

Chairman's Statement

I am pleased to present the annual report of Hong Kong International Construction Investment Management Group Co., Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2018. During the year under review, the Group achieved a profit attributable to equity holders of the Company of HK\$361 million, equivalent to HK\$0.106 per share (31 December 2017: HK\$6 million, equivalent to HK\$0.003 per share) while turnover was HK\$2,971 million (31 December 2017: HK\$3,290 million).

Acquisition of Controlling Interest and Mandatory Unconditional Cash Offer

The board of directors of the Company (the "Board") notes that, in the joint announcement dated 8 March 2019 (the "Joint Announcement"), Times Holdings II Limited ("Times Holdings II") and the Company jointly announced that HNA Finance I Co., Ltd. ("HNA Finance I") has entered into a sale and purchase agreement with Times Holdings II to acquire approximately 69.54% of the issued shares of the Company ("Times Transaction").

Upon closing of the Times Transaction on 27 March 2019, Times Holdings II has become the controlling shareholder of the Company. Pursuant to Rule 26.1 and Rule 13.5 of the Hong Kong Code on Takeovers and Mergers, following the completion of the Times Transaction, Times Holdings II is required to make a mandatory unconditional general offer in cash for all the issued shares other than those already owned or agreed to be acquired by Times Holdings II and its concert parties and to make comparable offers to the optionholders for all share options (which confer rights on the optionholders to subscribe for new shares of the Company) by way of cancellation of the share options (collectively, the "Offers"). For details, please refer to the Joint Announcement, the announcement dated 27 March 2019 (the "Closing Announcement") and the composite offer document relating to the Offers made by Times Holdings II expected to be despatched in or about April 2019 (the "Composite Document").

Dividend

In view of the change of controlling shareholder and the Offers to be made by Times Holdings II as set out in the Joint Announcement and the Closing Announcement and Times Holdings II's Intention in relation to the Company, the Board has resolved to defer the decision to the new management of the Company whose appointment is expected to become effective after despatching the Composite Document.

Business Review

Hong Kong Market

Foundation Piling

During the year under review, turnover of the Group's foundation piling segment was HK\$2,531 million (31 December 2017: HK\$2,494 million). The segment recorded a net loss of HK\$23 million as compared to profit of HK\$147 million last year. Contribution to net profit decreased as profit arisen from the Foundation Division's work performed for the Group's own property development projects were considered as inter-division profits and was not accounted for in the Group's net profit, and market competition remained intense. During the year under review, EBITDA for the foundation piling segment was HK\$17 million as compared to HK\$189 million last year; the overall EBITDA margin for the segment was about 1% for the year under review (31 December 2017: about 8%). The Group's major contracts on hand include, inter alia, public housing projects at Pak Tin Estate Phase 10, Queen's Hill in Fanling and Tung Chung Area 54; private residential development projects at Fan Garden Police Married Quarters in Fanling, New Kowloon Inland Lots No. 6563 and No. 6564 in Kai Tak, Tin Shui Wai Area 33 and Area 54, Siu Hong, Tuen Mun; and commercial development projects at Kai Tak twin towers and Taikoo Place Phase 2B.

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Property Development and Investment

Disposal of subsidiaries holding the land parcels known as New Kowloon Inland Lot No. 6564 and New Kowloon Inland Lot No. 6563

On 28 March 2018, Omnilink Assets Limited (“Omnilink”), a wholly-owned subsidiary of the Company, disposed of the entire issued capital of Onwards Asia Limited (“Onwards Asia”) and all amounts owed to Omnilink at the date of completion, at a total cash consideration of HK\$6,348 million. One of the principal assets of Onwards Asia comprised the entire issued capital of Top Genius Holdings Limited, the owner of the development under construction on New Kowloon Inland Lot No. 6564 on Kai Tak Area 1L Site 1, Kai Tak, Kowloon, Hong Kong. Completion of this disposal took place on 16 May 2018. Details of the said disposal have been set out in the announcements of the Company dated 12 March 2018, 21 March 2018 and 11 May 2018 and in the Company’s circular dated 19 April 2018.

