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漢國置業有限公司

Hon Kwok Land Investment Company, Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 160)

2018-19 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL RESULTS

For the six months ended 30 September 2018, the Group's unaudited consolidated revenue was HK\$1,184 million (2017: HK\$968 million) and net profit attributable to shareholders was HK\$576 million (2017: HK\$2,500 million), including an increase in fair value of investment properties net of deferred tax charges of HK\$281 million (2017: an increase in fair value of investment properties net of deferred credit of HK\$29 million). The increase in revenue was mainly due to an increase in property sales from the Group's projects in Mainland China whilst the decrease in profit was mainly due to the recognition of gain on disposal of a bare site in Guangzhou amounted to HK\$2.4 billion in the prior period which is non-recurring in nature. Basic earnings per share was HK\$0.8 (2017: HK\$3.5).

As at 30 September 2018, the shareholders' equity amounted to HK\$11,104 million (as at 31 March 2018: HK\$11,372 million) and net assets per share attributable to shareholders was HK\$15.4 (as at 31 March 2018: HK\$15.8). The Group recorded an exchange loss upon translating the assets and liabilities in the financial statements of the subsidiaries and associate incorporated in Mainland China into Hong Kong Dollars at the exchange rate prevailing at 30 September 2018. The translation difference caused by the depreciation of Renminbi against Hong Kong Dollars and the dividends paid have turned out to be greater than the increase in net profit attributable to shareholders during the period and resulted in a decrease in shareholders' equity at period end.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2018 (2017: Nil).

BUSINESS REVIEW

(i) Property Development

For the six months ended 30 September 2018, the property development segment revenue was HK\$1,067 million compared with HK\$863 million in 2017. Segment profit before taxation was HK\$568 million compared with HK\$384 million in 2017. The increase in revenue and profit was mainly attributable to delivery of the sold units in Botanica and Metropolitan Oasis.

The Group's property development projects are located in Mainland China comprising mainly (i) The Botanica in the Tian He District of Guangzhou in which the Group owns 60% interest; (ii) Metropolitan Oasis, the Group's wholly owned project in the Da Li District of Nanhai; (iii) 45-107 Beijing Nan Road, the Group's wholly owned project in the Yue Xiu District of Guangzhou; and (iv) Enterprise Square in the Nan Shan District of Shenzhen in which the Group owns 20% interest.

The Botanica with a total gross floor area of approximately 229,000 square meters was developed in phases. The final phase of the development was completed in December 2016 with all residential units being sold out in prior years. For the six months ended 30 September 2018, the Group booked revenue of HK\$945 million (2017: HK\$723 million) from the units delivered during the period. As at 30 September 2018, the contracted property sales but not yet booked amounted to RMB 236 million.

Metropolitan Oasis with a total gross floor area of approximately 273,000 square meters was also developed in phases. The final phase of the project, comprising 19 blocks of high rise apartments of approximately 550 units, is scheduled for completion in 2020. The project was launched to the market for presale in prior years with satisfactory results. For the six months ended 30 September 2018, the Group booked revenue of HK\$122 million (2017: HK\$140 million) from the units delivered during the period. In September 2018, the Group launched some of the units in the final phase of the project for presale and achieved contract revenue of RMB 165 million up to the date hereof. As at 30 September 2018, the contracted property sales but not yet booked, excluding those relating to the final phase of the project, amounted to RMB 88 million.

The site at 45-107 Beijing Nan Road, which is adjacent to a pedestrian street and the Pearl River, is to be developed into a 30-storey residential building and a 32-storey commercial/office building. It is expected that the foundation works for the project will commence in the second half of the financial year.

Enterprise Square, situated at Qiaoxiang Road North, Nan Shan District, covers a site area of approximately 49,000 square meters and a total gross floor area of approximately 224,500 square meters. It is being developed into a commercial complex comprising office towers, a residential apartment tower and a commercial mall offering dining and entertainment facilities to the tenants. Development for the entire project was completed in June 2018. The office portion of the project has been launched to the market for presale since January 2017. For the six months ended 30 September 2018, the project realised revenue of RMB 1,751 million (2017: Nil) from the units delivered during the period. As at 30 September 2018, the contracted property sales but not yet booked amounted to RMB 194 million. Net profit attributable to the Group in respect of Enterprise Square, including an increase in fair value of the commercial mall which is classified as an investment property, amounted to HK\$149 million (2017: Nil) for the six months ended 30 September 2018.

(ii) Property Investment

For the six months ended 30 September 2018, the property investment segment revenue was HK\$103 million compared with HK\$94 million in 2017. Segment profit before taxation was HK\$405 million compared with HK\$52 million in 2017. Excluding the change in fair value of investment properties, segment profit before taxation was HK\$56 million compared with HK\$45 million in 2017. The increase in revenue and profit was mainly attributable to increased occupancy and positive rental reversions.

