

XU CHANG CO. LIMITED

(incorporated in the British Virgin Islands with
limited liability)

Report and Consolidated Financial Statements
For the period from 5 February 2014
(date of incorporation) to 31 December 2017

XU CHANG CO. LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM 5 FEBRUARY 2014 (DATE OF INCORPORATION)
TO 31 DECEMBER 2017

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INDEPENDENT AUDITOR'S REPORTTO THE DIRECTORS OF XU CHANG CO. LIMITED**Opinion**

We have audited the consolidated financial statements of Xu Chang Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 4 to 30, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 5 February 2014 (date of incorporation) to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the period from 5 February 2014 (date of incorporation) to 31 December 2017 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF XU CHANG CO. LIMITED - continued

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements of the Company

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF XU CHANG CO. LIMITED - continued

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 June 2018

XU CHANG CO. LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD FROM 5 FEBRUARY 2014 (DATE OF INCORPORATION)
TO 31 DECEMBER 2017

	<u>NOTES</u>	HK\$
Revenue		-
Cost of sales		(99,328)
Gross loss		(99,328)
Other income		58,161
Change in fair value of investment properties under development	9	148,415,088
Finance cost	6	(3,942,558)
Administrative expenses		(6,903,926)
Profit before taxation	7	137,527,437
Income tax expense	8	(37,103,772)
Profit for the period		100,423,665
Other comprehensive income		
<i>Item that will not be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation to presentation currency		38,238,716
Profit and total comprehensive income for the period		138,662,381

XU CHANG CO. LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	<u>NOTES</u>	HK\$
Non-current Asset		
Investment properties under development	9	1,751,019,429
Current Assets		
Bank balances		29,425,631
Other receivables		580,604
		<u>30,006,235</u>
Current Liabilities		
Trade and other payables	10	15,152,754
Amount due to related companies	11	839,226,741
		<u>854,379,495</u>
Net Current Liabilities		<u>(824,373,260)</u>
Non-current Liabilities		
Amount due to a related company	11	375,440,000
Bank borrowing	12	375,440,000
Deferred taxation	13	37,103,772
		<u>787,983,772</u>
		<u>138,662,397</u>
Capital and Reserves		
Share capital	14	16
Reserves		138,662,381
Total Equity		<u>138,662,397</u>

The consolidated financial statements on pages 4 to 30 was approved and authorised for issue by the Board of Directors on 28 June 2018 and are signed on its behalf by:



LIN Zhong
DIRECTOR



JU Yikai
DIRECTOR

XU CHANG CO. LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 5 FEBRUARY 2014 (DATE OF INCORPORATION)
TO 31 DECEMBER 2017

	<u>Share capital</u> HK\$	<u>Translation reserve</u> HK\$	<u>Retained profits</u> HK\$	<u>Total</u> HK\$
At date of incorporation	16	-	-	16
Exchange differences arising on translation to presentation currency	-	38,238,716	-	38,238,716
Profit for the period	-	-	100,423,665	100,423,665
At 31 December 2017	<u>16</u>	<u>38,238,716</u>	<u>100,423,665</u>	<u>138,662,397</u>

XU CHANG CO. LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 5 FEBRUARY 2014 (DATE OF INCORPORATION)
TO 31 DECEMBER 2017

	<u>NOTE</u>	HK\$
Operating activities		
Profit before tax		137,527,437
Adjustments for:		
Change in fair value of investment properties under development		(148,415,088)
Interest income		(22,091)
Net exchange gain		(36,070)
Finance cost		3,942,558
		<hr/>
Operating cash flows before movements in working capital		(7,003,254)
Decrease in other receivables		652,907
Decrease in trade and other payables		(2,585,758)
		<hr/>
Net cash used in operations		(8,936,105)
		<hr/>
Investing activities		
Acquisition of assets and liabilities through acquisition of subsidiaries	15	(1,551,272,752)
Additions in investment properties under development		(1,839,189)
Interest received		22,091
		<hr/>
Net cash used in investing activities		(1,553,089,850)
		<hr/>
Financing activities		
Advances from related companies		1,219,366,411
New bank borrowing raised		375,440,000
Issue of shares		16
Interest expense		(3,942,558)
		<hr/>
Net cash from financing activities		1,590,863,869
		<hr/>
Net increase in cash and cash equivalents		28,837,914
		<hr/>
Cash and cash equivalents at the beginning of the period		-
		<hr/>
Effect of foreign exchange rate changes		587,717
		<hr/>
Cash and cash equivalents at the end of the period, represented by bank balances		29,425,631
		<hr/> <hr/>

XU CHANG CO. LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM 5 FEBRUARY 2014 (DATE OF INCORPORATION) TO 31 DECEMBER 2017

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Xu Chang Co. Limited (the "Company") is a private limited company incorporated in the British Virgin Islands. Its joint shareholders are Xu Sheng Limited ("Xu Sheng") and Vantage Leader International Limited ("Vantage Leader"). The address of the registered office and principal place of business of the Company is Suite 2002-03, 20th Floor, One Pacific Place, 88 Queensway, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollar ("HK\$"), while the functional currency of the Company is Renminbi.

