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China New City Commercial Development Limited

中國新城市商業發展有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1321)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Change
	2018	2017	
Revenue (RMB'000)	1,924,619	295,986	+550%
Gross profit (RMB'000)	340,491	135,369	+152%
(Loss)/profit attributable to equity holders of the Company (RMB'000)	(243,524)	488,505	-150%
(Losses)/earnings per share attributable to ordinary equity holders of the parent – Basic and diluted (RMB Cents)	(13)	27	-148%
Net increase/(decrease) in cash and cash equivalents (RMB'000)	219,117	35,966	+509%
	As at 31 December		
	2018	2017	Change
Total assets (RMB'000)	13,231,588	13,254,174	-0.2%
Net assets (RMB'000)	5,898,043	6,008,356	-1.8%
NAV per share (RMB) <i>(Note)</i>	3.04	3.16	-3.8%

Note:

NAV per share represents the equity attributable to owners of the parent per ordinary share

CHAIRPERSON’S STATEMENT

Dear shareholders,

On behalf of China New City Commercial Development Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”), I am pleased to present the annual results of the Group for the year ended 31 December 2018 (“the year under review”).

REVIEW OF RESULTS

During the year under review, the revenue of the Group was approximately RMB1,925 million, representing a significant increase of approximately 550% as compared with that of 2017. Our property business reported sales of nearly RMB1,578 million reaching a record high. The gross profit of the Group was approximately RMB340 million, representing an increase of 152% as compared with that of 2017. The loss of the Group was approximately RMB219 million (2017: 359 million), when taking no account of gain or loss of investment properties fair value of the year.

During the period under review, the Group recorded a loss attributable to equity holder of approximately RMB244 million, decreasing by RMB732 million as compared with that of 2017; and the basic loss per share was approximately RMB0.13, decreasing by RMB0.40 as compared with that of 2017. The Directors do not recommend the payment of any final dividend for the year under review (2017: nil).

MARKET AND BUSINESS REVIEW

In 2018, the economy of China faced both internal and external challenges due to the escalation of China-US trade friction, the increasing downturn pressure of domestic economy, slowing down growth of international demands and an export which fell short of expectation. The macroeconomic environment faced by the property industry became more complicated, but the control policies showed no sign of easing and even more control measures were issued and implemented by the government. Based on the core principle of “housing for living in, not for speculation”, the market further followed the control policies of the industry which underwent a gradual transformation from suppressing demand to increasing supply to optimize the supply structure.

As a commercial property developer and operator, the Group is committed to developing commercial complexes in the Yangtse River Delta and other major economic regions. Under the business model of combining sale and lease, the Group strategically diversified its revenue sources and return periods. Meanwhile, through adhering to the corporate mission of “creating new urban life” and the strategic guiding principle of “focusing on the demand of the public”, and based on its existing business and sophisticated development and investment concepts, the Group further developed its health, film, television and culture, hospitality, and cultural tourism segments and extended their presence to the whole Yangtse River Delta area.

The year 2018 was the first year of the Group's "Three-year Strategy" and also the year in which various work initiatives was implemented. Property, commerce, culture, tourism, health, services and other segments continued to develop steadily. During the year under review, though faced with challenging market environment, the Group worked together and tackled various difficulties to further develop all the business segments. Not only improvements have been made in the major activities such as hotel management and commercial operation, but also breakthroughs have been made with respect to film, television and culture, health and cultural tourism and satisfactory results have been achieved for the exploration of new segments such as smart agriculture and bed and breakfast asset trading center.

1. Property Sales

The Xixi New City, located at riverside of the Xixi Wetland in the West Lake District of Hangzhou, achieved remarkable result and made remarkable contribution to Group's property sales result during the year under review by virtue of its superior geographical location, good reputation and intelligent home design. And the commercial and service apartments project Jia Run Mansion in the International Office Center ("IOC") (Plot A3) continued to make contribution to stabilizing the Group's property sales revenue. The IOC project is adjacent to the Hangzhou Olympic and International Expo Center where the venue of 2016 Group of Twenty (G20) Summit and the sports venue of the 2022 Asian Games are located, and it is directly across the river from Hangzhou's political and cultural center Qianjiang New Town, therefore it is warmly welcomed by the market due to its favorable geographical location. The Company has commenced the development of Plot A2 in this year to assure the steady growth of property sales revenue.

2. Property Leasing

The Group's current property leasing income has increased significantly as compared with that of last year, and was mainly derived from the Highlong Plaza in Xiaoshan Hangzhou and the Zhong An Intime City. In order to enhance its influence in the local area, the shopping mall section of the Highlong Plaza has entered into asset optimization project and merchant portfolio adjustment since April 2016. The Highlong Plaza upon upgrade increased the proportion of merchants catering for children's food and beverages, living and services with more differentiation and experience elements and witnessed gradual improvement in operating efficiency.

3. Hotel Operations

In respect of hotel operations, the hotel Holiday Inn in Xiaoshan Hangzhou operated well. In addition, the Group's brand hotels Hangzhou Qiandao Lake Bright Resort Hotel and Huaibei Bright Hotel both achieved satisfactory operation result. The opening in succession of these two brand hotels has injected new momentum to the hotel segment of the Group. Benefiting from significant increase of leasable hotel rooms, the Group has recorded continual growth of operation revenue in hotel segment.

4. New Emerging Business

For the commerce and real estate business, the Group will further adjust its business model and optimizes its operating structure, and will launch its new child-oriented business model on the basis of the traditional business model. The Group will focus on serving children in cities and integrating child health, child education, child entertainment and child sports to build a diversified and intelligentized body of comprehensive functions, with the help of excellent partners around the world and to inject new impetus to the development of the child-related industry.

In November 2018, the Group's first British membership-based parent-child family club, Maggie & Rose, which was established in cooperation with Maggie & Rose in the UK for pre-school children, was opened in Highlong Plaza and has attracted many families to join this club to experience British play and preschool education services.

At the same time, the Group will also proactively explore other business opportunities in the fields of emerging industries such as recreation and tourism, healthcare, and culture and entertainment.

As for healthcare, the successive opening of Qiushi Ophthalmology (求是眼科), Vanke Nursing Home (萬科隨園養護院) and Landscape Garden Clinic (山水苑診所) created good conditions for the growth of operating income in the coming year. The Group will rely on the existing social resources and financial strength, with the help of high-end expert teams and research and development strength of scientific research institutions, to improve the overall management and service capacity, establish industry characteristics, and strive to build China's first-class health industry brand.

As for film and television, "Xinmu (新幕)" Cinemas, as the newly launched cinema brand of the Company, has expanded rapidly after entering the market. At present, there are four cinemas in the operation, and the traffic volume is increasing year by year. In the first half of 2018, the project expansion has achieved fruitful results and signed two new projects with Jiangsu Jiangyan Times Square and Chengdu Fantasia. The projects signed are located in the main business districts of the core cities, with a prominent situation in the region.