On 15 February 2019, Omnilink disposed of the entire issued capital of Twinpeak Assets Limited (“Twinpeak”) and all amounts owed to Omnilink at the date of completion, at a total cash consideration of HK\$3,912 million. One of the principal assets of Twinpeak comprised the entire issued capital of Milway Development Limited, the owner of the development under construction on New Kowloon Inland Lot No. 6563 on Kai Tak Area 1L Site 2, Kai Tak, Kowloon, Hong Kong. Completion of this disposal took place on 15 February 2019 (“NKIL 6563 Disposal”). Details of the said disposal have been set out in the announcements of the Company dated 1 February 2019 and 15 February 2019 and in the Company’s circular dated 25 February 2019.

Acquisition of companies holding CentreHollywood

On 28 February 2019, Fundamental Assets IV Limited, a wholly-owned subsidiary of the Company, completed the acquisition of the entire issued capital of Superior Choice Holdings Limited (“Superior Choice”) and all amounts which Superior Choice and Excel Pointer Limited (“Excel Pointer”), the wholly-owned subsidiary of Superior Choice, owed to Jinshang International Investment Company Limited as at the date of completion, at a total cash consideration of HK\$700 million. One of the principal assets of Superior Choice comprise the entire issued capital of Excel Pointer, the owner of “CentreHollywood” situated at No.151 Hollywood Road, Hong Kong. Details of the said acquisition have been set out in the announcement of the Company dated 28 February 2019.

PRC Market

Updates on disposal of subsidiaries holding The Waterfront in Shanghai (“Shanghai Disposal”), The Riverside in Tianjin (“Tianjin Disposal”) and The Pinnacle in Shenyang (“Shenyang Disposal”) (collectively, the “Disposals”)

Both Shanghai Disposal and Tianjin Disposal were completed in April 2018. The Company expects the Shenyang Disposal will be completed in 2019. Details of the Disposals have been set out in the announcements of the Company dated 13 November 2017, 4 December 2017 and 27 December 2017, respectively and the circular of the Company dated 7 December 2017.

EBITDA for the property development and investment segment increased from about HK\$66 million in 2017 to about HK\$608 million for the year under review.

Investment Activities

Investment in Hainan Railway

The Group entered into a partnership agreement with Haikou Xincheng District Equity Investment Fund Management Co., Ltd.* (海口新城區股權投資基金管理有限公司) on 6 June 2018 to prepay the capital contribution of RMB300 million to Hengqin Zhonghang Equity Investment Fund Partnership (Limited Partnership)* (橫琴眾航股權投資基金合夥企業(有限合夥)) that will participate in a tender for acquisition of 38.73% interest in Hainan Railway Company Limited* (海南鐵路有限公司) (“Hainan Railway”) which mainly engages in the operation and management of Roundabout High Speed Railway in Hainan province* (海南省環島高鐵).

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Convertible Bonds

On 13 June 2018, the Group agreed to subscribe for the convertible bonds (the “Convertible Bonds”) and the Convertible Bonds was issued by Holistic Capital Investment Limited (the “Subscription”) in the principal amount of HK\$800 million on 30 June 2018. The coupon rate of the Convertible Bonds is 8% and the term of the Convertible Bonds is 3 years. Holistic Capital Investment Limited is a wholly-owned subsidiary of Hong Kong Air Cargo Carrier Limited, which in turn is wholly-owned by Hong Kong Airlines Limited.

Internal Restructuring of HNA Group Co., Ltd.

On 22 March 2018, the Company was informed by HNA Group Co., Ltd. (“HNA Group”) that the subsidiaries of HNA Group had on a conditional basis, as part of an internal restructuring, entered into equity transfer agreements (“Equity Transfer Agreements”) in relation to the disposal of about 74.68% of the shares in the Company held by HNA Finance I to HNA Infrastructure Investment Group Co., Ltd* (海航基礎設施投資集團股份有限公司) (“HNA Infrastructure”, a company listed on the Shanghai Stock Exchange, stock code: 600515), another subsidiary of HNA Group.