The Group's completed investment property portfolio in Hong Kong with a total gross floor area of approximately 246,000 square feet comprises (i) Hon Kwok Jordan Centre, a commercial/office building at Hillwood Road, Tsim Sha Tsui; (ii) The Bauhinia, a hotel cum serviced apartment property at Connaught Road Central and Des Voeux Road Central; and (iii) The Bauhinia Hotel (TST), a hotel property at Observatory Court, Tsim Sha Tsui. Average occupancy of the properties remained at a high level of 95% for the six months ended 30 September 2018 (2017: 90%).

The Group's investment property under development in Hong Kong comprises a development site at Kin Chuen Street, Kwai Chung, New Territories, which is to be developed into a data centre providing a gross floor area of approximately 228,000 square feet. The project, currently at the stage of substructure and superstructure works, is scheduled for completion in 2020. On 12 June 2018, the Group entered into a connected transaction regarding the appointment of Shun Cheong Data Centre Solutions Company Limited ("Shun Cheong Data Centre Solutions"), an indirect wholly-owned subsidiary of Chinney Alliance Group Limited ("Chinney Alliance") (Stock Code: 385), as a consultant to provide consultancy services in respect of the development of the data centre at a fixed fee of HK\$16.2 million. The transaction was subject to the reporting and announcement requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). For details, please refer to the Company's announcement dated 12 June 2018. On 12 July 2018, the Group entered into another connected transaction regarding the appointment of Chinney Construction Company, Limited ("Chinney Construction"), an indirect wholly-owned subsidiary of Chinney Alliance, as the contractor for carrying out the substructure and superstructure works for the data centre at a total contract sum not exceeding HK\$757.8 million. The transaction was approved by the independent shareholders of Chinney Investments, Limited (a substantial shareholder of the Company) ("Chinney Investments") (Stock Code: 216), the Company and Chinney Alliance at the general meetings held by each of the companies on 24 August 2018. For details, please refer to the Company's announcement dated 12 July 2018 and the circular of the Company dated 8 August 2018.

The Group's completed investment property portfolio in Mainland China with a total gross floor area of approximately 318,000 square meters comprises (i) City Square/The Bauhinia Hotel (Shenzhen), a commercial podium comprising shops and hotel rooms at the Luo Hu District of Shenzhen, (ii) City Suites, serviced apartment units atop of City Square at the Luo Hu District of Shenzhen, (iii) Ganghui Dasha, a commercial/office building at the Yue Xiu District of Guangzhou, (iv) Chongqing Hon Kwok Centre, a twin-tower office building atop of a commercial podium at the Bei Bu Xin Qu of Chongqing and (v) Chongqing Jinshan Shangye Zhongxin, an office tower and a hotel/office tower each with a commercial podium at the Bei Bu Xin Qu of Chongqing. The properties, excluding the hotel/office tower in Chongqing Jinshan Shangye Zhongxin which was at the refurbishment stage during the period, achieved an average occupancy of 74% for the six months ended 30 September 2018 (2017: 69%).

The Group's investment property under development in Mainland China comprises Hon Kwok City Commercial Centre, which is situated at the junction of Shen Nan Zhong Road and Fu Ming Road, Fu Tian District of Shenzhen. The property, being one of the tallest buildings in Shenzhen at a height of approximately 330 meters, offers Grade A office and retail space totaling approximately 128,000 square meters. Development of the project was completed with the issue of the property ownership certificate in October 2018. The property is currently vacant but under refurbishment. Leasing of Hon Kwok City Commercial Centre has been progressing at full speed. It is expected that tenants will start to move in early next year.

The Group's investment properties, apart from the data center project which is stated at cost at the early stage of development, were fair valued at period end. There has been no change in valuation methodology of the Group's investment properties, including the capitalisation rates. After netting off the additions to investment properties and the exchange loss arising from depreciation in Renminbi during the period, the increase in fair value of the Group's investment properties amounted to HK\$349 million (2017: HK\$7 million) for the six months ended 30 September 2018.

(iii) Property and carpark management

For the six months ended 30 September 2018, the property and carpark management segment revenue was HK\$14 million compared with HK\$11 million in 2017. Segment profit before taxation was HK\$0.9 million compared with segment loss before taxation of HK\$0.2 million in 2017. The increase in revenue was mainly due to more parking spaces being managed by the Group. As at 30 September 2018, the Group managed 10 car parks (31 March 2018: 11 car parks) with approximately 1,900 parking spaces (31 March 2018: 1,700 parking spaces). The increase in profit was mainly due to improved profitability of the property management services in Mainland China.

OUTLOOK

The global economic growth remains solid but is set to moderate amidst the prevailing challenges and uncertainties. In particular, the escalating trade conflicts between the United States and China, the tightening monetary policy and the financial market volatility, could increase downside risks to the global economy. In the United States, the economy continued its robust expansion under a healthy job market with its GDP grew over 3 percent in 2017. Having foreseen that the economy was gaining momentum, the Federal Reserve reiterated its expectation of faster interest rate hikes in the near term. It is believed that the pace of interest rate normalisation and the US trade policy remain the underlying threats to the US economic prospect.