PRUDENTLY PURCHASE LAND AND REPLENISH LAND RESERVE

The Group implements prudent land purchase strategy and purchases lands with high quality and low cost according to market requirement as and when appropriate while maintaining a sound financial condition, aiming to optimize the local reserve structure.

On 31 January 2018, the Group bidded at total consideration of RMB39.38 million and obtained the land use right for a piece of state land located at Phoenix Hill, Tuankou town, Linan District, Hangzhou, Zhejiang Province, the PRC with a total site area of 37,500 sq.m., and it is held for a commercial/ hotel use.

On 16 May 2018, the Group entered into an equity transfer agreement with an independent third party by acquiring 51% equity interest at total consideration of RMB144 million and a refundable performance deposit in the amount of RMB60 million. Such land is located at Xincheng District, Xuzhou, Jiangsu Province, the PRC with a total site area of 154,802 sq.m., and it is held for commercial use. For details, please refer to the paragraph “Acquisition of Equity Interest in Xuzhou Wanxiang” below.

Such projects will bring synergy effects to the Group’s other projects under planning in Hangzhou and further strengthen our brand marketing in the Yangtze River Delta Region. As at the date of this announcement, the total GFA of land reserves of the Group was approximately 3.25 millions sq.m. distributed among 7 cities and regions of the Yangtze River Delta Region.

PROSPECTS AND OUTLOOK AND DEVELOPMENT STRATEGIES

Looking forward into 2019, China’s economy is still facing downward pressure. In order to ensure the stable operation of the real estate market, all the control policies will be mainly on timely and moderate basis. Classified measures, city-specific measures and structural optimization are still the key points of the real estate control policies. The Group will closely focus on the three-year strategic planning objectives, adhere to scientific management, docking development, integration of internal and external resources, with an aim to create a new pattern of industrial development with multi-support, multi-industry and multi-development, and ultimately achieve a new leap forward in the Group’s development and achieve new goals.

The main development area of the Group is the Yangtze River Delta Region, which has a strong economic foundation and low-cost lands and benefits from China’s strategies such as the Belt and Road Initiative and the Yangtze River Economic Belt, thus the Group strongly believe that the development projects under the Group will continue to be well received by the market.

The completion and launch of Yuyao Zhong An Times Square and Intime City project in Yuyao, as well as the successive opening of Qiandao Lake Bright Resort Hotel and Huaibei Bright Hotel, significantly increase our leasable area and the number of leasable guest rooms of the entire property portfolio, providing stable cash flow support to the Group in the long run. In such context, the Group will uphold the synchronous development of traditional and emerging sectors as its development direction. That means the Group will continue to pursue scale development and achieve new industry cultivation and incubation in the field of culture tourism, health and education industry on the basis of strengthening traditional segments, such as real estate development, commerce operation and hotel operation etc., so as to promote the synergetic development of traditional segment and emerging industry.

Among the developing projects, the International Office Center (“IOC”) project is still the major development project of the Group. Benefiting from a series of favorable policies, Qianjiang Century City where the project located is under fast construction and development. Hangzhou Olympic Sports Stadium, adjacent to the IOC project, will host international major sports events such as the 2022 Asian Games in future. Benefiting from its strategic layout and cheap cost of land that the Group had acquired in early years, the IOC project enjoys absolute geographical advantage and development potential in this segment. The Group has begun to develop Plot A2 of IOC in 2018, which will create sustainable impetus to property sales. The Group plans to explore more lands with low price but high potential in 2019 through mergers and acquisitions.

ACKNOWLEDGEMENT

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to the continuing support and trust of the shareholders of the Company and business partners as well as the dedicated efforts of all the staff of the Group.

Shi Kancheng
Chairperson

Hong Kong, 19 March 2019

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2018 together with the comparative amounts for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	<i>Notes</i>	2018 RMB'000	2017 RMB'000
Revenue	4	1,924,619	295,986
Cost of sales		<u>(1,584,128)</u>	<u>(160,617)</u>
Gross profit		340,491	135,369
Other income and gains	4	53,706	77,844
Selling and distribution expenses		(138,519)	(152,252)
Administrative expenses		(198,455)	(114,451)
Other expenses		(74,900)	(6,939)
Finance costs	5	(110,330)	(13,161)
Fair value (loss)/gain upon transfer to investment properties		(25,030)	523
Changes in fair value of investment properties		<u>22,223</u>	<u>825,157</u>
(Loss)/profit before tax	6	(130,814)	752,090
Income tax expense	7	<u>(91,183)</u>	<u>(285,732)</u>
(Loss)/profit for the year		<u>(221,997)</u>	<u>466,358</u>
Attributable to:			
Owners of the parent		(243,524)	488,505
Non-controlling interests		<u>21,527</u>	<u>(22,147)</u>
		<u>(221,997)</u>	<u>466,358</u>
(Losses)/earnings per share attributable to ordinary equity holders of the parent	8		
Basic		<u>(RMB13 cents)</u>	<u>RMB27 cents</u>
Diluted		<u>(RMB13 cents)</u>	<u>RMB27 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
(Loss)/profit for the year	<u>(221,997)</u>	<u>466,358</u>
Other comprehensive income		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	<u>(4,106)</u>	<u>9,678</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>(4,106)</u>	<u>9,678</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Change in fair value	<u>9,000</u>	–
Income tax effect	<u>(2,250)</u>	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>6,750</u>	–
Total comprehensive income for the year	<u>(219,353)</u>	<u>476,036</u>
Attributable to:		
Owners of the parent	<u>(240,880)</u>	498,183
Non-controlling interests	<u>21,527</u>	<u>(22,147)</u>
	<u>(219,353)</u>	<u>476,036</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets			
Property and equipment		2,058,952	1,996,168
Investment properties		5,502,607	5,472,345
Properties under development		933,400	640,170
Available-for-sale investments		–	359,300
Equity investments designated at fair value through other comprehensive income		416,814	–
Long term prepayments		230,981	188,707
Deferred tax assets		4,553	11,057
Restricted cash		6,565	139,927
Total non-current assets		<u>9,153,872</u>	<u>8,807,674</u>
Current assets			
Completed properties held for sale		2,009,041	1,282,967
Properties under development		913,669	2,211,244
Inventories		22,842	11,425
Trade and bills receivables	10	21,501	19,275
Prepayments, other receivables and other assets		403,579	143,306
Amounts due from related companies		24,541	39,288
Financial assets at fair value through profit or loss		42,093	71,504
Restricted cash		69,850	149,224
Cash and cash equivalents		548,907	323,312
Investment properties classified as held for sale		21,693	194,955
Total current assets		<u>4,077,716</u>	<u>4,446,500</u>
Current liabilities			
Trade payables	11	690,793	750,374
Other payables and accruals		184,946	179,123
Contract liabilities		1,123,792	–
Advances from customers		–	1,088,863
Amounts due to related companies		986,909	696,221
Interest-bearing bank and other borrowings		922,460	1,180,739
Tax payable		426,644	336,177
Total current liabilities		<u>4,335,544</u>	<u>4,231,497</u>
Net current (liabilities)/assets		<u>(257,828)</u>	<u>215,003</u>
Total assets less current liabilities		<u>8,896,044</u>	<u>9,022,677</u>

