a dividend for the years ended 31 December 2018 and 2017.

## 9. Loss per share

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(a) From continuing and discontinued operations** | | |
| Loss for the purpose of basic loss per share from continuing and discontinued operations | **(174,883)** | (286,915) |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible loan notes (net of income tax) | **2,475** | 4,703 |
| Loss for the purpose of diluted loss per share from continuing and discontinued operations | **(172,408)** | (282,212) |

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(b) From continuing operations** | | |
| Loss for the purpose of basic loss per share from continuing operations | **(174,883)** | (282,229) |
| Effect of dilutive potential ordinary shares: Interest on convertible loan notes (net of income tax) | **2,475** | 4,703 |
| Loss for the purpose of diluted loss per share from continuing operations | **(172,408)** | (277,526) |
| **(c) From discontinued operation** | | |
| Loss for the purpose of basic loss per share from discontinued operations | **–** | (4,686) |
| Effect of dilutive potential ordinary shares: Interest on convertible loan notes (net of income tax) | **2,475** | 4,703 |
| Profit for the purpose of diluted earning per share from discontinued operations | **2,475** | 17 |

| | 2018 | 2017 |
|---|---|---|
| **Number of shares** | | |
| Number of ordinary shares/weighted average number of ordinary shares for the purpose of basic loss per share | **3,082,278,542** | 2,657,138,698 |
| Effect of dilutive potential ordinary shares: Convertible notes | **46,000,000** | 46,000,000 |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | **3,128,278,542** | 2,703,138,698 |

For the years ended 31 December 2018 and 2017, the computation of diluted loss per share has not assumed for the conversion of the Company's outstanding convertible notes and share options since their exercise would result in a decrease in loss per share.

## 10. Trade and other receivables

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **42,959** | 51,830 |
| *Less:* Allowance for credit losses | **–** | – |
| | **42,959** | 51,830 |
| Prepayments and deposits *(note a)* | **42,885** | 63,020 |
| Other receivables *(note b)* | **297,087** | 345,303 |
| | **382,931** | 460,153 |

*notes:*

(a) Included in prepayments and deposits are amounts of approximately HK$9,431,000 (2017: approximately HK$11,254,000) for the repair and maintenance deposit to the government and amounts of approximately HK$7,155,000 (2017: approximately HK$9,401,000) for utility deposits. The remaining balance represents the prepayment for construction work and other prepaid expenses.

(b) Included in other receivables are receivables from a property agent related to property development business of approximately HK$31,710,000 (2017: HK$109,055,000). The other receivables also include approximately HK$119,801,000 (2017: approximately HK$164,140,000), being other loan receivables due from independent third parties bearing interest ranging from 7% to 9% (2017: 7% to 9%) per annum. Furthermore, the amount due from Pu Tian, the disposed subsidiary, of approximately HK$98,677,000 (2017: Nil) is included in the other receivables.

On 15 December 2017, the Group completed the disposal of the entire equity interest in a subsidiary, Create Capital Development Limited. Pursuant to the sales and purchase agreement, the total cash consideration was HK$65,000,000. As at 31 December 2017, HK$25,000,000 was settled. The remaining HK$40,000,000 consideration was settled on 12 March 2018.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to approximately HK$26,713,000 and HK$33,717,000 respectively.

An aging analysis of trade receivables (net of allowance for credit losses) based on invoice dates at the end of the reporting period is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **42,446** | 24,842 |
| 91 to 180 days | **144** | 4,490 |
| Over 180 days | **369** | 22,498 |
| | **42,959** | 51,830 |

The directors consider that the carrying amounts of trade and other receivables approximate their fair values.

## 11. Trade and other payables

The following is an aging analysis of the Group's trade payables based on the invoice dates at the end of the reporting period:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **2,645** | 35,077 |
| 91 to 180 days | **372** | 5,954 |
| Over 180 days | **40,857** | 48,996 |
| Trade payables | **43,874** | 90,027 |
| Interest payables | **57,320** | 93,039 |
| Accrued expenses and other tax payables | **7,563** | 26,378 |
| Consideration payables *(note a)* | **4,860** | 5,001 |
| Other payables *(note b)* | **79,237** | 67,190 |
| | **192,854** | 281,635 |

Trade payables principally comprise amounts outstanding for purchase of hotel consumables, construction materials and construction work of properties under development and investment properties.

The average credit period of trade payables is three to six months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The directors consider that the carrying amounts of trade and other payables approximate their fair value.

*notes:*

(a) The consideration payable represents the amount payable for acquisition of additional interests in subsidiaries.

