

Report of the Directors

The board of directors of the Company (“Director(s)”) herein present their report and the audited financial statements of the Group for the year ended 31 December 2018.

Principal Activities and Business Review

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries and associate are set out in notes 1 and 16 to the financial statements, respectively.

There were no significant changes in the nature of the Group’s principal activities during the year.

Details of the business review information are set out in the section headed “Chairman’s Statement” on pages 2 to 6 of this annual report.

Environmental Policies and Performance

The Group recognises environmental protection is of vital importance to the long term development of the Group. In order to minimise the environmental impact, the Group will continue to review and improve the effectiveness of its management practices from time to time.

“Environmental, Social and Governance Report” will be published by the end of June 2019. For details, please refer to the Company’s website.

Compliance with Laws and Regulations

The Group’s operations are mainly carried out by the Company’s subsidiaries in Hong Kong and the People’s Republic of China (the “PRC”) while the Company itself was incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). The Group has allocated resources to ensure its operations are in compliance with relevant laws and regulations in Hong Kong, Bermuda, the PRC and Macau.

As far as the Board and management are aware of, the Group has complied, in all material respects, with the relevant laws and regulations which have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance of the applicable laws and regulations by the Group.

Risks and Uncertainties

Principal risks and uncertainties that the Company may face have been disclosed in the section headed “Chairman’s Statement” on pages 2 to 6 of this annual report. In addition, details of the Group’s financial risk management are disclosed in note 45 to the financial statements of this annual report.

Report of the Directors

Relationships with Employees, Customers and Suppliers

The Directors are of view that maintaining a good working relationship with its employees, customers and suppliers are the keys to the sustainable development of the Group. During the year, there was no significant dispute between the Group and its employees, customers and suppliers.

Results and Dividends

The Group's profit for the year ended 31 December 2018 and the Group's financial position at that date are set out in the financial statements on pages 57 to 167.

The Directors has resolved not to recommend any final dividend in respect of the year ended 31 December 2018.

Summary financial information

The following table summarises the consolidated results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements. The summary does not form part of the audited financial statements.

	Year ended 31 December 2018 HK\$'000	Year ended 31 December 2017 HK\$'000	Period from 1 April 2016 to 31 December 2016 HK\$'000	Year ended 31 March 2016 HK\$'000	Year ended 31 March 2015 HK\$'000
Profit attributable to ordinary equity holders of the Company	360,908	6,004	134,050	396,874	399,394
Total assets	17,318,471	19,769,192	5,526,957	5,608,055	5,567,868
Total liabilities	5,155,808	7,551,191	2,567,227	2,830,863	2,635,299
Equity attributable to ordinary equity holders of the Company	12,162,665	12,217,991	2,949,371	2,688,403	2,742,074
Non-controlling interests	(2)	10	10,359	88,789	190,495
	17,318,471	19,769,192	5,526,957	5,608,055	5,567,868

Report of the Directors

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 32 and 33 to the financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

Purchase, Redemption or Sale of Listed Securities of the Company

During the year, the Company repurchased certain of its shares on the Hong Kong Stock Exchange and these shares were subsequently cancelled by the Company. The summary details of those transactions are as follows:

Month	Number of shares repurchased	Price per share		Total price paid <i>HK\$'000</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
July 2018	926,000	1.81	1.67	1,639
August 2018	9,864,000	1.50	1.47	14,785
September 2018	28,072,000	1.51	1.43	41,591
Total	38,862,000			58,015

The purchase of the Company's shares during the year was effected by the Directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Distributable Reserves

At the end of the reporting period, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981, amounted to HK\$438,673,000.

Major Customers and Suppliers

During the year under review, sales to the Group's five largest customers accounted for 57% of the total sales for the year and sales to the largest customer included therein amounted to 19%. Purchases from the Group's five largest suppliers accounted for 50% of the total purchases for the year.

None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Report of the Directors

Directors

The Directors for the year and up to the date of this report were:

Executive Directors:

Mr. Chen Chao	(appointed on 26 October 2018)
Mr. Sun Kin Ho Steven	(appointed on 3 August 2018)
Mr. He Jiafu	(appointed on 3 August 2018)
Mr. Fung Chiu Chak, Victor	
Mr. Liu Junchun	
Mr. Huang Qijun	
Mr. Guo Ke	(appointed on 24 August 2018)
Mr. Zhang Peihua	(appointed on 9 November 2018)
Mr. Mung Kin Keung	(appointed on 1 February 2018 and resigned on 3 August 2018)
Mr. Mung Hon Ting Jackie	(resigned on 3 August 2018)
Mr. Li Xiaoming	(resigned on 24 August 2018)
Mr. Wong Tai Lun Kenneth	(resigned on 26 October 2018)
Mr. Mu Xianyi	(resigned on 9 November 2018)