	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current liabilities		
Interest-bearing bank and other borrowings	2,045,625	1,927,000
Deferred tax liabilities	952,376	1,087,321
	<hr/>	<hr/>
Total non-current liabilities	2,998,001	3,014,321
	<hr/>	<hr/>
Net assets	5,898,043	6,008,356
	<hr/> <hr/>	<hr/> <hr/>
Equity		
Equity attributable to owners of the parent		
Share capital	144,850	147,503
Reserves	5,438,136	5,689,619
	<hr/>	<hr/>
	5,582,986	5,837,122
	<hr/>	<hr/>
Non-controlling interests	315,057	171,234
	<hr/>	<hr/>
Total equity	5,898,043	6,008,356
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate and Group information

China New City Commercial Development Limited (the “Company”) is a limited liability company incorporated as an exempted company in the Cayman Islands on 2 July 2013 under the Companies Law (revised) of the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) were members of Zhong An Real Estate Limited (“Zhong An”) and its subsidiaries (“Zhong An Group”). Zhong An, the shares of which have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (“Stock Exchange”) since November 2007, is the holding company of Zhong An Group.

The Group is principally engaged in commercial property development, leasing and hotel operations.

In the opinion of the Company’s directors (the “Directors”), the ultimate holding company of the Company is Whole Good Management Limited, a company incorporated in the British Virgin Islands on 3 May 2007.

The Company was separately listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “SEHK”) with stock code “1321” on 10 July 2014 and raised capital amounting to HK\$608 million from the market.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise standards and interpretations approved by the International Accounting Standards Board (the “IASB”), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, derivative financial instruments and equity investments which have been measured at fair value as explained in the accounting policies set out below. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Application of new and revised IFRSs

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

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
Amendments to IFRS 1 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>First-time Adoption of International Financial Reporting Standards</i>
Amendments to IAS 28 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>Investments in Associates and Joint Ventures</i>

Except for the amendments to IFRS 4 and *Annual Improvements to IFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

- (a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.
- (b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the change of carrying amounts under IAS 39 and the balances reported under IFRS 9, which had effect on financial accounts as at 1 January 2018 is as follows:

	IAS 39 measurement			Re- classification	ECL	Other	IFRS 9 measurement	
	Notes	Category	Amount RMB'000				Amount RMB'000	Category
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	-	359,300	-	-	359,300	FVOCI/ (equity)
From:								
Available-for-sale investments	(i)	AFS ²	359,300	(359,300)	-	-	-	
Trade receivables	(ii)	L&R ³	19,275	-	-	-	19,275	AC ⁴
Financial assets included in prepayments, other receivables, and other assets		L&R	86,539	-	-	-	86,539	AC
Long term prepayments		L&R	116,417	-	-	-	116,417	AC
Financial assets at fair value through profit or loss		FVPL ⁵	71,504	-	-	-	71,504	FVPL (mandatory)
Amounts due from related companies		L&R	39,288	-	-	-	39,288	AC
Restricted cash		L&R	289,151	-	-	-	289,151	AC
Cash and cash equivalents		L&R	323,312	-	-	-	323,312	AC
Total assets			<u>1,304,786</u>				<u>1,304,786</u>	

¹ FVOCI: Financial assets at fair value through other comprehensive income

² AFS: Available-for-sale investments

³ L&R: Loans and receivables

⁴ AC: Financial assets or financial liabilities at amortised cost

⁵ FVPL: Financial assets at fair value through profit or loss

Notes:

- (i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.
- (ii) The gross carrying amounts of the trade receivables and the contract assets under the column “IAS 39 measurement – Amount” represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in the financial statements.

Impairment

The adoption of IFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

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

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

The cumulative effect of the initial application of IFRS 15 was not material and no adjustment was made to the opening balance of retained profits as at 1 January 2018. The comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretation.

The detailed changes upon adoption of IFRS 15 are described below:

Accounting for revenue from sale of properties

Prior to the adoption of IFRS 15, the Group accounted for revenue from the sale of properties when significant risks and rewards of ownership have been transferred to the customers on delivery in their entirety at a single time upon vacant possession.

Under IFRS 15, for properties that have no alternative use to the Group due to contractual reasons and when the Group has an enforceable right to payment from customers for performance completed to date, the Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method for measuring progress. The excess of cumulative revenue recognised in profit or loss over the cumulative billings to purchasers of properties is recognised as contract assets. The excess of cumulative billings to purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

After the assessment, the Group has considered that it has an enforceable right to payment from the purchasers for performance completed to date for few properties only. Majority of revenue from sale of properties will continue to be recognised at a point in time, when the purchasers obtain control of the properties, ie. when the purchasers obtain the physical possession or the legal title of the completed properties and the Group has present right to payment from the purchasers. The adoption of IFRS 15 has had no significant impact on the timing of revenue recognition.

Accounting for significant financing component for sales of properties

Prior to the adoption of IFRS 15, the Group presented sales proceeds received from customers in connection with the Group's pre-sales of properties as receipts in advance from customers in the consolidated statement of financial position. No interest was accrued on the long-term advances received under the previous accounting policy.

Upon adoption of IFRS 15, the Group recognised contract liabilities for the interest on the sales proceeds received from customers with a significant financing component. The Group elected to apply the practical expedient and did not recognise the effects of a significant financing component with a customer if the time period is one year or less. In addition, reclassifications have been made from advance from customers to contract liabilities for the outstanding balance of sales proceeds from customers. The adoption of IFRS 15 has had no significant impact on the opening retained profits as at 1 January 2018. Receipts in advance of RMB1,088,863,000 that were previously classified under advance from customers has been reclassified to contract liabilities as at 1 January 2018.

Accounting for sales commissions

Prior to the adoption of IFRS 15, the Group expensed off the sales commission associated with obtaining agreement for sale and purchase with property buyers. Upon adoption of IFRS 15, sales commissions incurred directly attributable to obtaining a contract, if recoverable, are capitalised and recorded in other assets. Capitalised sales commissions are charged to profit or loss when the revenue from the related property sale is recognised and are included as selling and marketing expenses at that time. The Group elected to apply the practical expedient and did not recognise the effects of the sales commission if the time period is one year or less. The adoption of IFRS 15 has had no significant impact on the opening retained profits as at 1 January 2018. Sales commissions of RMB39,047,000 as a type of an incremental cost were capitalised for the twelve months to 31 December 2018.