In Mainland China, GDP growth eased to 6.5 percent in the third quarter of 2018. Domestic demand faltered under the threat of the US-China trade dispute. The real estate market also showed signs of slowing down under the ongoing restrictive measures and debt deleveraging policies. In addition, under the external uncertainties and market volatility, the property market sentiment became cautious and the property developers started to offer considerable discounts to speed up sales. To boost economic growth, it is likely that the Central Government will implement stimulus measures to maintain a stable and healthy property market.

In Hong Kong, the economy recorded solid growth supported by strong domestic demand and stable employment and income conditions. Yet, the local economy is highly susceptible to external uncertainties, particularly, the intensifying trade conflicts and the financial market volatility. Furthermore, impacting by the uncertain US policies, especially, the pace of interest rate hikes, the local property market fluctuated and showed signs of weakening. Recently, the local government announced its commitment to increase public housing supply and would contemplate different measures to alleviate land shortage in the long term. It is believed that the local economy will benefit from massive infrastructure works but the property market is anticipated to remain erratic in the near future.

Finally, I wish to express my sincere thanks to my fellow directors for their contributions and all staff members for their hard work during the period under review.

James Sai-Wing Wong
Chairman

Hong Kong, 27 November 2018

UNAUDITED CONSOLIDATED RESULTS

The unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2018 together with comparative figures for the corresponding period in the prior year are as follows:

Condensed Consolidated Statement of Profit or Loss

| | | Six months ended | |
|---|--------------|-------------------------|--------------------|
| | | 30 September | |
| | | 2018 | 2017 |
| | | (Unaudited) | (Unaudited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Revenue | 3 | 1,183,878 | 967,742 |
| Cost of sales | | (540,630) | (501,644) |
| Gross profit | | 643,248 | 466,098 |
| Other income | 3 | 9,229 | 8,021 |
| Fair value gains on investment properties, net | | 348,583 | 6,719 |
| Gain on disposal of subsidiaries | 4 | - | 2,398,589 |
| Administrative expenses | | (44,788) | (43,268) |
| Other operating expenses, net | | (8,323) | (25,215) |
| Finance costs | 5 | (53,372) | (50,806) |
| Share of profit/(loss) of an associate | | 148,905 | (345) |
| Profit before tax | 6 | 1,043,482 | 2,759,793 |
| Income tax expense | 7 | (349,006) | (183,970) |
| Profit for the period | | 694,476 | 2,575,823 |
| Attributable to: | | | |
| Owners of the Company | | 575,746 | 2,500,489 |
| Non-controlling interests | | 118,730 | 75,334 |
| | | 694,476 | 2,575,823 |
| Earnings per share attributable to ordinary equity holders of the Company | | | |
| Basic and diluted | 8 | HK\$0.80 | HK\$3.47 |

Condensed Consolidated Statement of Comprehensive Income

| | Six months ended 30 September | |
|---|----------------------------------|---------------------------------|
| | 2018 (Unaudited) HK\$'000 | 2017 (Unaudited) HK\$'000 |
| Profit for the period | 694,476 | 2,575,823 |
| Other comprehensive income/(loss) | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | |
| Share of other comprehensive income/(loss) of an associate | (24,996) | 4,197 |
| Exchange differences on translation of foreign operations | (731,949) | 307,359 |
| Release of exchange fluctuation reserve upon disposal of subsidiaries | - | (69,606) |
| Other comprehensive income/(loss) for the period, net of tax | <u>(756,945)</u> | <u>241,950</u> |
| Total comprehensive income/(loss) for the period | <u>(62,469)</u> | <u>2,817,773</u> |
| Attributable to: | | |
| Owners of the Company | (141,538) | 2,729,956 |
| Non-controlling interests | <u>79,069</u> | <u>87,817</u> |
| | <u>(62,469)</u> | <u>2,817,773</u> |

Condensed Consolidated Statement of Financial Position

| | At 30 September 2018 (Unaudited) <i>Notes</i> HK\$'000 | At 31 March 2018 (Audited) HK\$'000 |
|---|---|--|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 72,465 | 81,006 |
| Investment properties | 13,458,192 | 13,675,630 |
| Investment in a joint venture | 199 | 199 |
| Investment in an associate | 610,620 | 486,711 |
| Total non-current assets | <u>14,141,476</u> | <u>14,243,546</u> |
| CURRENT ASSETS | | |
| Tax recoverable | 95 | 97 |
| Properties held for sale under development and completed properties held for sale | 1,961,229 | 2,553,549 |
| Trade receivables | 18,317 | 20,146 |
| Prepayments, deposits and other receivables | 128,978 | 165,451 |
| Contract costs | 5,730 | - |
| Cash and bank balances | 1,879,972 | 2,678,461 |
| Total current assets | <u>3,994,321</u> | <u>5,417,704</u> |
| CURRENT LIABILITIES | | |
| Trade payables and accrued liabilities | 434,868 | 588,325 |
| Due to an associate | 15,950 | 26,002 |
| Interest-bearing bank borrowings | 2,260,459 | 2,206,409 |
| Contract liabilities | 250,123 | - |
| Customer deposits | 35,926 | 1,222,514 |
| Tax payable | 510,737 | 416,473 |
| Total current liabilities | <u>3,508,063</u> | <u>4,459,723</u> |
| NET CURRENT ASSETS | <u>486,258</u> | <u>957,981</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>14,627,734</u> | <u>15,201,527</u> |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank borrowings | 1,989,365 | 2,328,945 |
| Deferred tax liabilities | 1,363,783 | 1,409,452 |
| Total non-current liabilities | <u>3,353,148</u> | <u>3,738,397</u> |
| Net assets | <u>11,274,586</u> | <u>11,463,130</u> |