Pursuant to the joint venture agreement entered into between Xu Sheng and Vantage Leader on 7 September 2017, the principal activity of the Company is investment holding. The principal activities of its subsidiaries are investment holding and property development. Details of the subsidiaries are set out in note 16.

The period covered by these consolidated financial statements is greater than twelve months because these financial statements are the first set of consolidated financial statements of the Group.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared on a going concern basis as the joint shareholders have agreed to provide adequate funds for the Company to meet in full its financial obligations as they fall due.

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

For the purpose of preparing and presenting the consolidated financial statements for the period, the Group has consistently applied all new and revised HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective throughout the period.

At the date of issuance of these consolidated financial statements, the HKICPA has issued the following new standards and amendments that are not yet effective. The Group has not early adopted these new standards and amendments.

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ⁴
HK(IFRIC) - 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) - 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ²
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle ¹
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

HKFRS 15 *Revenue from Contracts with Customer*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

The directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties under development that are measured at fair value, and in accordance with HKFRSs issued by the HKICPA. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For investment properties under development which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

The significant accounting policies adopted are below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Rental income from properties under operating leases, including rental invoiced in advance, is recognised on a straight-line basis over the terms of the relevant leases.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principle outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Investment properties under development

Investment properties under development are properties held to earn rentals and/or for capital appreciation. Investment properties under development are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties under development are measured at fair value. Gains or losses arising from changes in the fair value of investment properties under development are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under development are capitalised as part of the carrying amount of the investment properties under development.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Borrowing costs

Borrowing costs directly attributable to the construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowings costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Hong Kong Profits Tax is provided for, using the enacted rate at the end of the reporting period, on the estimated assessable profits less available tax relief for losses brought forward. Tax outside Hong Kong is provided for, using the local enacted rates at the end of the reporting period, on the estimated assessable profits of the individual company concerned.

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit before taxation as reported in the statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred taxation liabilities are generally recognised for all taxable temporary differences. Deferred taxation assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred taxation assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit for the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxation assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred taxation assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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

The measurement of deferred taxation liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred taxation are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred taxation are also recognised in other comprehensive income or directly in equity respectively.

For the purposes of measuring deferred taxation liabilities and deferred taxation assets for investment properties under development that are measured using the fair value model the carrying amounts of such investment properties under development are presumed to be recovered entirely through sale unless the presumption is rebutted. The presumption is rebutted when the investment property under development is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property under development over time, rather than through sale.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rates of exchange prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (translation reserve).

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instruments, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables and bank balances) are measured at amortised cost using the effective interest method, less any impairment measured.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to related companies and bank borrowing) are subsequently measured at amortised cost, using effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognised a financial liability when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying of the Group's accounting policies, which are described in note 4, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Valuation of investment properties under development

Investment properties under development of HK\$1,751,019,429 are stated at fair value based on the valuations performed by an independent qualified professional valuer. In determining the fair values, the valuer has based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties under development and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss and other comprehensive income.

Deferred taxation on investment properties under development

For the purposes of measuring deferred taxation liabilities or deferred taxation assets arising from investment properties under development that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties under development are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties under development over time. Therefore, in determining the Group's deferred taxation on investment properties under development, the directors have determined that the presumption set out in HKAS 12 *Income Taxes* that investment properties under development measured using the fair value model are recovered through sale is rebutted.

6. FINANCE COST

The amount represents interests on bank borrowing and amount due to a related company.

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7. PROFIT BEFORE TAXATION

	HK\$
Profit before taxation has been arrived at after (crediting) charging:	
Net exchange gain	(36,070)
Interest income	(22,091)
Auditor's remuneration	90,000
Directors' remuneration	-
	<u> </u>

No directors received any fees or emoluments in respect of their services rendered to the Company for the period.

8. INCOME TAX EXPENSE

Under the Law of Enterprise Income Tax and Implementation Rules of the PRC from 1 January 2008 onwards, the statutory tax rate of the Company's PRC subsidiary is 25%.