- (d) Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.
- (e) IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 Issued but not yet effective International Financial Reporting Standards

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

Amendments to IFRS 3	<i>Definition of a Business</i> ²
IFRS 16	<i>Leases</i> ¹
IFRS 17	<i>Insurance Contracts</i> ³
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ¹
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 ¹
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ²

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

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

⁴ No mandatory effective date yet determined but available for adoption

3. Operating segment information

For management purposes, the Group is organised into business units based on income derived from business and has four reportable operating segments as follows:

- (a) the commercial property development segment develops and sells commercial properties in Mainland China;
- (b) the property rental segment leases investment properties in Mainland China;
- (c) the hotel operations segment owns and operates a hotel; and
- (d) the “others” segment comprises, principally, the Group’s property management services business, which provides management and security services to commercial properties.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax from continuing operations is measured consistently with the Group’s profit before tax from continuing operations except that interest income, finance costs, dividend income, fair value gain/losses from the Group’s financial instruments as well as head office and corporate expenses are excluded from the measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

Year ended 31 December 2018	Commercial property development <i>RMB'000</i>	Property rental <i>RMB'000</i>	Hotel operations <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:					
Sales to external customers	1,578,447	160,369	111,328	74,475	1,924,619
Intersegment sales	–	35,952	–	1,722	37,674
	<u>1,578,447</u>	<u>196,321</u>	<u>111,328</u>	<u>76,197</u>	<u>1,962,293</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(37,674)</u>
Revenue from operations					<u>1,924,619</u>
Segment results	154,965	(29,623)	(51,693)	(107,844)	(34,195)
<i>Reconciliation:</i>					
Interest income					13,711
Finance costs					<u>(110,330)</u>
Profit before tax					<u>(130,814)</u>
Segment assets	4,780,196	5,565,032	2,107,184	760,815	13,213,227
<i>Reconciliation:</i>					
Elimination of intersegment receivables					<u>(638,266)</u>
Corporate and other unallocated assets					<u>656,627</u>
Total assets					<u>13,231,588</u>
Segment liabilities	1,875,708	126,107	257,391	1,365,501	3,624,707
<i>Reconciliation:</i>					
Elimination of intersegment payables					<u>(638,266)</u>
Corporate and other unallocated liabilities					<u>4,347,104</u>
Total liabilities					<u>7,333,545</u>
Other segment information:					
Depreciation	750	1,995	39,753	7,173	49,671
Capital expenditure	<u>10,603</u>	<u>414</u>	<u>17,725</u>	<u>98,034</u>	<u>126,776</u>

Year ended 31 December 2017	Commercial property development RMB'000	Property rental RMB'000	Hotel operations RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	148,234	63,610	66,815	17,327	295,986
Intersegment sales	–	9,424	–	2,909	12,333
	148,234	73,034	66,815	20,236	308,319
<i>Reconciliation:</i>					
Elimination of intersegment sales					(12,333)
Revenue from operations					<u>295,986</u>
Segment results	76,996	743,659	(29,520)	(28,253)	762,882
<i>Reconciliation:</i>					
Interest income					2,369
Finance costs					(13,161)
Profit before tax					<u>752,090</u>
Segment assets	4,740,198	5,722,824	2,135,646	351,521	12,950,189
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(346,290)
Corporate and other unallocated assets					650,275
Total assets					<u>13,254,174</u>
Segment liabilities	1,865,859	70,620	394,408	729,983	3,060,870
<i>Reconciliation:</i>					
Elimination of intersegment payables					(346,289)
Corporate and other unallocated liabilities					4,531,237
Total liabilities					<u>7,245,818</u>
Other segment information:					
Depreciation	966	704	11,066	4,455	17,191
Capital expenditure	63,482	8,146	147,485	33,721	252,834

Geographical information

All of the Group's revenue is derived from customers based in Mainland China and all of the non-current assets of the Group are located in Mainland China except one property in Japan.

Information about major customers

No sales to a single customer or a group of customers under common control accounted for 10% or more of the Group's revenue for the years ended 31 December 2018 and 2017.

4. Revenue, other income and gains

An analysis of revenue is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Revenue from contracts with customers		
– Sale of properties	1,578,447	148,234
– Hotel operating income	111,328	66,815
– Property management fee income	74,475	17,327
Revenue from other sources		
– Property leasing income	160,369	63,610
	<u>1,924,619</u>	<u>295,986</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Timing of revenue recognition	Property	Property	Hotel	Total
	development	management	operations	Total
	<i>RMB'000</i>	and other	<i>RMB'000</i>	<i>RMB'000</i>
		related		
		services		
		<i>RMB'000</i>		
At a point in time	1,578,447	–	111,328	1,689,775
Over time	–	74,475	–	74,475
Total revenue from contracts with customers	<u>1,578,447</u>	<u>74,475</u>	<u>111,328</u>	<u>1,764,250</u>

Revenue from sales of properties recognised that was included in contract liabilities at the beginning of the reporting period is amounted to RMB942,899,000.

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Other income		
Subsidy income	1,879	798
Bank interest income	13,709	2,368
Investment income	29,072	823
Others	9,046	9,568
	<u>53,706</u>	<u>13,557</u>
Gains		
Gain on disposal of investment properties	-	63,221
Changes in fair value of financial assets at fair value through profit or loss	-	699
Foreign exchange gain	-	367
	<u>-</u>	<u>64,287</u>
	<u>53,706</u>	<u>77,844</u>

There was no significant impact on revenue recognition under IFRS 15 during the year.

5. Finance costs

An analysis of the Group's finance costs is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Interest on bank and other borrowings	198,985	218,090
Less: Interest capitalised in properties under development	<u>(88,655)</u>	<u>(204,929)</u>
	<u>110,330</u>	<u>13,161</u>

6. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Cost of properties sold	1,330,618	79,425
Depreciation	49,671	17,191
Minimum lease payments under operating leases:		
– Office premises	38,979	7,413
Auditors' remuneration	1,600	1,200
Staff costs including directors' and chief executive's remuneration:		
– Salaries and other staff costs	106,133	77,153
– Pension scheme contributions	16,983	10,671
Foreign exchange differences, net	3,495	(367)
Direct operating expenses (including repairs and maintenance arising on investment properties)	3,856	7,312
Investment income from financial assets at fair value through profit or loss	(29,072)	(823)
Loss/(gain) on disposal of investment properties	29,554	(63,221)
Fair value losses/(gains), net:		
Changes upon transfer to investment properties	25,030	(523)
Changes in fair value of investment properties	(22,223)	(825,157)
Changes in fair value of financial assets at fair value through profit or loss	30,586	(699)
	<u>30,586</u>	<u>(699)</u>

7. Income tax

The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not have any assessable profits currently arising in Hong Kong during the year (2017: Nil).

The provision for the PRC income tax has been provided at the applicable income tax rate of 25% (2017: 25%) on the assessable profits of the Group's subsidiaries in Mainland China.

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including land costs, borrowing costs and other property development expenditures. The Group has estimated, made and included in taxation a provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. Prior to the actual cash settlement of the LAT liabilities, the LAT liabilities are subject to the final review/approval by the tax authorities.

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current – PRC corporate income tax for the year	60,482	101,062
Current – PRC LAT for the year	161,392	81,912
Deferred	(130,691)	102,758
Total tax charge for the year	<u>91,183</u>	<u>285,732</u>

8. (Losses)/earnings per share attributable to ordinary equity holders of the parent

The calculation of basic loss per share is based on the loss for the year attributable to ordinary equity holders of the parent of RMB243,524,000 (profit for 2017: RMB488,505,000) and the weighted average number of ordinary shares of 1,839,783,242 (2017: 1,783,872,462) in repurchase during the year, as adjusted to reflect the rights repurchased during the year.