Condensed Consolidated Statement of Financial Position *(Continued)*

| | At 30 September 2018 (Unaudited) HK\$'000 | At 31 March 2018 (Audited) HK\$'000 |
|--|--|--|
| EQUITY | | |
| Equity attributable to owners of the Company | | |
| Share capital | 1,519,301 | 1,519,301 |
| Reserves | 9,585,181 | <u>9,852,794</u> |
| | 11,104,482 | 11,372,095 |
| Non-controlling interests | 170,104 | <u>91,035</u> |
| Total equity | <u>11,274,586</u> | <u>11,463,130</u> |

Notes:

1. Basis of preparation and changes in accounting policies and disclosures

Basis of preparation

The unaudited condensed interim consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

The unaudited condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2018.

The financial information relating to the year ended 31 March 2018 that is included in these unaudited condensed consolidated financial statements for the six months ended 30 September 2018 as comparative information does not constitute the statutory annual consolidated financial statements of the Company for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “Companies Ordinance”) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 March 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on those consolidated financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Changes in accounting policies and disclosures

The unaudited condensed interim consolidated financial statements have been prepared under the historical cost convention, except for certain investment properties which have been measured at fair value. The accounting policies adopted in the preparation of the unaudited condensed interim consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2018, except as described below. In the current period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which include all HKFRSs, HKASs and Interpretations) issued by the HKICPA which are effective for the Group’s financial year beginning on 1 April 2018.

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

Other than as explained below regarding the impact of HKFRS 9, HKFRS 15 and Amendments to HKFRS 15, the adoption of the above revised standards has had no significant financial effect on the interim financial information.

1. Basis of preparation and changes in accounting policies and disclosures (Continued)

The nature and the impact of the changes are described below:

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 April 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has applied HKFRS 9 retrospectively to items that existed at 1 April 2018 in accordance with the transition requirements. The Group did not restate comparative information and recognise any material transition adjustments against the opening balance of equity at 1 April 2018. The impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(i) Classification and measurement

Under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss, amortised cost or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are as follows:

- *Debt instruments at amortised cost* that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, deposits and other receivables.

The assessment of the Group's business models was made as of the date of initial application, 1 April 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 April 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

The adoption of HKFRS 9 has had no significant impact on the Group's interim financial information on classification and measurement of its financial assets.

(ii) Impairment of financial assets

HKFRS 9 requires an impairment on trade receivables, deposits and other receivables that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses that were estimated based on the present value of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group applied the general approach and recorded twelve-month expected credit losses that were estimated based on the possible default events on its deposits and other receivables within the next twelve months. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

1. **Basis of preparation and changes in accounting policies and disclosures** *(Continued)*

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognize the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits at 1 April 2018. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 April 2018, thus the comparative figures have not been restated.

Revenue recognition

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

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

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

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

Accounting for revenue from sales of properties

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

Under HKFRS 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 recognizes 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.

The Group has assessed that there is an enforceable right to payment from the customers for performance completed to date for few properties. Thus, majority of revenue from sale of properties will continue to be recognised at a point in time, when the purchaser obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

1. **Basis of preparation and changes in accounting policies and disclosures** (Continued)

Accounting for significant financing component for sale of properties

Prior to the adoption of HKFRS 15, the Group presented sales proceeds received from customers in connection with the Group's pre-sales of properties as customer deposits 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 HKFRS 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 customer deposits to contract liabilities for the outstanding balance of sales proceeds from customers.

Receipts in advance of HK\$1,191,562,000 that was previously classified as customer deposits has been reclassified to contract liabilities as at 1 April 2018.

Accounting for sales commission

Prior to the adoption of HKFRS 15, the Group capitalised the sales commission associated with obtaining agreement for sale and purchase with property buyer and charged to profit or loss when the revenue from the related property sale is recognised. Upon adoption of HKFRS 15, sales commissions incurred directly attributable to obtaining a contract, if recoverable, are capitalised and recorded in contract costs. 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. Prepaid sales commission of HK\$6,225,000 that was previously classified as prepayments, deposits and other receivables has been reclassified to contract costs as at 1 April 2018.

The impact of adoption of HKFRS 15 is shown below.