Non-Executive Directors:

Mr. Tang King Shing	
Mr. Yang Han Hsiang	(appointed on 24 August 2018)
Mr. Tang Kit	(resigned on 24 August 2018)

Independent Non-Executive Directors:

Mr. Fan Chor Ho	
Mr. Tse Man Bun	
Mr. Lung Chee Ming, George	
Mr. Li Kit Chee	
Mr. Chong Kin Ho	(appointed on 21 January 2019)
Mr. Leung Kai Cheung	(resigned on 26 October 2018)

In accordance with the Company's Bye-laws, the Directors who will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Fan Chor Ho, Mr. Tse Man Bun, Mr. Lung Chee Ming, George, Mr. Li Kit Chee and Mr. Chong Kin Ho and as at the date of this report still considers them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 7 to 12 of the annual report.

Report of the Directors

Directors' Service Contracts

No Director to be proposed for re-election at the forthcoming annual general meeting will have a service contract with the Company which requires the Company, in order to terminate such contract, to give a period of notice of more than one year or to pay compensation or make other payments equivalent to more than one year's emoluments.

Permitted Indemnity Provision

Pursuant to the Bye-laws of the Company and subject to the relevant provisions therein, the Directors, the company secretary of the Company and other officers acting in relation to the affairs of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she shall or may incur or sustain by or by reason of any act done about the execution of the duties of their respective offices.

The Company has arranged appropriate insurance cover for the Directors, the company secretary of the Company and other officers in respect of legal actions against one or more of them in the course of execution of their respective duties in good faith during the year.

Directors' Interests in Transactions, Arrangements or Contracts

No Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding companies of the Company or any of the Company's subsidiaries was a party during the year.

Directors' and Chief Executive's Interests and Long Positions in Shares and Underlying Shares

At 31 December 2018, the interests and short positions of the Directors and chief executive ("Chief Executive") in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long Position in Share Options of the Company

Name of directors	Number of options directly beneficially owned
Sun Kin Ho Steven	33,630,000
He Jiafu	15,000,000
Fung Chiu Chak, Victor	20,000,000
Liu Junchun	20,000,000
Huang Qijun	34,000,000
Guo Ke	15,000,000
Tang King Shing	8,000,000
Yang Han Hsiang	8,000,000
Fan Chor Ho	3,400,000
Tse Man Bun	3,400,000
Lung Chee Ming, George	3,400,000
Li Kit Chee	3,400,000
	167,230,000

Report of the Directors

Directors' and Chief Executive's Interests and Long Positions in Shares and Underlying Shares (Cont'd)

Save as disclosed above, as at 31 December 2018, none of the Directors or Chief Executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Hong Kong Stock Exchange Limited pursuant to the Model Code.

Directors' and Chief Executive's Rights to Acquire Shares or Debentures

Apart from those disclosed under the heading "Directors' and Chief Executive's interests and long positions in shares and underlying shares" above and in the section headed "Share Options Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children or Chief Executive or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Equity-Linked Arrangements

Share Option Scheme

The Company operates share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to a success of the Group's operations. On 8 August 2012, the Company adopted a share option scheme (the "Share Option Scheme"). Further details of the Share Option Scheme are disclosed in note 33 to the financial statements.

On 19 January 2018, 309,500,000 share options of the Company ("Share Options") were granted but cancelled on 26 January 2018. On 22 March 2018, the shareholders of the Company (the "Shareholders") approved the option scheme mandate limit (the "Option Scheme Mandate Limit") at the special general meeting (the "SGM"). Based on 3,402,497,709 shares of the Company ("Shares") in issue as at the date of the SGM, the Company was authorised to issue options to subscribe for a total of 340,249,770 Shares, representing 10% of the total number of Shares in issue as at the date of the passing of the resolution to refresh the Option Scheme Mandate Limit.

On 20 July 2018, the Company granted share options ("Share Options") to certain eligible individuals to subscribe for up to a total of 308,900,000 Shares of the Company at an exercise price of HK\$1.75 per Share under the Share Option Scheme. On 18 October 2018, the Company also granted share options to certain eligible individuals for up to a total of 76,930,000 Shares of the Company at an exercise price of HK\$1.90 per Share under the Share Option Scheme.