No adjustment has been made to the basic (losses)/earnings per share amount presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2018 (2017: Nil).

9. Dividends

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

10. Trade and bills receivables

The Group's trading terms with its customers are mainly lease receivables on credit. The credit period is generally one month, extending up to three months for major customers. All balances of the trade and bills receivables as at the end of the year were neither past due nor impaired and aged within one to three months and are expected to be recovered within one year. The Group assessed that there is no significant loss allowance recognised in according with the ECL model under IFRS 9 as at 31 December 2018.

Trade receivables are non-interest-bearing and unsecured.

11. Trade payables

An aging analysis of the Group's trade payables as at the end of the reporting period, based on the payment due dates, is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within six months	602,405	590,329
Over six months but within one year	64,857	117,687
Over one year	23,531	42,358
	<u>690,793</u>	<u>750,374</u>

The trade payables are unsecured and interest-free and are normally settled based on the progress of construction.

12. Commitments

The Group had the following commitments for property development expenditure at the end of the reporting period:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Contracted, but not provided for:		
Properties under development	<u><u>480,529</u></u>	<u><u>520,421</u></u>

13. Contingent liabilities

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Guarantees given to banks for:		
Mortgage facilities granted to purchasers of the Group's properties	<u><u>332,636</u></u>	<u><u>232,541</u></u>

The Group provided guarantees in respect of the mortgage facilities granted by certain banks to the purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates of grant of the relevant mortgage loans and end after the execution of individual purchasers' collateral agreements.

The Group did not incur any material losses during the reporting period in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The directors consider that in case of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty, and therefore no provision has been made in connection with the guarantees.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year of 2018 presented rather involved macroeconomic situation for property policies to evolve. In further response to the keynote of “housing is for living in, not for speculation”, and to carry on the philosophy of implementing measures adjusted to the scale of cities, local governments have made tougher effort on market surveillance to curb housing speculation so that a reasonable demand for housing is to be met. Specifically, local governments restructured housing supply at supply side, promoted tenancy market in its full swing and launched houses with joint property rights and other affordable housing in a rewarding direction to an effective supply. Despite of less favorable market conditions, the Group managed to achieve still desirable results in contract sales with its unremitting effort against hardships and challenges. This fully embodied the Company’s leading strategic vision, accurate investment layout as well as prudent and flexible operation strategy.

Outlook for 2019

China still faces a downward pressure upon its economy in 2019. Real estate as an important support for the economic growth, to maintain the stability of the real estate market is one of the important measures to relieve the pressure. Real estate policy “control by city by classification” will be the main theme of future control and regulation. Although the whole economy is going down with the individual economy developing and consumption level rising, people are paying more attention to quality of life and are more willing to spend on better experience and services, against the backdrop of overall downturn in economy. A higher demand for quality life will increasingly shed light upon advantages of commercial real estate by integrated commercial shopping mall turning into the dominant mode of an upgraded service experience in the future. Commercial real estate will feature the continuous renovation and upgrade, fast urban renewal and upgraded consumption level as its indispensable part.

DEVELOPMENT OF MAJOR PROJECTS

Hangzhou, Zhejiang Province

Highlong Plaza

It is a large-scale integrated commercial complex located in Shanyin Road, Xiaoshan District, Hangzhou, comprising hotels, shopping malls and offices, and is the flagship project of the Company. The total site area of the project is 30,933sq.m. and the total GFA thereof is 171,071 sq.m. The project was completed in January 2009, and has been in good function to date.

International Office Center (“IOC”)

IOC is a large-scale integrated commercial complex located in Qianjiang Century City (錢江世紀城), Xiaoshan District, Hangzhou, comprising serviced apartments, shopping malls, hotels and offices. The total site area of Plot A3 is 92,610 sq.m. and total GFA is approximately 798,795 sq.m.. The project is in three phases, consists of Plots A1, A2 and A3. Among which, Plot A3 was completed in 2015, comprising serviced apartments, shops and underground car parking spaces with a total GFA of approximately 327,996 sq.m.. Plots A2 has commenced construction by the end of 2018 and its planned total GFA is approximately 263,555 sq.m..

Xixi New City

It is located in Jiangcun Unit, Xihu District, Hangzhou and is in proximity to Xixi Wetland. It is the only classic project integrating “Urban Prosperity” and “Ecological Tranquility” in Xixi. The total site area of the project is 39,703 sq.m. and total GFA is 83,391 sq.m.. The project has commenced construction in 2017, which will become an integrated commercial complex comprising offices, serviced apartments and shops.

Xixi Manhattan

It is a commercial real estate project located in Yuhang District, Hangzhou, with GFA of 109,173 sq.m.. The project was open for sale in late August 2017 and part of the serviced apartments were delivered in 2018.

Chaoyang Yinzuo

It is the commercial portion of the Chaoyang community parcel, Xiaoshan District, Hangzhou with a total site area of 10,541 sq.m. and total GFA of 53,033 sq.m. The project mainly includes serviced apartments and shops, and pre-sale was commenced in 2016, and the serviced apartments were delivered in 2018.

Hangzhou Qiandao Lake Bright Resort Hotel

It is a hotel project located in the southwest of Qiandaohu Town (千島湖鎮), Chunan County, Hangzhou, with total GFA of 46,691 sq.m.. The hotel is built adjacent to Thousand-Islet Lake Passengers Port which enjoys a beautiful lake view and natural habitat. This project was completed and commenced business in the first half of 2017.

Yuyao, Zhejiang Province

Zhong An Times Square

It is a large-scale integrated commercial project located in Yuyao, Zhejiang Province with estimated total GFA of 628,385 sq.m.. The development of project is completed by two phases, comprising hotels, shops, residences, serviced apartments, shopping malls and offices. The construction of phase II of this project was completed in 2016, and phase I was completed and delivered in 2018. All net economic benefits arising from the sale or pre-sale of the residential apartments in Phase II shall belong to a connected person (as defined under the Rules Governing the Listing of Securities (“Listing Rules”)) of the Group according to the Cooperation Agreement entered into between the Group (through its indirect non-wholly owned subsidiary) and such connected person on 16 March 2014. Details of the Cooperation Agreement were disclosed in the section headed “Continuing Connected Transaction” in the prospectus (“Prospectus”) of the Company dated 17 June 2014.

Huaibei, Anhui Province

Huaibei Bright Hotel

It is a hotel project in Huaibei, Anhui province, with a site area of 60,768 sq.m. and total GFA of 67,061 sq.m.. This project has fully completed and commenced business by the end of 2017.

Xuzhou, Jiangsu Province

It is an integrated commercial complex located in the south of Xuzhou new district, Jiangsu Province with the site area of 154,802 sq.m. and total GFA of 562,371 sq.m.. The project is still under planning by the end of 2018 and the construction of Phase I of this project is expected to be completed in 2022.