Summary of impact of HKFRS 15 on the interim financial information for the six months ended 30 September 2018:

| | Amounts without adoption of HKFRS 15 HK\$'000 | Effects of the adoption of HKFRS 15 HK\$'000 | Amounts as reported HK\$'000 |
|---|--|---|---|
| Condensed consolidated statement of financial position (extract) | | | |
| Prepayments, deposits and other receivables | 134,708 | (5,730) | 128,978 |
| Contract costs | - | 5,730 | 5,730 |
| Contract liabilities | - | 250,123 | 250,123 |
| Customer deposits | 286,049 | (250,123) | 35,926 |

The adoption of HKFRS 15 has had no significant impact on the opening retained profits as at 1 April 2018.

2. Operating segment information

The Group is principally engaged in property development, property investment and property related activities. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Operating segments are reported in a manner consistent with the internal reporting provided to key management personnel.

Six months ended 30 September 2018 (Unaudited)

| | Property development HK\$'000 | Property investment HK\$'000 | Property and carpark management HK\$'000 | Total HK\$'000 |
|---------------------------------|-------------------------------------|------------------------------------|---|-------------------|
| Segment revenue: | | | | |
| Sales to external customers | <u>1,066,725</u> | <u>102,668</u> | <u>14,485</u> | <u>1,183,878</u> |
| Segment results | <u>567,932</u> | <u>405,073</u> | <u>864</u> | <u>973,869</u> |
| <i>Reconciliation:</i> | | | | |
| Interest income | | | | 6,867 |
| Unallocated expenses | | | | (32,787) |
| Finance costs | | | | (53,372) |
| Share of profit of an associate | | | | <u>148,905</u> |
| Profit before tax | | | | <u>1,043,482</u> |

Six months ended 30 September 2017 (Unaudited)

| | Property development HK\$'000 | Property investment HK\$'000 | Property and carpark management HK\$'000 | Total HK\$'000 |
|----------------------------------|-------------------------------------|------------------------------------|---|-------------------|
| Segment revenue: | | | | |
| Sales to external customers | <u>863,047</u> | <u>93,717</u> | <u>10,978</u> | <u>967,742</u> |
| Segment results | <u>384,168</u> | <u>52,008</u> | <u>(208)</u> | <u>435,968</u> |
| <i>Reconciliation:</i> | | | | |
| Interest income | | | | 4,863 |
| Unallocated expenses | | | | (28,476) |
| Finance costs | | | | (50,806) |
| Gain on disposal of subsidiaries | | | | 2,398,589 |
| Share of loss of an associate | | | | <u>(345)</u> |
| Profit before tax | | | | <u>2,759,793</u> |

2. Operating segment information (Continued)

At 30 September 2018 (Unaudited)

| | Property development HK\$'000 | Property investment HK\$'000 | Property and carpark management HK\$'000 | Total HK\$'000 |
|---|-------------------------------------|------------------------------------|---|--------------------------|
| Segment assets | 2,168,347 | 13,810,717 | 1,766,544 | 17,745,608 |
| <i>Reconciliation:</i> | | | | |
| Elimination of intersegment receivables | | | | (2,100,697) |
| Investment in a joint venture | | | | 199 |
| Investment in an associate | | | | 610,620 |
| Corporate and other unallocated assets | | | | <u>1,880,067</u> |
| Total assets | | | | <u>18,135,797</u> |
| Segment liabilities | 1,464,417 | 908,854 | 464,293 | 2,837,564 |
| <i>Reconciliation:</i> | | | | |
| Elimination of intersegment payables | | | | (2,100,697) |
| Corporate and other unallocated liabilities | | | | <u>6,124,344</u> |
| Total liabilities | | | | <u>6,861,211</u> |

At 31 March 2018 (Audited)

| | Property development HK\$'000 | Property investment HK\$'000 | Property and carpark management HK\$'000 | Total HK\$'000 |
|---|-------------------------------------|------------------------------------|---|--------------------------|
| Segment assets | 2,811,157 | 14,092,159 | 1,804,319 | 18,707,635 |
| <i>Reconciliation:</i> | | | | |
| Elimination of intersegment receivables | | | | (2,211,853) |
| Investment in a joint venture | | | | 199 |
| Investment in an associate | | | | 486,711 |
| Corporate and other unallocated assets | | | | <u>2,678,558</u> |
| Total assets | | | | <u>19,661,250</u> |
| Segment liabilities | 2,554,429 | 1,055,476 | 438,789 | 4,048,694 |
| <i>Reconciliation:</i> | | | | |
| Elimination of intersegment payables | | | | (2,211,853) |
| Corporate and other unallocated liabilities | | | | <u>6,361,279</u> |
| Total liabilities | | | | <u>8,198,120</u> |