(b) The other payables included approximately HK$4,090,000 (2017: approximately HK$12,388,000) of deposits received from contractors for construction work.

**12. Events after the reporting period**

Subsequent to the end of the reporting period, on 3 January 2019, the Group entered into the conditional Sale and Purchase Agreement with Sky Climber Development Limited (the "Vendor") and Yang Zhixiong* (the "Vendor Guarantor") in relation to the acquisition of the Sale Shares by Green City Development Limited, a wholly owned subsidiary of the Group (the "Purchaser") for an aggregate consideration of HK$795,000,000, which will be satisfied by the issue of the Convertible Bonds in the principal amount of HK$431,500,000 and the issue of the Promissory Note in the principal amount of HK$363,500,000 to the Vendor or its nominee. Further details were disclosed in the Company's announcements dated 3 January 2019, 24 January 2019 and 28 February 2019.

* *For identification purpose only*

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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

### Business Review

#### *The PRC Property Development Business*

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

### ***The PRC Property Investment Business***

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

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

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

### *The PRC Hotel Business*

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

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

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

### *The PRC Property Management Business*

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

## Group Projects

### *Property related business*

*Wuhan City, Hubei*

Future City

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

Future Mansion

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

*Wuhan City, Hubei*

Zhongshui • Longyang Plaza

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

*Hangzhou City, Zhejiang*

Mei Lai International Centre

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

*Hangzhou City, Zhejiang*

Qiandao Lake Villa

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

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

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

## Financial Review

### *Revenue*

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

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

### *Cost of Sales*

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

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

*Gross Profit and Gross Profit Margin*

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

*Other Operating Income*

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

*Other Operating Expenses*

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

*Change in Fair Value of the Investment Properties*

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

*Selling and Distribution Expenses*

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

*Administrative Expenses*

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

*Finance Costs*

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

*Income Tax (Expenses) Credit*

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

***Discontinued Operation***

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

***Loss Attributable to Owners of the Company***

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

***Liquidity, Financial and Capital Resources***

*Cash Position*

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

*Borrowings and Charges on the Group's Assets*

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

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

*Gearing Ratio*

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

### Use of Proceeds From Fund Raising

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

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

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

## OUTLOOK AND FUTURE PLAN

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

### Property Business

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

### Other Infrastructure Business

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

### Contingent Liabilities and Commitments

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

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

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

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

(e) As at 31 December 2018, a subsidiary was exposed to litigations in relation to joint and several guarantees provided to certain financial institutions and independent third parties regarding loans and the interest thereon totalling approximately RMB10,015,000 (equivalent to approximately HK$11,381,000) (2017: RMB34,015,000 equivalent to approximately HK$40,982,000) granted to certain independent third parties. The guarantees will be released after the full repayment of the loan and interest thereon. The Group has reached an agreement with other joint guarantors and the lenders that the other joint guarantors are committed to bear the loans and the interest. Therefore, the directors consider the risk to the Company is remote and does not affect the operation of the group. As at 31 December 2018, the Group had settled approximately RMB 24,000,000 (equivalent to approximately HK$27,272,000) for the guarantees provided.

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

## EMPLOYEES AND REMUNERATION POLICIES

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

## FINAL DIVIDEND

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

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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

**(1) Code Provision A.1.3**

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

**(2) Code Provision A.2.1**

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

**(3) Code Provision A.4.2**

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

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

## AUDIT COMMITTEE

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

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

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with Shareholders and investors, including (i) printed copies of corporate communications (including but not limited to annual reports, interim reports, notices of meetings, circulars and proxy forms) required under the Listing Rules; (ii) the annual general meeting provides a forum for Shareholders to raise comments and exchange views with the Board; (iii) updated and key information on the Group is available on the website of the Company; (iv) the Company's website offers a communication channel between the Company and its Shareholders and stakeholders; and (v) the branch share registrar of the Company deals with shareholders for share registration and related matters.

## SCOPE OF WORK OF HLM CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditor, HLM CPA Limited ("HLM") to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLM 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 HLM on this announcement.

By order of the Board
**China City Infrastructure Group Limited**
**Li Chao Bo**
*Chairman*

Hong Kong, 21 March 2019

* *The English translation of Chinese names or words in this announcement, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

*As at the date of this announcement, the Board comprises Mr. Li Chao Bo (Chairman and Chief Executive Officer) and Mr. Ji Jiaming as executive Directors; Mr. Zhang Guiqing as non-executive Director; and Mr. Wang Jian, Mr. Ng Chi Ho, Dennis and Mr. Ji Yehong as independent non-executive Directors.*