The amount represents the deferred tax charge of HK\$37,103,772 (note 13) for the period.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit for the period.

The income tax expense for the period can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	HK\$
Profit before taxation	<u>137,527,437</u>
PRC Enterprise Income Tax at 25%	34,381,859
Tax effect of income not taxable for tax purpose	(23,558)
Tax effect of expenses not deductible for tax purpose	1,758,280
Tax effect of tax loss not recognised	987,191
Income tax expense for the period	<u>37,103,772</u>

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9. INVESTMENT PROPERTIES UNDER DEVELOPMENT

HK\$

At date of incorporation	-
Acquisition of assets through acquisition of subsidiaries (note 15)	1,567,777,753
Additions	1,839,189
Change in fair value	148,415,088
Exchange realignment	32,987,399
	<hr/>
At 31 December 2017	<u>1,751,019,429</u>

The investment properties under development are all situated in the PRC under medium-term leases. All the Group's property interests held under operating leases to earn rentals or for capital appreciation are measured using the fair value model.

The fair values of the Group's investment properties under development at 31 December 2017 have been arrived at on the basis of valuations on those dates carried out by Savills Valuation and Professional Services Limited, an independent qualified professional valuer which is not connected with the Group, who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The valuation of investment properties under development as at 31 December 2017 are based on residual approach by estimating the value of the property when completed using a sales comparison method on the assumption that the property had already been completed in accordance with the current development plan on the valuation date less the costs that will be incurred to complete the development with appropriate allowance for profit and risk.

During the period, no interest was capitalised in investment properties under development.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The following table gives information about how the fair values of the investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

<u>Class of property</u>	<u>Fair Value hierarchy</u>	<u>Fair value as at 31.12.2017</u>	<u>Valuation technique</u>	<u>Valuation Inputs</u>	<u>Significant unobservable inputs</u>	<u>Sensitivity</u>
		HK\$				
Office building	Level 3	1,751,019,429	Residual approach	(1) Gross development value	Gross development value on completion basis, taking into account of location and individual factors such as frontage and size, between the comparables and the property, HK\$3,042,787,888.	A slight increase in the gross development value would result in a significant increase in fair value and vice versa.
				(2) Developer's profit	Developer's profit, taking into account of the comparable land transactions and progress of the property, is 20%.	There is no indication that any slight change in the developer's profit would result in significant higher or lower fair value measurement.

There were no transfers into or out of Level 3 during the period.

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10. TRADE AND OTHER PAYABLES

	HK\$
Trade payables	4,683,858
Other payables and accrued charges	<u>10,468,896</u>
	<u>15,152,754</u>

Trade payables and accrued expenditure on construction comprise construction costs and other project-related expenses which are payable based on project progress measured by the Group.

The average credit period of trade payables is 60 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

The following is an aged analysis of trade payables, based on the invoice date, at the end of the reporting period:

	HK\$
Within 60 days	<u>4,683,858</u>

Other payables and accrued charges mainly represent accrued auditors' remuneration and deposits received from contractors in relation to tendering and execution of construction contracts.

11. AMOUNTS DUE TO RELATED COMPANIES

<u>Name of related companies</u>	HK\$
Included in current liabilities:	
- Xu Xing BVI Limited (Note a)	8
- CIFI Holdings (Group) Co. Ltd. ("CIFI") (Note b)	419,649,767
- Henderson China Properties Limited (Note c)	419,576,966
	<u>839,226,741</u>
Included in non-current liabilities:	
- Hong Kong Concrete Precasting Product Company Limited ("HK Concrete") (Note d)	375,440,000
	<u>1,214,666,741</u>

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Notes:

- (a) The related company is the subsidiary of Xu Sheng. The balance is unsecured, interest-free and repayable on demand.
- (b) The related company is the ultimate holding company of Xu Sheng. The balance is denominated in Singapore Dollar, unsecured, interest-free and repayable on demand.
- (c) The related company is the ultimate holding company of Vantage Leader. The balance is denominated in Singapore Dollar, unsecured, interest-free and repayable on demand.
- (d) The related company is the fellow subsidiary of Vantage Leader. The related company has the same shareholder and certain common directors as Vantage Leader.

The balance is denominated in HK\$, bears interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 2.25% per annum and not repayable in the following twelve months.