Report of the Directors

Equity-Linked Arrangements (Cont'd)

Share Option Scheme (Cont'd)

The following table discloses the movements in the Share Options outstanding during the year:

Name or category of participant	Number of share options						Date of grant of share options	Exercise period of share options	Exercise price of share options* HK\$ per share
	At 1 January 2018	Granted during the year**	Exercised during the year**	Exercised but shares not yet allotted during the year**	Lapsed during the year	At 31 December 2018			
Directors									
Fung Chiu Chak, Victor	-	20,000,000	-	-	-	20,000,000	20-7-2018	20-7-2018 to 19-7-2028 ⁽¹⁾	1.75
Liu Junchun	-	20,000,000	-	-	-	20,000,000	20-7-2018	20-7-2018 to 19-7-2028 ⁽¹⁾	1.75
Huang Qijun	-	34,000,000	-	-	-	34,000,000	20-7-2018	20-7-2018 to 19-7-2028 ⁽¹⁾	1.75
Tang King Shing	-	8,000,000	-	-	-	8,000,000	20-7-2018	20-7-2018 to 19-7-2028 ⁽¹⁾	1.75
Fan Chor Ho	-	3,400,000	-	-	-	3,400,000	20-7-2018	20-7-2018 to 19-7-2028 ⁽¹⁾	1.75
Tse Man Bun	-	3,400,000	-	-	-	3,400,000	20-7-2018	20-7-2018 to 19-7-2028 ⁽¹⁾	1.75
Lung Chee Ming, George	-	3,400,000	-	-	-	3,400,000	20-7-2018	20-7-2018 to 19-7-2028 ⁽¹⁾	1.75
Li Kit Chee	-	3,400,000	-	-	-	3,400,000	20-7-2018	20-7-2018 to 19-7-2028 ⁽¹⁾	1.75
Sun Kin Ho Steven	-	33,630,000	-	-	-	33,630,000	18-10-2018	18-10-2018 to 17-10-2028 ⁽²⁾	1.90
He Jiafu	-	15,000,000	-	-	-	15,000,000	18-10-2018	18-10-2018 to 17-10-2028 ⁽²⁾	1.90
Guo Ke	-	15,000,000	-	-	-	15,000,000	18-10-2018	18-10-2018 to 17-10-2028 ⁽²⁾	1.90
Yang Han Hsiang	-	8,000,000	-	-	-	8,000,000	18-10-2018	18-10-2018 to 17-10-2028 ⁽²⁾	1.90

Report of the Directors

Equity-Linked Arrangements (Cont'd)

Share Option Scheme (Cont'd)

The following table discloses the movements in the Share Options outstanding during the year: (Cont'd)

Name or category of participant	Number of share options						Date of grant of share options	Exercise period of share options	Exercise price of share options* HK\$ per share
	At 1 January 2018	Granted during the year**	Exercised during the year**	Exercised but shares not yet allotted during the year**	Lapsed during the year	At 31 December 2018			
Past directors									
Mu Xianyi	-	20,000,000	-	-	-	20,000,000	20-7-2018	20-7-2018 to 19-7-2028 ⁽¹⁾	1.75
Wong Tai Lun Kenneth	-	15,000,000	-	-	-	15,000,000	20-7-2018	20-7-2018 to 19-7-2028 ⁽¹⁾	1.75
Mung Kin Keung	-	20,000,000	-	-	(20,000,000)	-	20-7-2018	-	1.75
Mung Hon Ting Jackie	-	15,000,000	-	-	(15,000,000)	-	20-7-2018	-	1.75
Li Xiaoming	-	15,000,000	-	-	(15,000,000)	-	20-7-2018	-	1.75
Tang Kit	-	8,000,000	-	-	(8,000,000)	-	20-7-2018	-	1.75
Leung Kai Cheung	-	3,400,000	-	-	(1,700,000)	1,700,000	20-7-2018	20-7-2018 to 25-10-2019 ⁽³⁾	1.75
33 individuals									
In aggregate	-	116,900,000	(1,200,000)	(1,200,000) ⁽⁴⁾	(7,600,000)	106,900,000	20-7-2018	20-7-2018 to 19-7-2028 ⁽⁵⁾	1.75
3 individuals									
In aggregate	-	5,300,000	-	-	-	5,300,000	18-10-2018	18-10-2018 to 17-10-2028 ⁽⁶⁾	1.90
	-	385,830,000	(1,200,000)	(1,200,000)	(67,300,000)	316,130,000			

Report of the Directors

Equity-Linked Arrangements (Cont'd)

Share Option Scheme (Cont'd)

Notes to the table of Share Options during the year:

- (1) Each Grantee is allowed to exercise up to 50% of the Share Options granted from the date of grant up to and including 19 July 2028. Thereafter, each Grantee is allowed to exercise the remaining 50% of the Share Options from 1 January 2019 up to and including 19 July 2028.
 - (2) Each Grantee is allowed to exercise up to 50% of the Share Options granted from the date of grant up to and including 17 October 2028. Thereafter, each Grantee is allowed to exercise the remaining 50% of the Share Options from 1 January 2019 up to and including 17 October 2028.
 - (3) Mr. Leung Kai Cheung resigned as the independent non-executive director on 26 October 2018. He is allowed to exercise up to 50% of the Share Options granted from the date of grant up to and within 12 months after his resignation, 25 October 2019. The remaining 50% of the Share Options were lapsed from the date of his resignation.
 - (4) In December 2018, a Grantee exercised share options to subscribe for 1,200,000 Shares which issued in January 2019.
 - (5) Each Grantee is allowed to exercise up to 30% of the Share Options granted from the date of grant up to and including 19 July 2028. Thereafter, each Grantee is allowed to exercise a further 30% of the Share Options granted from 1 January 2019 up to and including 19 July 2028 and to exercise the remaining 40% of Share Options from 1 January 2020 up to and including 19 July 2028.
 - (6) Each Grantee is allowed to exercise up to 30% of the Share Options granted from the date of grant up to and including 17 October 2028. Thereafter, each Grantee is allowed to exercise a further 30% of the Share Options granted from 1 January 2019 up to and including 17 October 2028 and to exercise the remaining 40% of Share Options from 1 January 2020 up to and including 17 October 2028.
- * The exercise price of the Share Options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- ** The weighted average closing price of the Company's shares immediately before the exercise date of the Share Options was HK\$2.42 per share. The closing prices of the Company's shares immediately before the respective dates on which the options were granted during the year (i.e. 20 July 2018 and 18 October 2018) were HK\$1.72 per share and HK\$1.81 per share respectively.

Save for the above, at no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or Chief Executive or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate under the Share Option Scheme.

Report of the Directors

Substantial Shareholders' Interests in Shares and Underlying Shares

At the end of the reporting period, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions and short positions in shares:

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
Hainan Cihang Charity Foundation, Inc. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Pan-American Aviation Holding Company ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Tang Dynasty Development Co. Limited ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Hainan Province Cihang Foundation ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Sheng Tang Development (Yangpu) Co. Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Hainan Traffic Administration Holding Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
HNA Group Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
HNA Holding Group Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Hainan HNA Holding Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
HNA Investment Holding Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43

Report of the Directors

Substantial Shareholders' Interests in Shares and Underlying Shares (Cont'd)

Long positions and short positions in shares: (Cont'd)

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
Beijing HNA Financial Holdings Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
HNA Financial Holdings International Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Hong Kong HNA Holding Group Co. Limited ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
HNA Finance I Co., Ltd.	Beneficial owner	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
PAG Holdings Limited ⁽²⁾	Interest of controlled corporation	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
Pacific Alliance Group Limited ⁽²⁾	Interest of controlled corporation	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
Pacific Alliance Investment Management Limited ⁽²⁾	Interest of controlled corporation	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
Pacific Alliance Group Asset Management Limited ⁽²⁾	Interest of controlled corporation	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
Pacific Alliance Asia Opportunity Fund L.P. ⁽²⁾	Interest of controlled corporation	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
PA Glamorous Opportunity X Limited	Beneficial owner	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
Central Huijin Investment Limited ⁽³⁾	Security interest in shares	662,000,000 (L)	19.67
China Construction Bank Corporation	Security interest in shares	662,000,000 (L)	19.67
中國交通建設股份有限公司	Beneficial owner	171,000,000 (L)	5.08

Report of the Directors

Substantial Shareholders' Interests in Shares and Underlying Shares (Cont'd)

Long positions and short positions in shares: (Cont'd)

Notes:

1. These parties were deemed to have interests in long positions in 2,350,804,131 shares and short positions in 1,394,214,012 shares under the SFO by virtue of their equity interests in HNA Finance I Co., Ltd.
2. These parties were deemed to be total interested in long positions in 2,788,573,972 shares under the SFO by virtue of their equity interest in PA Glamorous Opportunity X Limited.
3. This party was deemed to be interested in long position in 662,000,000 shares under the SFO by virtue of its equity interest in China Construction Bank Corporation which had a security interest over 662,000,000 shares.