3. Revenue and other income

Disaggregation of revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers and the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

| | Six months ended 30 September 2018 | | | |
|--|--|---|---|---------------------------|
| (Unaudited) | Property development HK\$'000 | Property investment HK\$'000 | Property and carpark management HK\$'000 | Total HK\$'000 |
| Segment | | | | |
| Type of goods or services | | | | |
| Sales of properties | 1,066,725 | - | - | 1,066,725 |
| Property management income | - | 15,348 | 785 | 16,133 |
| Total revenue from contracts with customers | <u>1,066,725</u> | <u>15,348</u> | <u>785</u> | <u>1,082,858</u> |
| Revenue from other sources | | | | |
| Gross rental income | - | 87,320 | 13,700 | 101,020 |
| Total revenue from other sources | <u>-</u> | <u>87,320</u> | <u>13,700</u> | <u>101,020</u> |
| Revenue disclosed in the segment information | <u>1,066,725</u> | <u>102,668</u> | <u>14,485</u> | <u>1,183,878</u> |
| Timing of revenue recognition | | | | |
| Goods transferred at a point in time | 1,066,725 | - | - | 1,066,725 |
| Services transferred over time | - | 15,348 | 785 | 16,133 |
| Total revenue from contracts with customers | <u>1,066,725</u> | <u>15,348</u> | <u>785</u> | <u>1,082,858</u> |

Other income

| | Six months ended 30 September | |
|----------------------|--|--|
| | 2018 (Unaudited) HK\$'000 | 2017 (Unaudited) HK\$'000 |
| Bank interest income | 6,867 | 4,863 |
| Others | <u>2,362</u> | <u>3,158</u> |
| | <u>9,229</u> | <u>8,021</u> |

4. Gain on disposal of subsidiaries

During the six months ended 30 September 2017, the Company disposed of Smooth Ever Investments Limited, a wholly-owned subsidiary of the Company, and its subsidiaries ("Smooth Ever Group"). Smooth Ever Group was engaged in property development business. The transaction was completed in September 2017.

The net assets disposed of in the above transaction are as follows:

| | 2017 (Unaudited) HK\$'000 |
|--|---------------------------------|
| Net assets disposed of: | |
| Property, plant and equipment | 26 |
| Properties held for sale under development | 504,857 |
| Prepayments, deposits and other receivables | 78 |
| Cash and bank balances | 169 |
| Due to a shareholder and a related company | (375,080) |
| Other payables and accrued liabilities | (21) |
| Non-controlling interests | <u>(64,621)</u> |
| | 65,408 |
| Assignment of loans from a shareholder and a related company | <u>375,080</u> |
| | 440,488 |
| Exchange fluctuation reserve | (69,606) |
| Gain on disposal of subsidiaries | <u>2,398,589</u> |
| Consideration received | <u>2,769,471</u> |
| Satisfied by: | |
| Cash consideration | 3,585,536 |
| Less: direct transaction costs incurred | <u>(816,065)</u> |
| | <u>2,769,471</u> |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | HK\$'000 |
|--|------------------|
| Cash consideration | 2,769,471 |
| Cash and bank balances disposed of | <u>(169)</u> |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | <u>2,769,302</u> |

5. Finance costs

| | Six months ended 30 September | |
|--|--|---------------------------------|
| | 2018 (Unaudited) HK\$'000 | 2017 (Unaudited) HK\$'000 |
| Interest on bank loans, overdrafts and other loans | 97,064 | 97,992 |
| Less: Interest capitalised under property development projects | <u>(43,692)</u> | <u>(47,186)</u> |
| | <u>53,372</u> | <u>50,806</u> |

6. Profit before tax

The Group's profit before tax is arrived at after charging:

| | Six months ended | |
|---|-------------------------|----------------------|
| | 30 September | |
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Depreciation | 2,679 | 2,912 |
| Employee benefit expenses (including directors' remuneration) | 28,884 | 25,244 |
| Less: Amounts capitalised under property development projects | <u>(8,700)</u> | <u>(7,900)</u> |
| | <u>20,184</u> | <u>17,344</u> |

7. Income tax

| | Six months ended | |
|---------------------------------|-------------------------|-----------------------|
| | 30 September | |
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Current – Outside Hong Kong | 281,100 | 206,406 |
| Deferred charge/(credit) | <u>67,906</u> | <u>(22,436)</u> |
| Total tax charge for the period | <u>349,006</u> | <u>183,970</u> |

No Hong Kong profits tax has been provided as the Group companies have available tax losses brought forward from prior years to offset the assessable profits generated during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

8. Earnings per share attributable to ordinary equity holders of the Company

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$575,746,000 (2017: HK\$2,500,489,000) and the number of 720,429,301 ordinary shares in issue during both periods.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30 September 2018 and 2017 in respect of a dilution as the Group has no potential dilutive ordinary shares in issue during both periods.

9. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2018 (2017: Nil).

The final dividend of HK 12.5 cents per ordinary share for the year ended 31 March 2018 and the special dividend of HK 5.0 cents per ordinary share were approved by the Company's shareholders at the annual general meeting of the Company held on 24 August 2018 and paid on 18 September 2018.