The balance was pledged by a charge over shares in respect of the Group's 100% equity interest in 永悅(上海)房地產開發有限公司 ("永悅"), Winnamax Investment Pte. Ltd. ("Winnamax") and Winmine Investment Pte. Ltd. ("Winmine"), being subsidiaries of the Company as detailed in note 16, to secure loans granted to the Group.

12. BANK BORROWING

	HK\$
The carrying amount of the borrowing is repayable:	
Within a period of more than two years but not exceeding five years	<u>375,440,000</u>

The bank borrowing is denominated in HK\$ and bears interest at HIBOR plus 2.25% per annum. 5% of the principal, HK\$19,000,000 is repayable in 2020 and the remaining 95% of the principal, HK\$361,000,000 is repayable in 2021.

The Group has pledged a charge over shares in respect of the Group's 100% equity interest in 永悅, Winnamax and Winmine to the bank to secure general banking facility granted to the Group.

The banking facility available to the Group amounted to HK\$380,000,000, which was utilised to the extent of HK\$380,000,000 at 31 December 2017. The carrying amount is net of 1.6% arrangement fee of the principal and is amortised over the loan period.

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13. DEFERRED TAXATION

The major deferred tax liabilities recognised by the Group and movements during the period are as follows:

	Fair value of investment properties <u>under development</u> HK\$
As at date of incorporation	-
Charge to profit or loss	<u>37,103,772</u>
As at 31 December 2017	<u><u>37,103,772</u></u>

14. SHARE CAPITAL

Authorised: 50,000 shares of no par value	<u>50,000</u>
Issued and fully paid: 2 shares of US\$1	<u>US\$2</u>
Shown in the consolidated financial statements as	<u>HK\$16</u>

15. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

Pursuant to the sale and purchase agreement dated 6 June 2017, the Group acquired 100% equity interests of Winnamax and its subsidiaries of Winmine and 永悅 from an independent third party at a consideration of approximately HK\$1,579,157,589 (equivalent to RMB1,339,653,908). Winnamax and Winmine are investment holding companies and 永悅 is holding a piece of land for property development.

Upon the completion of the acquisition mentioned above, the Group has 100% effective control of voting power to govern the relevant activities of these companies, accordingly they were accounted for as subsidiaries of the Group thereafter.

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15. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES - continued

The above transaction is accounted for as acquisition of assets and liabilities through acquisition of subsidiaries because these companies are holding a piece of land for property development at the date of the acquisition. Details of the assets acquired and liabilities as at the completion date assumed are as below:

	HK\$
Investment properties under development for sale	1,567,777,753
Other receivables	1,233,511
Bank balances and cash	27,884,837
Trade and other payables	(17,738,512)
Shareholders' loans	(1,780,489,027)
	<u>(201,331,438)</u>
Shareholders' loans assigned to the Group	1,780,489,027
	<u>1,579,157,589</u>
Consideration satisfied by:	
Cash	1,579,157,589
	<u>1,579,157,589</u>
Net cash outflow arising on acquisition:	
Cash consideration paid during the period	(1,579,157,589)
Bank balance and cash acquired	27,884,837
	<u>(1,551,272,752)</u>

16. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31 December 2017 are as follows:

<u>Name of subsidiary</u>	<u>Place of establishment</u>	<u>Equity interest attributable to the Company 31 December 2017</u>		<u>Issued and fully paid share capital</u>	<u>Place of operation</u>	<u>Principal activity</u>
		<u>Directly %</u>	<u>Indirectly %</u>			
Winnamax	Singapore	100	-	Register and paid up capital US\$2	Singapore	Investment holding
Winmine	Singapore	-	100	Register and paid up capital US\$2	Singapore	Investment holding
永悅	PRC	-	100	Register and paid up capital RMB1,230 million	PRC	Property development

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17. RELATED PARTY DISCLOSURES

During the period, other than those disclosed in other notes, the Company entered into the following significant transactions with related parties:

<u>Related party</u>	<u>Nature of transaction</u>	HK\$
HK Concrete	Finance costs	<u>1,971,279</u>

Details of amounts due to related companies are set out in the consolidated statement of financial position and note 11.

18. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholder through the optimisation of the equity balance.

The capital structure of the Group consists of debt which includes amounts due to related companies, bank borrowing and equity of the Company, comprising issued share capital.