Apart from the foregoing, as at 31 December 2018, no person, other than the Directors and Chief Executive, whose interests are set out in the section headed "Directors' and Chief Executive's interests and long positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Subsequent to the end of the reporting period and the date of this report, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions and short positions in shares:

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
Hainan Cihang Charity Foundation, Inc. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Pan-American Aviation Holding Company ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Tang Dynasty Development Co. Limited ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Hainan Province Cihang Foundation ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Sheng Tang Development (Yangpu) Co. Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Hainan Traffic Administration Holding Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42

Report of the Directors

Substantial Shareholders' Interests in Shares and Underlying Shares (Cont'd)

Long positions and short positions in shares: (Cont'd)

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
HNA Group Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
HNA Holding Group Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Hainan HNA Holding Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.84
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HNA Investment Holding Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Beijing HNA Financial Holdings Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
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	Other interests	1,394,214,012 (S)	41.42
HNA Finance I Co., Ltd.	Beneficial owner	2,350,804,131 (L)	69.84
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PAG Holdings Limited ⁽²⁾	Interest of controlled corporation	1,394,214,012 (L)	41.42
	Other interests	1,394,359,960 (L)	41.42
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	Other interests	1,394,359,960 (L)	41.42
Pacific Alliance Investment Management Limited ⁽²⁾	Interest of controlled corporation	1,394,214,012 (L)	41.42
	Other interests	1,394,359,960 (L)	41.42

Report of the Directors

Substantial Shareholders' Interests in Shares and Underlying Shares (Cont'd)

Long positions and short positions in shares: (Cont'd)

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
Pacific Alliance Group Asset Management Limited ⁽²⁾	Interest of controlled corporation	1,394,214,012 (L)	41.42
	Other interests	1,394,359,960 (L)	41.42
Pacific Alliance Asia Opportunity Fund L.P. ⁽²⁾	Interest of controlled corporation	1,394,214,012 (L)	41.42
	Other interests	1,394,359,960 (L)	41.42
PA Glamorous Opportunity X Limited	Beneficial owner	1,394,214,012 (L)	41.42
	Other interests	1,394,359,960 (L)	41.42
中國交通建設股份有限公司	Beneficial owner	171,000,000 (L)	5.08
Blackstone Group Management L.L.C. ⁽³⁾	Interest of controlled corporation	2,405,734,062(L)	71.47
Blackstone Holdings IV GP L.P. ⁽³⁾	Interest of controlled corporation	2,405,734,062(L)	71.47
Blackstone Holdings IV GP Limited Partner L.L.C. ⁽³⁾	Interest of controlled corporation	2,405,734,062(L)	71.47
Blackstone Holdings IV GP Management (Delaware) L.P. ⁽³⁾	Interest of controlled corporation	2,405,734,062(L)	71.47
Blackstone Holdings IV GP Management L.L.C. ⁽³⁾	Interest of controlled corporation	2,405,734,062(L)	71.47
Blackstone Holdings IV L.P. ⁽³⁾	Interest of controlled corporation	2,405,734,062(L)	71.47
SCHWARZMAN Stephen A. ⁽³⁾	Interest of controlled corporation	2,405,734,062(L)	71.47
The Blackstone Group L.P. ⁽³⁾	Interest of controlled corporation	2,405,734,062(L)	71.47

Report of the Directors

Substantial Shareholders' Interests in Shares and Underlying Shares (Cont'd)

Long positions and short positions in shares: (Cont'd)

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
Blackstone Real Estate Associates Asia II L.P. ⁽⁴⁾	Interest of controlled corporation	2,340,904,131(L)	69.54
Blackstone Real Estate Partners Asia II L.P. ⁽⁴⁾	Interest of controlled corporation	2,340,904,131(L)	69.54
BREP Asia II Holdings I (NQ) L.P. ⁽⁴⁾	Interest of controlled corporation	2,340,904,131(L)	69.54
BREP Asia II Holdings I (NQ) Pte. Ltd. ⁽⁴⁾	Interest of controlled corporation	2,340,904,131(L)	69.54
BREP Asia II L.L.C. ⁽⁴⁾	Interest of controlled corporation	2,340,904,131(L)	69.54
BREP Asia II Ltd. ⁽⁴⁾	Interest of controlled corporation	2,340,904,131(L)	69.54
Times Holdings I Limited ⁽⁴⁾	Interest of controlled corporation	2,340,904,131(L)	69.54
Times Holdings II Limited	Beneficial owner	2,340,904,131(L)	69.54

Notes:

1. These parties were deemed to have interests in long positions in 2,350,804,131 shares and short positions in 1,394,214,012 shares under the SFO by virtue of their equity interests in HNA Finance I Co., Ltd.
2. These parties were deemed to be total interested in long positions in 2,788,573,972 shares under the SFO by virtue of their equity interest in PA Glamorous Opportunity X Limited.
3. These parties were deemed to have interests in long positions in 2,405,734,062 shares under the SFO by virtue of their equity interests in Tides Holdings II Ltd. and Times Holdings II Limited.
4. These parties were deemed to have interests in long positions in 2,340,904,131 shares under the SFO by virtue of their equity interests in Times Holdings II Limited.

