ART GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 565)

ANNUAL
REPORT
2017

CONTENT

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Chen Jinyan *(Chairman)*
Mr. Chen Jindong (alias Chen Dong) *(Chief Executive Officer)*
Mr. Chen Jinqing
Mr. Kwan Chi Fai*
Mr. Lin Ye*
Mr. Yang Zeqiang*
Ms. Chong Sze Pui Joanne*

* Independent Non-executive Director

COMPANY SECRETARY

Ms. Yeow Mee Mooi

AUDITOR

Centurion ZD CPA Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1407, 14th Floor, China Merchants Tower
Shun Tak Centre
168–200 Connaught Road Central, Hong Kong
Website: http://artgroup.etnet.com.hk

REGISTERED OFFICE

P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1 – 1001
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1 – 1001
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Bank of Communications
Bank of Zhengzhou
Hang Seng Bank

SHARE LISTING

The Stock Exchange of Hong Kong Limited
(Stock code: 565)

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Art Group Holdings Limited (錦藝集團控股有限公司) ("Art Group" or the "Company") and its subsidiaries (together, the "Group"), I would like to report that the Group recorded an aggregated turnover of HK$185,442,000 (2016: HK$164,160,000) and an aggregated profit for the year of HK$126,563,000 (2016: HK$500,487,000).

BUSINESS REVIEW

With a view to magnify the Company's development potential and the shareholders' return, the Group diversifies its operations into different kinds of business by placing resources into property operating aspects in order to explore future prospects and develop relevant markets. The Group owns a shopping mall (the "Jiachao's Shopping Mall") and 164 shops in a giant theme shopping mall (the "Jiacong's Shops") both situated in Zhengzhou City, Henan Province, the People's Republic of China (the "PRC"). The Jiachao's Shopping Mall comprises the whole of a 4-storey shopping mall built over one level of basement commercial space and has a total registered gross floor area of approximately 125,188 square meters. All the commercial space of the Jiachao's Shopping Mall had been leased out to retail shops, restaurants and/or for entertainment and leisure use. The Jiachao's Shopping Mall is a one-stop shopping paradise offering a wide range of services and goods to consumers and shoppers with approximately 160 tenants including a renowned department store, a cinema, KTV, jewelries, beauty shops, electrical appliances shops, international labels for fashion, lifestyle, casual wear/sport, kid's paradise and restaurants. The Jiacong's Shops are in a giant theme shopping mall selling textile materials, accessories and products with a gross floor area of approximately 6,931 square meters. All of the Jiacong's Shops had been leased out to run textile business.

Furthermore, one of the Company's PRC subsidiaries signed a rental agreement with a real estate developer whereby such PRC subsidiary leased from the real estate developer shop units in a shopping mall which is a 5-storey integrated commercial mall built over one level of basement commercial space with a gross floor area of approximately 60,658 square meters (the "Zone C Shopping Mall"). The rental period was extended to the end of 2019. The Zone C Shopping Mall is a shopping mall located adjacent to the Jiachao's Shopping Mall. The Group promoted and further rented out the Zone C Shopping Mall to independent tenants. The Group has an advantage by having an existing team of high-caliber and experienced management and staff to run the Zone C Shopping Mall. As such, the extra costs for running the Zone C Shopping Mall have been minimal to the Group and the Group can generate rental income from renting out the Zone C Shopping Mall to target tenants. The larger the area of the shopping mall, the more the number of similar types of shops opened, and thus the more customers will be attracted by offering them a large diversity and well-known brand choices. Positive benefits and synergy effects on the customer flow and the tenant grade will be brought to the Group through management of both the Jiachao's Shopping Mall and the Zone C Shopping Mall together by the Group, eventually contributing to rise of turnover and profit margin of property operating business. All the commercial space of the Zone C Shopping Mall had been leased out as retail shops and restaurants and/or for entertainment and leisure use which offers a wide range of services and goods with over 140 tenants including a cinema, an aquarium, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants.

CHAIRMAN'S STATEMENT

The Group has changed its long-term focus and development from textile products segment to property operating segment since 2016, which symbolises a giant leap to the Group in view of its favourable outcomes achieved from then. Nevertheless, the Group continues to penetrate into the property operating markets, explore other new market potentials and increase profit margin by leveraging on its established strengths, experience and foresight and by applying strict cost control policy and financial planning. The directors of the Company (the "Directors") believe that better performance will be steadily reflected in the Group's future results.