On 8 August 2018, each of (i) Hong Kong HNA Holding Group Co. Limited and Beijing HNA Financial Holdings Co., Ltd.* (北京海航金融控股有限公司) (“Beijing HNA Financial”) and (ii) Beijing HNA Financial and HNA Infrastructure entered into a termination agreement in respect of the respective Equity Transfer Agreements.

For details, please refer to the announcements of the Company dated 22 March 2018, 26 June 2018 and 8 August 2018 and the monthly update announcements of the Company dated 20 April 2018, 18 May 2018, 15 June 2018 and 25 July 2018.

Financing Activities

Facility Agreement

Milway Development Limited (the “Borrower”), a then indirect wholly-owned subsidiary of the Company, entered into a facility agreement with a syndicate of banks in respect of term loan facilities of up to HK\$5,047 million for a term of 48 months (the “Loan”). The Loan was used to refinance part of the premium paid by the Borrower in respect of its acquisition of the parcel of land at New Kowloon Inland Lot No. 6563 and the construction costs for the development of the land. For details of the facility agreement, please refer to the announcement of the Company dated 6 June 2018. Following the completion of NKIL 6563 Disposal, the Loan was assigned to the purchaser of the said disposal.

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Prospects

The Board notes that, upon completion of the Times Transaction, Times Holdings II has become the controlling shareholder of the Company. It is stated in the Joint Announcement that Times Holdings II intends that the Group will continue with the Group's existing foundation piling business (being the principal businesses of the Group). It is also stated that save and except for the proposed change of Board composition, Times Holdings II has no intention to introduce any significant changes to the management of the Company, or to discontinue the employment of the employees. For further details, please refer to the Joint Announcement, the Closing Announcement and the Composite Document.

Financial Review

The Group continues to adopt a prudent financial policy and sustain a sound capital structure with healthy cashflow. As at 31 December 2018, the Group's cash on hand was about HK\$4,903 million (31 December 2017: HK\$2,369 million) while total assets and net assets (after deducting non-controlling interests) were about HK\$17,318 million (31 December 2017: HK\$19,769 million) and HK\$12,163 million (31 December 2017: HK\$12,218 million), respectively. As at 31 December 2018, the Group's net current assets amounted to HK\$15,523 million (31 December 2017: HK\$12,432 million). As at 31 December 2018, the Group's interest-bearing borrowings (excluding those interest-bearing borrowings of a subsidiary to be disposed of) were about HK\$3,833 million (31 December 2017: HK\$6,175 million), out of which about HK\$299 million (31 December 2017: HK\$295 million) were borrowings of fixed interest rate. The Group's gearing ratio, calculated on the basis of total interest-bearing borrowings (excluding those interest-bearing borrowings of a subsidiary to be disposed of) divided by shareholders' equity, was 32% as at 31 December 2018 (31 December 2017: 51%). Contingent liabilities in relation to guarantees of performance bonds increased from HK\$256 million as at 31 December 2017 to HK\$325 million as at 31 December 2018 while guarantees for end user mortgage loans amounted to HK\$5 million (31 December 2017: HK\$22 million). Certain of the Group's assets with an aggregate carrying amount of about HK\$7,667 million have been pledged to secure certain banking facilities of the Group. The Group's bank borrowings are primarily denominated in Hong Kong dollars. Currency exposure has been monitored and forward contracts will be considered as required.

Employment and Remuneration Policies

The Group, including its subsidiaries in Hong Kong, Macau and the PRC, employed approximately 816 employees as at 31 December 2018. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Fringe benefits include provident fund, medical insurance and training. In addition, share options may also be granted in accordance with the terms of the Group's approved share option scheme.

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Appreciation

On behalf of the Board, I would also like to express my sincere gratitude to all our staff for their dedication, hard work and contribution during the year and to thank all our shareholders for their support.

On behalf of the Board

SUN Kin Ho Steven
Co-Chairman

Hong Kong
29 March 2019