Report of the Directors

Connected Transactions

(a) Non-Exempt Continuing Connected Transactions

2017 Master Agreement

On 6 July 2017, the Company (for itself and on behalf of other members of the Group) entered into a new master agreement (the “2017 Master Agreement”) with Mr. Fung Chiu Chak, Victor (“Mr. Fung”) (for himself and on behalf of companies owned or controlled by Mr. Fung, collectively “Fung Group”) to regulate the business relationship and subcontracting of works among them (including their subsidiaries) for a term commencing from 6 July 2017 and ending on 31 December 2019, both days inclusive.

During the year ended 31 December 2018, the following subcontracting works were entered into amongst the companies mentioned above:

- (i) Milway Development Limited (“Milway”) and Top Genius Holdings Limited (“Top Genius”) contracted building and construction works of approximately HK\$3,963,000 and HK\$1,952,000, respectively, to Tysan Building Construction Company Limited (“TBC”), a company controlled by Mr. Fung.
- (ii) TBC subcontracted rental and engineering works relating to tower cranes of approximately HK\$32,000 to Proficiency Engineering Limited (“PEN”).

PEN is a wholly-owned subsidiary of the Company, while Top Genius and Milway were then wholly-owned subsidiaries of the Company when these parties entered into the contracting agreements. Mr. Fung is an executive director of the Company. As such, Mr. Fung and companies owned or controlled by Mr. Fung as to 30% or more are connected persons of the Company pursuant to Chapter 14A of the Listing Rules. Thus, the transactions mentioned above constitute continuing connected transactions for the Company under the Listing Rules.

BIM Master Agreement

On 22 September 2017, the Company (for itself and for and on behalf of the subsidiaries of the Company) and Hainan Marine Construction Project Management Contracting Company Limited (“Hainan Marine Construction”) (for itself and for and on behalf of its subsidiaries and companies controlled by its holding companies from time to time) entered into a master agreement (the “BIM Master Agreement”) in relation to the provision of the preparation of building information model (“BIM”), running of the conflict tests and consultation on BIM related matters (“BIM Modelling Services”) and a platform for managing, editing and searching BIM documents and BIM models (“BIM Platform”) by members of HNA Group Co., Ltd. (“HNA Group”) to members of the Group for a term commencing from 22 September 2017 and ending on 31 December 2022, both days inclusive.

During the year ended 31 December 2018, the following services were provided by Hainan Marine Construction to the Group:

- (i) Provision of BIM Modelling Services to Milway amounted to approximately HK\$58,000.
- (ii) Provision of BIM Platform to Top Genius and Milway amounted to approximately HK\$38,000 and HK\$225,000, respectively.

Report of the Directors

Connected Transactions (Cont'd)

(a) Non-Exempt Continuing Connected Transactions (Cont'd)

BIM Master Agreement (Cont'd)

HNA Finance I Co., Ltd. (“HNA Finance I”), the then controlling shareholder of the Company, is a member of HNA Group. Hainan Marine Construction is a non-wholly-owned subsidiary of HNA Group and was therefore a connected person of the Company under Chapter 14A of the Listing Rules. Thus, the transactions mentioned above constituted continuing connected transactions for the Company under the Listing Rules.

Management Fee Income from the Funds

On 13 October 2017, Hisea International Co., Limited (“Hisea International”), Benefit Developments Limited (“BDL”) (a wholly-owned subsidiary of the Company) and HKICIM (GP) II Limited (“HKICIM (GP) II”) (a wholly-owned subsidiary of the Company) entered into the amended and restated exempted limited partnership agreement (the “Fund II Partnership Agreement”) in relation to the formation of HKICIM Fund II, L.P. (“Fund II”) and the subscription agreement in relation to the capital commitment of BDL to Fund II. Pursuant to the Fund II Partnership Agreement, HKICIM (GP) II, as a general partner of Fund II, is responsible for the day-to-day operation and management of Fund II, and will receive an annual management fee equal to 1% of the aggregate capital commitments of Fund II as at 31 December of each calendar year as compensation for managing affairs of Fund II. During the year, HKICIM (GP) II has recorded management fee income of HK\$60,300,000 from Fund II.