STRATEGIES AND OUTLOOK

The Jiachao's Shopping Mall and the Jiacong's Shops signify the cornerstone of the Group to invest in the property operating business. The Group in the long-term plans to upgrade its tenant segment by offering tenancies to more popular brands and will continue to diversify the types of tenants to meet the needs and interests of customers from different ages and backgrounds. To achieve these aims, the Group has conducted a large scale of marketing and promotion activities in the eastern and western festivals. Hence, the properties under the Group's management continue to generate a stable and constant stream of rental income and fairly consistent cash flow to the Group, which ultimately benefits the Company and its shareholders as a whole. An appreciation of property value in the long-term is also expected. Moreover, any possible investment opportunities of the property operating business will always be explored because of the increasing population and consuming power in the PRC; as a result, a strong market potential is foreseeable.

In response to the ongoing challenges, the Group has been focusing on maintaining sustainable financial results from its property operating business so as to obtain more profitable outcome. The Board gives its input in determining the Group's strategy development and planning process, as well as the generation and preservation of the Group's long-term value. Consequently, the Board closely monitors and regularly reviews the results of the implementation of the strategies, with the goals of reviving the Group's performance, enhancing its competitiveness and improving its share value.

The Group continues with its prudent cost management policy to attain greater efficiency in operations and a healthy financial position in order to pursue business development and new opportunities for strengthening its business momentum. The Group holds a sound financial position and its property operating business continues to contribute steady and constant cash flows. The Group maintains its long-standing commitment to a prudent and cautious financial management policy and is confident of increasing share value in long-term.

Looking forward, a steady business growth of the Group is expected in the future. We will adopt a prudent approach in developing the existing projects and exploring new opportunities including cooperation with business partners. We will continue to seek and invest resources in appropriate property operating projects with the objectives of expanding our revenue sources, improving our profitability as well as diversifying our types of business so as to further develop the business of the Group and increase the shareholders' return.

CHAIRMAN'S STATEMENT

ACKNOWLEDGEMENT

On behalf of the Board, I would like to present my heartfelt thanks to the tenants, customers, bankers, business partners and shareholders of the Company for their incessant support and trust and also to each staff member of the Group for their diligent work. The achievement of the Group would not be possible without the contribution of each of the staff member and their dedication.

Chen Jinyan
Chairman

Hong Kong, 29 September 2017

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL REVIEW

Continuing Operations

The Group was engaged in the property operating segment during the current year through holding 75% equity interests in 鄭州佳潮物業服務有限公司 (Zhengzhou Jiachao Property Services Company Limited) ("Jiachao") by the Company's indirect wholly-owned subsidiary registered in the PRC. The major asset of Jiachao is a shopping mall situated in Zhengzhou City, Henan Province, the PRC (the "Jiachao's Shopping Mall"). The Group owns the Jiachao's Shopping Mall and generates revenue from the monthly incomes of rental, management and operating services payable by various tenants under the respective tenancy agreements with a term ranging from one year to 17 years. The Jiachao's Shopping Mall is a one-stop shopping paradise with approximately 160 tenants that offer a wide range of services and goods including shopping, dining and entertainment, such as a renowned department store, a cinema, KTV, jewelries, beauty shops, electrical appliances shops, international labels for fashion, lifestyle, casual wear/sport, kid's paradise and restaurants. All shop units in the Jiachao's Shopping Mall were rented out as at 30 June 2017.

Furthermore, the Group aimed to diversify its operations into different areas of the property operating segment in order to explore future prospects and develop relevant markets. Therefore, the Board acquired the entire equity interests in 鄭州佳聰物業服務有限公司 (Zhengzhou Jiacong Property Services Company Limited) ("Jiacong") by an indirect wholly-owned PRC subsidiary of the Company in October 2015. The major asset held by Jiacong is 164 shops in a giant theme shopping mall (the "Jiacong's Shops") situated in Zhengzhou City, Henan Province, the PRC. As at 30 June 2017, all of the Jiacong's Shops had been rented out for a term of more than four years.

In addition, Jiachao leased from a real estate developer shop units in a shopping mall (the "Zone C Shopping Mall") for a term of more than two years. The Zone C Shopping Mall is a shopping mall located adjacent to the Jiachao's Shopping Mall. Jiachao promoted and further rented out the Zone C Shopping Mall to independent tenants. Jiachao has an advantage of having an existing team of caliber and experienced management and staff to run the Zone C Shopping Mall. As such, the extra costs for running the Zone C Shopping Mall is minimal to Jiachao while it is earning considerable amount of rental income from renting out the Zone C Shopping Mall to target tenants. The Board believes that the larger the area for shopping, the more the number of similar types of shops opened, which may in turn attract more customers by offering them a large diversity of and well-known brand choices. The management of both the Jiachao's Shopping Mall and the Zone C Shopping Mall by Jiachao will bring positive benefits and synergy effects on the customer flow and the tenant grade to the Group, which eventually contributes to turnover and profit margin of the property operating business of the Group. All the commercial space of the Zone C Shopping Mall had been leased out as retail shops, restaurants and/or for entertainment and leisure use which offers a wide range of services and goods with over 140 tenants including a cinema, an aquarium, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants.