Sales Review

For the year under review, the recognized sales of properties sold and delivered was approximately RMB1,578,447,000 (2017: approximately RMB148,234,000). The recognized sales area of properties was approximately 118,010 sq.m.. In addition, the sales of investment properties of approximately RMB323,301,000 (2017: RMB920,671,000) was not included in the sales of properties in accordance with International Accounting Standards.

	Sales of properties (RMB million)	Proceeds from disposal of investment properties (RMB million)
International Office Centre	466.8	109.8
Yuyao Zhong An Times Square Phase II	73.2	–
Zhong An Hidden Dragon Bay	9.0	49.6
Highlong Plaza	–	163.9
Yuyao Zhong An Times Square Phase I	332.3	–
Chaoyang Yinzuo	407.2	–
Xixi Manhattan	289.5	–
	<u>1,578</u>	<u>323.3</u>

2018 Contracted Sales

For the year under review, the contracted sales area of the Group was approximately 71,906 sq.m. (2017: approximately 243,268 sq.m.) and contracted sales revenue was approximately RMB1,670,300,000 (2017: approximately RMB3,296,300,000). Details of the contracted sales of the major projects are as below:

	Contracted sales area <i>(sq.m.)</i>	Contracted sales revenue <i>(RMB million)</i>
Jia Run Mansion	11,052	404.9
Yuyao Zhong An Times Square Phase I	26,631	225.3
Yuyao Zhong An Times Square Phase II	2,983	46.0
Chaoyang Yinzuo	2,890	65.3
Highlong Plaza	8,368	115.4
Xixi Manhattan	4,241	138.9
Xixi New City	15,741	674.5
	<hr/>	<hr/>
Total	<u>71,906</u>	<u>1,670.3</u>

Hotel Operation

There are three hotels of the Group that are currently under operation, being Holiday Inn Hangzhou Xiaoshan, Hangzhou Qiandao Lake Bright Resort Hotel and Huaibei Bright Hotel. The hotel operation of the Group recorded a revenue of approximately RMB111,328,000 (2017: approximately RMB66,815,000), representing an increase of approximately 67%, during the year under review and the hotel occupancy rate was approximately 58% (2017: 52%).

Leasing Business

The current leasing income of the Group mainly comes from Highlong Plaza, IOC and Yuyao Zhong An Times Square in operation, including office and shopping malls. The total revenue from leasing business for the year under review was approximately RMB160,369,000, representing an increase of approximately 152% from approximately RMB63,610,000 recorded in the year of 2017. The average occupancy rate of leasing properties (calculated by dividing total lease area by total area available for lease) was approximately 96% (2017: 91%).

Land Reserve

As of 31 December 2018, the total GFA of land reserves held for development and/or sale of the Group was approximately 3,250,000 sq.m..

Repurchase of Shares

At the Company's annual general meeting (the "AGM") held on 5 June 2018, the shareholders granted a general mandate to the directors of the Company (the "Directors") to repurchase the shares of the Company (the "Repurchase Mandate"). Pursuant to the Repurchase Mandate, the Company is allowed to repurchase up to 184,613,200 shares, being 10% of the total number of issued shares of the Company as at the date of the AGM, on the Stock Exchange. For the year ended 31 December 2018, the Company repurchased a total of 11,164,000 shares through the Stock Exchange, representing approximately 0.6% of the issued share capital of the Company as at 31 December 2018. The aggregate consideration for the repurchase was HK\$14.1 million. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year under review. The share repurchase reflects the Company's solid financial position and the Board's strong confidence in the Company's future business prospects. The Company believes that the Repurchase Mandate is in the interest of the shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Acquisition of Further Equity Interest in Zhejiang Xinnongdu

Reference is made to the joint announcements of Zhong An Real Estate Limited ("Zhong An") and the Company dated 21 August 2017 and 29 August 2017 in relation to Zhong An Shenglong (an indirect non-wholly owned subsidiary of the Company) acquiring 19.85% of the entire equity interests in Zhejiang Xinnongdu from Hangzhou Oriental; and the joint announcement of Zhong An and the Company dated 20 July 2018 in relation to Zhong An Shenglong further acquiring 22.65% of the entire equity interest in Zhejiang Xinnongdu from Hangzhou Oriental.

As disclosed in the announcement of the Company dated 29 November 2018, Zhong An Shenglong (an indirect non-wholly owned subsidiary of China New City Commercial Development Limited) intended to acquire an additional 22.65% of the entire equity interest in Zhejiang Xinnongdu from Hangzhou Oriental at the consideration which was satisfied by the issue of 178,280,000 Consideration Shares by China New City Commercial Development Limited. Subject to Completion, Zhong An Shenglong will own an aggregate of 42.5% of the entire equity interest in Zhejiang Xinnongdu.

Zhejiang Xinnongdu was established on 8 May 2008 and is principally engaged in investment holding and trading of agricultural products. The principal activities of the Zhejiang Xinnongdu Group are the development, construction and management of logistics center for agricultural products.

Acquisition of Equity Interest in Xuzhou Wanxiang

Reference is made to the announcement of the Company dated 16 May 2018. Zhong An Shenglong entered into an equity transfer agreement with China Business Alliance (Beijing) Commercial Investment Co., Ltd.* (中商聯盟(北京)商業投資有限公司) and Wanxiang (Fujian) Zhiye Development Co., Ltd.* (萬象(福建)置業發展有限公司), pursuant to which, among others, Zhong An Shenglong has conditionally agreed to acquire 51% of the entire equity interests in Xuzhou Wanxiang from Wanxiang Fujian at a consideration of RMB144 million, and a refundable performance security deposit of RMB60 million. As at the date of this announcement, the acquisition has been completed. Please refer to the announcement of the Company dated 16 May 2018 for further details.

The principal activities of Xuzhou Wanxiang are the development, construction and management of commercial properties in Xuzhou city, Jiangsu Province, the PRC. The acquisition of equity interest in Xuzhou Wanxiang would allow the Group to capture the business and development opportunities arising from the commercial properties development in areas of Xuzhou city, Jiangsu Province, the PRC, in light of the continued urbanisation, economic growth and improvement in living standards of the residents in these regions. This is conducive to the long-term growth and sustainable development of the Group as a whole, and may enhance shareholder's value in the long run.

Cooperation with Maggie & Rose

Reference is made to the announcement of the Company dated 24 November 2017. On 24 November 2017, the Group entered into a joint venture agreement with Maggie & Rose (CN) Limited and Highest Joy Limited for the establishment of the joint venture to invest in the high quality family lifestyle business including amongst other things, high quality Flagship Clubs, Family Clubs, children development and education institutions, nurseries, books, food and beverage and events using the System or websites or internet or other medium under the "Maggie & Rose" brand in the Mainland China, Macau and Taiwan. Upon signing of the joint venture agreement, MRGC may operate business mentioned above in the Mainland China, Macau and Taiwan.