On 30 November 2017, Hisea International, Benefit Developments III Limited (“BDL III”) (a wholly-owned subsidiary of the Company) and HKICIM (GP) III Limited (“HKICIM (GP) III”) (a wholly-owned subsidiary of the Company) entered into the amended and restated exempted limited partnership agreement (the “Fund III Partnership Agreement”) in relation to the formation of HKICIM Fund III, L.P. (“Fund III”) and the subscription agreement in relation to the capital commitment of BDL III to Fund III. Pursuant to the Fund III Partnership Agreement, HKICIM (GP) III, as a general partner of Fund III, is responsible for the day-to-day operation and management of Fund III, and will receive an annual management fee equal to 1% of the aggregate capital commitments of Fund III as at 31 December of each calendar year as compensation for managing affairs of Fund III. During the year, HKICIM (GP) III has recorded management fee income of approximately HK\$37,166,000 from Fund III.

On 6 March 2018, HKICIM (GP) V Limited (“HKICIM (GP) V”) (a wholly-owned subsidiary of the Company) and Hong Kong International Investment Group Co., Limited (“Hong Kong IIG”) entered into the amended and restated exempted limited partnership agreement (the “Fund V Partnership Agreement”) in relation to the formation of HKICIM Fund V, L.P. (“Fund V”). Pursuant to the Fund V Partnership Agreement, HKICIM (GP) V, as a general partner of Fund V, is responsible for the day-to-day operation and management of Fund V, and will receive an annual management fee equal to 2% of the committed fund size of Fund V as compensation for managing affairs of Fund V. During the year, HKICIM (GP) V has recorded management fee income of approximately HK\$24,740,000 from Fund V.

Hisea International is a wholly-owned subsidiary of HNA Holding Group Co., Ltd. while Hong Kong IIG is a non-wholly-owned subsidiary of HNA Holding Group Co., Ltd., which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company. Accordingly, Fund II, Fund III and Fund V (collectively, the “Funds”) are associates of HNA Finance I, and were therefore connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the receipt of management fees from the Funds, constituted continuing connected transactions of the Company respectively under Chapter 14A of the Listing Rules.

Report of the Directors

Connected Transactions (*Cont'd*)

(a) Non-Exempt Continuing Connected Transactions (*Cont'd*)

Pursuant to Rule 14A.40 of the Listing Rules, the independent non-executive directors have reviewed the above continuing connected transactions and confirmed that these continuing connected transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better; and
- (3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The amounts in respect of the continuing connected transactions mentioned above during the year under review have not exceeded the annual cap, where applicable, for the transactions.

In respect of the continuing connected transactions mentioned above, the Directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year under review.

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Review of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions* under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued the unqualified letter containing the findings and conclusions in respect of the continuing connected transactions during the year disclosed above by the Group (with a copy provided to the Hong Kong Stock Exchange) in accordance with Rule 14A.56 of the Listing Rules and confirmed that nothing has come to their attention that causes them to believe that the continuing connected transactions:

- (1) have not been approved by the board of Directors;
- (2) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;
- (3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- (4) have exceeded the cap disclosed in the respective circulars of the Company dated 15 August 2017 (in respect of the 2017 Master Agreement), 26 October 2017 (in respect of the BIM Master Agreement), 4 November 2017 (in respect of management fee income from Fund II) and 21 December 2017 (in respect of management fee income from Fund III), and the announcement dated 6 March 2018 (in respect of management fee income from Fund V).

Report of the Directors

Connected Transactions (Cont'd)

(b) Project Development Agreements for Kai Tak NKIL 6562 and 6565

On 6 July 2017, Gainful Engineering Limited (“Gainful”), a wholly-owned subsidiary of the Company, entered into a project development agreement (the “6562 Project Development Agreement”) with Denco Properties Limited (“Denco”) in relation to the development of the piece or parcel of ground registered in the Land Registry as New Kowloon Inland Lot No. 6562 together with the messuages erections and buildings thereon (“6562 Land Parcel”), and a project development agreement (the “6565 Project Development Agreement”) with Hongkong Island Construction Properties Co., Limited (“HIC”) in relation to the development of the piece or parcel of ground registered in the Land Registry as New Kowloon Inland Lot No. 6565 together with the messuages erections and buildings thereon (“6565 Land Parcel”).

Pursuant to the project development agreements, Denco and HIC agreed to exclusively appoint Gainful as their respective sole agents to develop the 6562 Land Parcel and the 6565 Land Parcel respectively, and Gainful will receive an amount equal to 5% of the project costs incurred up to the end of the twelve months after practical completion of the development as remuneration.