10. Trade receivables

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice/contract date, is as follows:

| | At 30 September 2018 (Unaudited) HK\$'000 | At 31 March 2018 (Audited) HK\$'000 |
|----------------|--|--|
| Within 30 days | 1,660 | 1,813 |
| 31 to 60 days | 1,531 | 1,431 |
| 61 to 90 days | 1,241 | 929 |
| Over 90 days | <u>13,885</u> | <u>15,973</u> |
| Total | <u>18,317</u> | <u>20,146</u> |

Monthly rent in respect of leased properties is payable in advance by the tenants pursuant to the terms of the tenancy agreements. The balance of the consideration in respect of sold properties is payable by the purchasers pursuant to the terms of the sale and purchase agreements. Overdue trade debts are closely monitored by management and are provided for in full in case of non-recoverability. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

11. Trade payables and accrued liabilities

Included in the trade payables and accrued liabilities are trade payables of HK\$22,402,000 (as at 31 March 2018: HK\$23,302,000). An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | At 30 September 2018 (Unaudited) HK\$'000 | At 31 March 2018 (Audited) HK\$'000 |
|----------------|--|--|
| Within 30 days | <u>22,402</u> | <u>23,302</u> |

12. Contingent liabilities

- (a) As at 30 September 2018, the Group has given a guarantee of HK\$24,000,000 (as at 31 March 2018 (audited): HK\$32,000,000) to a bank in connection with a facility granted to an associate and such banking facility guaranteed by the Group to the associate was utilised to the extent of HK\$24,000,000 (as at 31 March 2018 (audited): HK\$32,000,000).
- (b) As at 30 September 2018, the Group has given guarantees of HK\$1,134,975,000 (as at 31 March 2018 (audited): HK\$1,078,000,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties for a period from the date the loans are granted to the purchasers up to the date of issuance of property ownership certificates to the purchasers.

FINANCIAL REVIEW

Liquidity and financial resources

The total interest-bearing debts of the Group amounted to approximately HK\$4,250 million as at 30 September 2018 (as at 31 March 2018: HK\$4,535 million), of which approximately 53% (as at 31 March 2018: 49%) of the debts were classified as current liabilities. Included therein were debts of HK\$100 million related to bank loans with repayable on demand clause and HK\$1,982 million related to project or term loans which will be refinanced during the forthcoming twelve months. Based on the repayment schedules pursuant to the related loan agreements and assuming that the aforesaid refinancing will be completed on schedule, the current portion of the total interest-bearing debts would be approximately 4%.

Total cash and bank balances including time deposits were approximately HK\$1,880 million as at 30 September 2018 (as at 31 March 2018: HK\$2,678 million) and the decrease was mainly due to the repayment of bank loans and the exchange loss arising from the depreciation in Renminbi during the period. Included in cash and bank balances are restricted bank deposits of HK\$133 million (as at 31 March 2018: HK\$260 million) which can only be applied in the designated property development projects prior to their completion of construction. The Group had committed but undrawn banking facilities of a total of approximately HK\$1,809 million at period end available for its working capital purpose.

Total shareholders' funds as at 30 September 2018 were approximately HK\$11,104 million (as at 31 March 2018: HK\$11,372 million). An exchange loss was recorded upon translating the financial statements of the foreign operations denominated in Renminbi to Hong Kong Dollars, which has offset the increase in net profit attributable to shareholders during the period, and resulted in a decrease in shareholders' equity at period end.

The gearing ratio of the Group, as measured by the net interest-bearing debts of approximately HK\$2,370 million (as at 31 March 2018: HK\$1,857 million) over the shareholders' funds plus non-controlling interests totalling of approximately HK\$11,275 million (as at 31 March 2018: HK\$11,463 million), was 21% as at 30 September 2018 (as at 31 March 2018: 16%).

Funding and treasury policies

There are no significant changes in the Group's funding and treasury policies. As at 30 September 2018, the Group had no material exposure under foreign exchange contracts or any other hedging instruments.

Pledge of assets

Properties with an aggregate carrying value of approximately HK\$13,507 million as at 30 September 2018 were pledged to secure certain banking facilities of the Group.

Employees and remuneration policies

The Group, not including its joint venture and associate, employed approximately 330 employees as at 30 September 2018. There have been no significant changes in the remuneration policies and benefits to the employees of the Group.