The first Maggie & Rose parent-child family club in Mainland China with the largest scale in the world, covering an area of 6,000 square meters, was grand-opened in Highlong Square in Xiaoshan, Hangzhou City on 18 November 2018. This outlet provides unique parent-child experience and fun in Xiaoshan district of Hangzhou and at the same time brings more visitors to the Group's Highlong Square and shopping malls nearby, establishing a children-theme environment as the goal of our group.

FINANCIAL ANALYSIS

Revenue

Consolidated revenue of the Group was approximately RMB1,924,619,000 for the year under review, representing an increase of 550% as compared to the revenue of approximately RMB295,986,000 for the year of 2017. This was due to the deliveries of sale contracts previously recognized during the year under review. The main projects delivered were the International Office Center (IOC), Yuyao Zhong An Times Square, Chaoyang No.8 and Xixi Manhattan.

The revenue from property leasing recorded an increase of 152% to approximately RMB160,369,000 (2017: approximately RMB63,610,000) during the year under review. The revenue from hotel operation was approximately RMB111,328,000 during the year under review, representing an increase of approximately 67% as compared to previous year of approximately RMB66,815,000.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year under review amounted to approximately RMB340,491,000, representing an increase of approximately 152% when compared to approximately RMB135,369,000 for the year of 2017. This was mainly due to the increase in sales of properties, which were delivered for the year and recognized as revenue.

Gross profit margin for the year under review amounted to approximately 18% (2017: 46%). Such decrease in gross profit margin was mainly due to the property sales recognized during the year under review, which largely consisted of the completed properties located in the non-core urban areas of Hangzhou and in Yuyao in Zhejiang. The reason was to make quick fund cover for new project development; in addition, as the Group converted part of the investment properties into completed properties held for sale during the year under review, the cost of converting into completed properties held for sale shall refer to the latest fair value in accordance with the International Accounting Standards which resulted in a decrease in margin in the subsequent sale of the inventories.

Other Income and Gains

During the year under review, other income and gains amounted to approximately RMB53,706,000 (2017: RMB77,844,000), lower as compared with last year. This was mainly due to the one-time gain recorded from the disposal of investment properties of approximately RMB63,221,000 last year.

Other Expenses and Losses

During the year under review, other expenses and losses amounted to approximately RMB74,900,000 (2017: RMB6,939,000), higher as compared with last year. This was mainly due to the one-time loss recorded from the disposal of investment properties of approximately RMB29,554,000 for the year under review.

Selling and Distribution Costs

For the year under review, selling and distribution expenses amounted to approximately RMB138,519,000 (2017: RMB152,252,000), representing a decrease of 9% as compared to that from last year. Such decrease was principally due to a decrease in sales commission, advertising and promotional expenses of the investment property sold during the year under review.

Administrative Expenses

For the year under review, administrative expenses amounted to approximately RMB198,455,000 (2017: RMB114,451,000), representing an increase of approximately 73% from last year. Such increase was principally due to the increase in employee remuneration for Intime City and two new hotels by RMB28.98 million, the rent for trial operation of a new ophthalmology hospital amounting to approximately RMB18 million and the depreciation expense of two hotels amounting to approximately RMB20 million for the year under review.

Finance Costs

For the year under review, finance costs was approximately RMB110,330,000 (2017: RMB13,161,000), which arising from the interest on bank loans and other borrowings for completed properties which could no longer be capitalized.

Earnings

For the year under review, the loss attributable to equity holders of the Company amounted to approximately RMB243,524,000 (2017: profit RMB488,505,000), representing a decrease of approximately 150% compared to last year. The decrease in profit attributable to equity holders of the Company for the year under review was primarily attributable to the price of the self-owned investment properties being entering into a stable period for the year under review, and no material gain in fair value of investment properties being recorded in the valuation as that in 2017.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of material acquisitions during the year under review are disclosed under sections headed “Acquisition of Further Equity Interest in Zhejiang Xinnongdu”, “Acquisition of Equity Interest in Xuzhou Wanxiang” and “Cooperation with Maggie & Rose”.

Save as disclosed above, during the year under review, there was no other material acquisition or disposal of subsidiaries or associated companies of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Position and Fund Available

As at 31 December 2018, the total cash and bank balances of the Group were approximately RMB625,322,000 (2017: RMB612,463,000), comprising cash and cash equivalents of approximately RMB548,907,000 (2017: RMB323,312,000) and restricted cash of approximately RMB76,415,000 (2017: RMB289,151,000).

As at 31 December 2018, the Group’s total available financial resources amounted to approximately RMB10.99 billion being the undrawn borrowing facilities of approximately RMB8.02 billion and the borrowings of approximately RMB2.97 billion.

Borrowings

As at 31 December 2018, the Group’s bank and other borrowings amounted to approximately RMB2,968,085,000 (2017: RMB3,107,739,000), comprising bank loans of approximately RMB2,158,085,000 (2017: RMB2,297,739,000) and other loans of approximately RMB810,000,000 (2017: RMB810,000,000).

The maturity profile of borrowings were as follows:

	As at 31 December 2018 RMB’000	As at 31 December 2017 RMB’000
Within 1 year or on demand	922,460	1,180,739
Over 1 year but within 2 years	320,500	1,270,000
Over 2 years but within 5 years	1,565,000	487,000
Over 5 years	160,125	170,000
	<u>2,968,085</u>	<u>3,107,739</u>

For bank and other borrowings, except for certain short term bank and other borrowings amounting to RMB1,010,000,000 (2017: RMB1,201,000,000) that bear interest at fixed rates, all bank loans bear interest at floating rates. The Group's bank and other borrowings bear effective interest at rates ranging from 0.9% to 8.2% per annum as at 31 December 2018 (2017: 0.9% to 8.2%). The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

Pledge of Assets

As at 31 December 2018, the Group's bank and other borrowings of approximately RMB2,968,085 (2017: RMB3,057,739) were secured by the Group's pledge of assets as follows:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Investment properties	1,238,247	1,732,798
Properties under development	753,053	786,511
Completed properties held for sale	1,524,606	1,086,533
Property and equipment	498,179	90,704
Restricted cash	5,033	182,246
	<u>4,019,118</u>	<u>3,878,792</u>

Net Current Liabilities and Current Ratio

As at 31 December 2018, the Group's net current liabilities amounted to approximately RMB257,828,000 (2017: net current assets of approximately RMB215,003,000). As at 31 December 2018, the Group's current ratio, calculated as current assets divided by current liabilities, was approximately 0.94 (2017: 1.05).

Gearing Ratio

As at 31 December 2018, the Group's gearing ratio (as measured by net debt to total equity) was 40% (2017: 42%). Net debt is calculated as total borrowings less cash, cash equivalents and restricted cash.

Cost of Borrowings

For the year under review, the total cost of borrowings of the Group was approximately RMB198,985,000 (2017: RMB218,090,000), representing a decrease of approximately 9% when compared with the year of 2017. In addition, for the year under review, interests with an amount of approximately RMB88,655,000 (2017: RMB204,929,000) were capitalized. The decrease was mainly attributable to the increase in funds recovered from projects, which represented less time of borrowings of the Group.