The directors of the Group reviews the capital structure on a regular basis. As part of this review, the directors of the Group consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

19. FINANCIAL INSTRUMENTS

a. <u>Category of financial instruments</u>	HK\$
Financial assets	
Loans and receivables (including cash and cash equivalents)	<u>30,006,235</u>
Financial liabilities	
At amortised cost	<u>1,605,259,495</u>

19. FINANCIAL INSTRUMENTS - continued

b. Financial risk management objectives and policies

The Group's major financial instruments include bank balances, other receivables, trade and other payables, bank borrowing and amounts due to related companies. Details of the financial instruments are disclosed in respective notes. The risks associated with the financial instruments and the policy on how to mitigate the risks are set out below. The management manages and monitors the exposure to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose primarily to the market risks of changes in interest rates and foreign currency exchange rates.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk over the period.

Interest rate risk management

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances, bank borrowing and amount due to a related company which carry at variable rates based on the interest rates quoted by the People's Bank of China plus a margin and HIBOR plus a margin, respectively.

The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

Sensitivity analyses

The sensitivity analyses below have been prepared based on the exposure to interest rates for non-derivative instruments (bank balances, bank borrowing and amount due to a related company). The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole period. A 50 basis point increase or decrease for bank balances, bank borrowing and amount due to a related company are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the possible change in interest rate in respect of bank deposits, bank borrowing and amount due to a related company.

At the end of the reporting period, if interest rates had been increased/decreased by 50 basis points in respect of bank balances and bank borrowing and all other variables were held constant, the Group's profit after tax would decrease/increase by approximately HK\$2,705,000.

19. FINANCIAL INSTRUMENTS - continued

b. Financial risk management objectives and policies - continued

Market risk - continued

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Bank balances comprise cash held by the Group and demand deposits with an original maturity of three months or less. Bank balances carry prevailing market interest rates and HK\$3,613,837 is denominated in HK\$.

At the end of the reporting period, the Group had bank balances, bank borrowing and amounts due to related companies dominated in foreign currencies which expose the Group to foreign currency risk. The carrying amounts of the Group's foreign currency denominated monetary assets (liabilities) at the end of the reporting period are as follows:

	HK\$
Hong Kong Dollars	(747,266,163)
Singapore Dollars	<u>(839,226,733)</u>

19. FINANCIAL INSTRUMENTS - continued

b. Financial risk management objectives and policies - continued

Market risk - continued

Foreign currency risk management - continued

Sensitivity analyses

The following table details the Group's sensitivity to a 5% increase or decrease in Renminbi against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis covers only outstanding foreign currency-denominated monetary items and adjusts their translation at the end of reporting period in response to 5% changes in the exchange rate between Renminbi and the relevant currency. A positive number below indicates an increase in profit or a decrease in loss where Renminbi strengthens by 5% against the relevant currency. For a 5% weakening of Renminbi against the relevant currency, there would be an equal and opposite impact on the profit or loss and the balances below would be negative.

	HK\$
Hong Kong Dollars	37,363,308
Singapore Dollars	<u>41,961,337</u>

In management's opinion, the sensitivity analyses is unrepresentative of the inherent foreign exchange risk as the period end exposure does not reflect the exposure during the period.

Credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the monitoring procedures are carried out to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual other receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The amounts presented in the consolidated statement of financial position are net of allowances for bad and doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies in the PRC and Hong Kong.

19. FINANCIAL INSTRUMENTS - continued

b. Financial risk management objectives and policies - continued

Liquidity risk

The Group is exposed to liquidity risk as the Group had net current liabilities.

The directors of the Company consider that the Group is able to mitigate the risk as the joint shareholders have agreed to provide adequate funds to enable the Group to meet in full its obligations as they fall due.

The following table detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average interest rate %	On demand or less than 1 year HK\$	1 - 5 years HK\$	Total undiscounted cash flows HK\$	Total carrying amounts HK\$
Trade and other payables	-	15,152,754	-	15,152,754	15,152,754
Amounts due to related companies	3.78	839,226,741	435,507,067	1,274,733,808	1,214,666,741
Bank borrowing	3.78	-	435,507,067	435,507,067	375,440,000
		<u>854,379,495</u>	<u>871,014,134</u>	<u>1,725,393,629</u>	<u>1,605,259,495</u>

c. Fair value measurements of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate to their corresponding fair values.

20. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amounts due to related <u>companies</u> HK\$	Bank <u>borrowing</u> HK\$	Interest <u>payable</u> HK\$
At date of incorporation	-	-	-
Advances from related companies	1,219,366,411	-	-
Proceeds from new bank borrowing	-	375,440,000	-
Interest expenses	-	-	3,942,558
Finance costs paid	-	-	(3,942,558)
Foreign exchange translation	(4,699,670)	-	-
At 31 December 2017	<u>1,214,666,741</u>	<u>375,440,000</u>	<u>-</u>