CONNECTED TRANSACTIONS

1. On 12 June 2018, Gold Famous Development Limited (“Gold Famous”), an indirect wholly-owned subsidiary of the Company, entered into a consultancy agreement with Shun Cheong Data Centre Solutions, an indirect wholly-owned subsidiary of Chinney Alliance, pursuant to which Shun Cheong Data Centre Solutions was appointed by Gold Famous as a consultant to provide consultancy services in respect of the construction and development of a data centre on a parcel of land owned by Gold Famous in Kwai Chung, Hong Kong (the “Data Centre Project”) at a fixed fee of HK\$16,200,000 (the “Consultancy Agreement”). As Chinney Investments is interested in approximately 68.09% of the issued shares of the Company and approximately 29.10% of the issued shares of Chinney Alliance and Dr. James Sai-Wing Wong is the chairman, executive director and a controlling shareholder of each of Chinney Investments, the Company and Chinney Alliance, the transaction constituted a connected transaction for each of Chinney Investments, the Company and Chinney Alliance under the Listing Rules and is subject to the reporting and announcement requirements.
2. On 12 July 2018, Gold Famous, an indirect wholly-owned subsidiary of the Company, entered into a framework agreement with Chinney Construction, an indirect wholly-owned subsidiary of Chinney Alliance, pursuant to which Gold Famous engaged Chinney Construction to act as the contractor to carry out construction works for the Data Centre Project at a total contract sum not exceeding HK\$757,800,000 (the “Framework Agreement”). As Chinney Investments is interested in approximately 68.09% of the issued shares of the Company and approximately 29.10% of the issued shares of Chinney Alliance and Dr. James Sai-Wing Wong is the chairman, executive director and a controlling shareholder of each of Chinney Investments, the Company and Chinney Alliance, the related transaction constituted a connected transaction for each of Chinney Investments, the Company and Chinney Alliance under the Listing Rules. Since the entering into of the Consultancy Agreement dated 12 June 2018 also constituted a connected transaction and pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the Consultancy Agreement and the Framework Agreement should be aggregated as a series of transactions as they were entered into within a 12-month period and involved parties which are connected with one another. The applicable percentage ratios of the Framework Agreement on both stand-alone and the basis when aggregated with the Consultancy Agreement, are more than 5% and contract sum was more than HK\$10 million, the transaction is subject to the reporting, announcement and independent shareholders’ approval requirements. The transaction was approved by the independent shareholders of Chinney Investments, the Company and Chinney Alliance at the general meetings held by each of the companies on 24 August 2018.

CORPORATE GOVERNANCE

Compliance with Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct for directors’ securities transactions. Having made specific enquiry, all the directors have confirmed that they have complied with the required standard as set out in the Model Code during the six months ended 30 September 2018.

Compliance with the Corporate Governance Code

In the opinion of the Directors, the Company has complied with the applicable code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules for the six months ended 30 September 2018, except for the following deviations:

1. CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Currently, Dr. James Sai-Wing Wong is the Chairman of the Company and assumes the role of the Chairman and also the chief executive officer. Given the nature of the Group’s businesses which require considerable market expertise, the Board believes that the vesting of the two roles for the time being provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management.

2. CG Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election and CG Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the articles of association of the Company (the “Articles of Association”). The Articles of Association do not require the directors to retire by rotation at least once every three years. However, in accordance with article 104 of the Articles of Association, at each annual general meeting of the Company, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest one-third), other than the one who holds the office as executive chairman or managing director, shall retire from office by rotation. The Board will ensure the retirement of each director, other than the one who holds the office as executive chairman or managing director, by rotation at least once every three years in order to comply with the CG Code provisions.

The Chairman will not be subject to retirement by rotation; which deviates from CG Code provision A.4.2 as the Board considers that the continuity of office of the Chairman provides the Group with a strong and consistent leadership and is of great importance to the smooth operations of the Group.

All directors appointed to fill a casual vacancy is subject to re-election by shareholders at the next following annual general meeting of the Company instead of at the first general meeting after their appointment as stipulated in CG Code provision A.4.2.

3. CG Code provision A.5.1 stipulates that the Company should establish a nomination committee which should be chaired by the Chairman of the Board or an independent non-executive director.

The Company has not established a nomination committee. The Board is responsible for considering the suitability of a candidate to act as a director, and collectively approving and terminating the appointment of a director as this allows a more informed and balanced decision to be made. The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will determine the suitability of the relevant candidates on the basis of their gender, age, professional qualifications and experience as well as educational background.

4. CG Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Dr. Daniel Chi-Wai Tse and Mr. William Kwan-Lim Chu, independent non-executive directors of the Company, did not attend the 2018 annual general meeting and the extraordinary general meeting of the Company both held on 24 August 2018 due to their own business engagements or other commitments.

5. CG Code provision B.1.2 stipulates that the terms of reference of the remuneration committee should include, as a minimum, those specific duties as set out in the CG Code provisions.

The Company has adopted the revised terms of reference of the Remuneration Committee on 30 March 2012 with certain deviations from the CG Code provisions. Pursuant to the revised terms of reference, the Remuneration Committee reviews and makes recommendations to the Board on the remuneration packages of directors (as opposed to directors and senior management).

Audit Committee

Regular meetings have been held by the Audit Committee of the Company since its establishment and it meets at least twice each year to review and supervise the Group's financial reporting process and internal control. The Company's interim results for the six months ended 30 September 2018 have not been audited, but have been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2018.

By Order of the Board
James Sai-Wing Wong
Chairman

Hong Kong, 27 November 2018

At the date of this announcement, the directors of the Company are Dr. James Sai-Wing Wong (Chairman), Mr. James Sing-Wai Wong, Mr. Xiao-Ping Li and Mr. Peter Chi-Chung Luk as executive directors; and Dr. Daniel Chi-Wai Tse, Mr. Zuo Xiang and Mr. William Kwan-Lim Chu as independent non-executive directors.