TREASURY POLICIES

The Group principally operates in PRC and the revenue, operating cost and borrowings were mainly denominated in RMB. As a result, the Group has minimal exposure to exchange rate fluctuation. The interest rates for the Group's borrowings were floating and fixed. Upward fluctuations in interest rates will increase the cost of borrowings.

The Group adopts conservative treasury policies in cash and financial management. Cash is generally placed in short-term deposits mostly denominated in RMB. The Group does not use any financial instruments for hedging purpose for the year under review.

GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2018, the Group's contingent liabilities was approximately RMB332,636,000 (2017: RMB232,541,000), which were mainly the guarantees provided by the Group in favour of certain banks for the grant of mortgage loans to purchasers of the Group's properties.

COMMITMENTS

As at 31 December 2018, the Group's commitments for property development expenditures amounted to approximately RMB480,259,000 (2017: RMB520,421,000). It is expected that the Group will finance such commitments from its own funds and bank loans.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2018, the Group employed 1,399 staffs (2017: 1,272). For the year under review, the staff costs of the Group was approximately RMB123,116,000 (2017: RMB87,824,000), representing increase of 40%, mainly due to the increased average headcounts and average salary during the year under review as the result of Yuyao Intime City and two new hotels developed by the Company.

The employees' remuneration policy was determined by reference to factors such as remuneration information in respect of the local market, the overall remuneration standard in the industry, inflation level, corporate operating efficiency and performance of the employees. The Group conducts performance appraisal once every year for its employees, the results of which are applied in annual salary review and promotion assessment. The Group's employees are considered for the entitlement of annual bonus according to certain performance conditions and appraisal results. The Group also provides continuous learning and training programmes to its employees to enhance their skills and knowledge, so as to maintain and enhance their competitiveness.

STRATEGIES

The management has developed sound strategies to overcome the above mentioned challenges and address the uncertainties faced by the Group, including formulating effective marketing strategy plan and improving our products and services quality to consolidate our brand. The Group will put more effort in formulating new policies, guidelines, systems and processes to facilitate effectively cost management, risk management, internal control and sustainable environmental management to enhance company management standards and corporate governance standards. For growth strategy, the Group will focus on identifying possible acquisitions with future development prospects and profitability to improve the returns on assets. The Group will further emphasize on investor relations management, and continue to convey clearly the operation vision, business updates and future development strategies of the Group and other information to various stakeholders through press conferences, roadshows, media delegation visits and one-on-one analyst or investor interview and otherwise to strive for the recognition and support from various stakeholders and obtain more resources for business development and maximize shareholders' value.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Employees, customers and suppliers are the key stakeholders who affected the sustainability of our business. Engaging with those stakeholders will not only help us understand the possible risks and opportunities to our business, but also help us to mitigate risk and seize the opportunities in the real market situation.

The Group believes that our people are critical factors to the Group's success and competitiveness in the market. As such, we had adopted a share option scheme on 20 May 2015 for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations.

Customer satisfaction with our services and products has profound effects on our profitability. Our dedicated sales team constantly communicates with our customers and potential customers to uncover and create customer needs and help customers make informed decisions. To grasp the market trend is critical for the Group to timely adjust our operating strategies to fit the market requirement.

ENVIRONMENT POLICIES AND PERFORMANCE

As a responsible corporation, the Group is committed to protecting the environment in the areas where we operate and ensuring that environmental standards set by the government are consistently met.

We have closely monitored our projects at different stages to ensure that construction process is in compliance with laws and regulations related to environment protection and safety. The Group endeavors to manage its project operations by working with suppliers and contractors to ensure that they understand the importance of environmental protection, pollution prevention and waste reduction. We also encourage all our employees to be more environmentally conscious.

EVENTS AFTER THE YEAR UNDER REVIEW

On 7 January 2019, the Group has issued 178,280,000 consideration share of China New City Commercial Development Limited to Hangzhou Oriental Culture Tourism Group Co., Ltd for the payment of the acquisition of further equity interest in Zhejiang Xinnongdu.

Except the above, no significant events affecting the Group took place subsequent to 31 December 2018 and up to date of this announcement.

DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

ANNUAL GENERAL MEETING (“AGM”)

The AGM of the Company will be held on Thursday, 6 June 2019. Notice of AGM will be published on the websites of the Company (www.chinanewcity.com.cn) and the Stock Exchange (www.hkexnews.hk), and will be despatched to the shareholders of the Company within the prescribed time and in such manner as required under the Listing Rules.

REVIEW BY AUDIT COMMITTEE

The Company has set up an audit committee (“Audit Committee”) and adopted the terms of reference which complied with the code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules (“CG Code”). The Audit Committee was set up for the purposes of reviewing and supervising the financial reporting process and internal control procedures of the Group and regulating the financial reporting procedures, internal controls and risk management system of the Group. It is responsible for making recommendations to the Board for the appointment, reappointment or removal of the external auditor; reviewing and monitoring the external auditor’s independence and objectivity, as well as reviewing and monitoring the effectiveness of the audit process to make sure that the same is in full compliance with applicable standards.

The Chairperson of the Audit Committee is Mr. Ng Sze Yuen, Terry. The other members are Mr. Xu Chengfa and Mr. Yim Chun Leung. The Audit Committee is comprised of all of the three independent non-executive Directors.

The Audit Committee had reviewed the audited consolidated financial statements of the Group for the year under review, and reviewed with the management of the Group regarding the accounting principles and practices adopted by the Group, and discussed with them the internal controls and financial reporting matters.

The figures in respect of the Group’s consolidated statement of financial position, 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 were derived from the Group’s audited consolidated financial statements for the year under review with an unqualified audit opinion.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year under review, the Company repurchased on the Stock Exchange a total of 11,164,000 shares (2017 : Nil) pursuant to the general mandate granted by the shareholders at the annual general meeting held on 5 June 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

The Company has made specific enquiry of all Directors and all Directors have confirmed that they have complied with the required standards set out in the Model Code for the year under review and up to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board has adopted the code provisions of the CG Code. The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code for the year under review and up to the date of this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT ON THE WEBSITES OF THE COMPANY AND THE STOCK EXCHANGE

This announcement is published on the websites of the Company (www.chinanewcity.com.cn) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2018 containing the relevant information required under the Listing Rules will be dispatched to the Company's shareholders and will be published on the above websites in due course.

CLOSURE OF REGISTER OF MEMBERS

For determination of the entitlement to attend and vote at the AGM, the transfer books and register of members will be closed from Monday, 3 June 2019 to Thursday, 6 June 2019 (both days inclusive) during which period no transfer of shares of the Company will be effected. In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 31 May 2019.

By order of the Board of
China New City Commercial Development Limited
中國新城市商業發展有限公司
Shi Kancheng
Chairperson

Hong Kong, 19 March 2019

As at the date of this announcement, the Board comprises Mr. Dong Shuixiao, Ms. Jin Ni and Ms. Tang Yiyang as executive Directors; Mr. Shi Kancheng as non-executive Director; and Mr. Ng Sze Yuen Terry, Mr. Xu Chengfa and Mr. Yim Chun Leung as independent non-executive Directors.