Prior to the completion of disposal of the holding companies of Denco and HIC on 14 February 2018, Denco and HIC were both non-wholly-owned subsidiaries of HNA Group, which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company. Denco and HIC being then associates of HNA Finance I were therefore connected persons of the Company under Chapter 14A of the Listing Rules. Thus, the transactions mentioned above constituted connected transactions for the Company under the Listing Rules.

From 1 January 2018 to 14 February 2018, Gainful has recorded project development income amounted to approximately HK\$5,518,000 and HK\$4,910,000 from Denco and HIC, respectively.

(c) Disposals of Subsidiaries and an Associate

On 13 November 2017, Great Regent Investments Limited, Shanghai Changning Duncan Property Consulting Company Limited (“Shanghai Changning Duncan”), Red Shine Investment Limited and Carriway Limited (collectively, the “Shanghai Sellers”), each being a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Hainan HNA Shou Fu Investment Co., Ltd. (“HNA Shou Fu”), a company established in the PRC with limited liability and a subsidiary of HNA Group, for disposal of the Shanghai Sellers’ entire equity interests in Tysan Land (Shanghai) Limited at a cash consideration of RMB585.8 million (the “Shanghai Disposal”). The Shanghai Disposal was completed on 30 April 2018.

On 13 November 2017, Great Prosper Limited (the “Tianjin Seller”), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with HNA Shou Fu for disposal of Tianjin Seller’s entire equity interest in Tysan Property Development (Tianjin) Co. Ltd. at a cash consideration of RMB435.8 million (the “Tianjin Disposal”). The Tianjin Disposal was completed on 30 April 2018.

On 14 December 2018, Tysan Investment Limited, a wholly-owned subsidiary of the Company, completed the disposal of its entire equity interests in Upwealth International Limited and Fortune Fortress Limited and assigned all amounts which Upwealth International Limited and Fortune Fortress Limited owing to Tysan Investment Limited to Mr. Fung as at that date.

On 14 December 2018, Tysan Investment Limited also completed the disposal of its 50% equity interest in Turbo Dragon Investment Limited and assigned the shareholder’s loan owing by Turbo Dragon Investment Limited to Tysan Investment Limited to Mr. Fung on the same date.

Further details of the disposals are included in notes 16, 42(a) and 42(d) to the financial statements.

HNA Shou Fu is a subsidiary of HNA Group, which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company. Accordingly, HNA Shou Fu was then a connected person of the Company. Mr. Fung, as an executive director of the Company, is a connected person of the Company under Rule 14A.07 of the Listing Rules. Thus, the disposals constitute connected transactions for the Company under the Listing Rules.

Report of the Directors

Connected Transactions (Cont'd)

(d) Investment in a Fund

On 6 June 2018, Shanghai Changning Duncan entered into a partnership agreement with Haikou Xincheng District Equity Investment Fund Management Co., Ltd. (“Haikou Xincheng”) to invest in Henqin Zhonghang Equity Investment Fund Partnership (Limited Partnership) (the “Fund”), a limited partnership established in the PRC. Pursuant to the partnership agreement, Shanghai Changning Duncan will contribute RMB300,000,000 (equivalent to HK\$367,700,000) in cash to the Fund as a limited partner and Haikou Xincheng (as a general partner) will continue to look for potential investors to invest in the Fund as limited partners. The main purpose of the Fund is to participate in a tender to acquire 38.73% interest in Hainan Railway Company Limited which mainly engages in the operation and management of Roundabout High Speed Railway in Hainan province. During the year, the Group has prepaid HK\$367,700,000 for the capital contribution. As the fund is still in the process of setting up, such amount was recorded as a prepayment in the consolidated financial statements as at 31 December 2018.

Each of Haikou Xincheng and HNA Holding Group Co., Ltd. (being an initial limited partner) is a subsidiary of HNA Group, which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company. Accordingly, each of Haikou Xincheng and HNA Holding Group Co., Ltd was then a connected person of the Company and the formation of the partnership with Haikou Xincheng and HNA Holding Group Co., Ltd. and the transactions contemplated under the partnership agreement constituted a connected transaction of the Group.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company’s total number of issued shares were held by the public as at the date of this report.

Events after the reporting period

Details of the significant events of the Group after the reporting period are set out in note 46 to the financial statements.

Auditor

Ernst & Young retires and a resolution for reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD

Sun Kin Ho Steven
Co-chairman

Hong Kong
29 March 2019