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover

For the financial year ended 30 June 2017, the Group recorded a turnover of approximately HK$185,442,000 (2016: HK$140,033,000), approximately 32.4% more than that in 2016. Since the Group holds the Jiachao's Shopping Mall and the Jiacong's Shops as investment properties during the current year, turnover of the property operating segment included the monthly incomes of rental, management and operating services received and receivable from the tenants. Turnover of the property operating segment also included the incomes generated from renting out the Zone C Shopping Mall to target tenants. Increase in turnover during the current year was due to the increase in number of tenants in the Zone C Shopping Mall, as well as the receipt of incomes of the Jiacong's Shops after the end of rent-free period offered to tenants at the beginning of 2016.

Gross Profit

The gross profit margin was approximately 67.8% for the year ended 30 June 2017 (2016: 65.1%). High gross profit margin of the property operating segment was due to its simple costs of sales based on the business nature, such as electricity and heat supply charges, public security and hygiene expenses, repair and maintenance fees etc. Gross profit margin of both years was maintained at similar level.

Profit for the Year

The Group's profit generated from the property operating segment for the year ended 30 June 2017 was approximately HK$126,563,000 (2016: HK$215,718,000). The profit margin was 68.3% for the current year (2016: 154.0%). Notwithstanding (1) an increase in number of tenants in the Zone C Shopping Mall, (2) the receipt of incomes of the Jiacong's Shops after the end of rent-free period offered to tenants at the beginning of 2016 and (3) a decrease in finance costs as a consequence of the repayment of a borrowing with high interest rate, a decrease in the profit for the current year was due to a decrease in revaluation gain arisen from the valuation of two investment properties, the Jiachao's Shopping Mall and the Jiacong's Shops, which both maintained at stable fair values as at 30 June 2017 when compared with that as at 30 June 2016. As such, the profit margin was also decreased.

Other Income

Other income for the year ended 30 June 2017 was approximately HK$12,499,000 (2016: HK$14,307,000), which was other kinds of incomes earned by Jiachao, such as car parking fees and other services provided to tenants. Decrease in other income was due to no reversal of overprovision of other payables as last year noted in the current year.

Expenses

Administrative expenses amounted to approximately HK$26,755,000 (2016: HK$19,970,000), representing approximately 14.4% (2016: 14.3%) of turnover for the year ended 30 June 2017. Administrative expenses increased by approximately 34.0% when compared with that of 2016 because of the increase in number of tenants in the Zone C Shopping Mall and full-period operation of the Jiacong's Shops, as well as professional fees incurred for bonus issue and change of the Company's name during the current year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other expenses amounted to approximately HK$444,000 (2016: HK$878,000), representing approximately 0.2% (2016: 0.6%) of turnover for the year ended 30 June 2017. The decrease was due to material devaluation of RMB implemented by the PRC government during the six months ended 31 December 2015 while there was no significant devaluation happened during the current year.

Finance costs amounted to approximately HK$40,451,000 (2016: HK$57,876,000), representing approximately 21.8% (2016: 41.3%) of turnover for the year ended 30 June 2017. The decrease was due to the repayment of a borrowing with high interest rate during the current year.

The carrying value of the Group's investment properties as at 30 June 2017 of approximately HK$2,994,253,000 (2016: HK$3,016,666,000) was stated at fair value based on an independent valuation as at that date. The devaluation of RMB during the current year caused a decrease to the carrying value of the Group's investment properties, but this was offset by a revaluation gain of HK$76,084,000 (2016: HK$268,095,000). This revaluation gain mainly reflected the continuous rental growth of the investment properties. The attributable net revaluation gain of HK$42,797,000 (2016: HK$150,803,000), after deducting related deferred tax and non-controlling interests, was credited to the consolidated income statement.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2017 (2016: Nil).

Discontinued Operations

The Group was engaged in the dyeing process of grey fabrics provided by its long-term relationship customers and new customers in the PRC during the period from July 2015 to December 2015 with an aim to reduce production cost and strike for better financial performance. The Board decided to dispose of a number of subsidiaries that principally engaged in the dyeing process of grey fabrics (the "Disposal Group"), i.e. the textile products segment, and entered into a sale and purchase agreement on 28 August 2015 with an independent third party so as to mitigate its financial burden and negative impact and allocate its resources on the property operating segment for its long-term advantage. The completion of this disposal took place on 31 December 2015. For further details of the disposal, please refer to the announcement of the Company dated 28 October 2015 and the circular of the Company dated 8 December 2015.

There was neither turnover nor gross profit from the Disposal Group during the current year (2016: turnover of HK$24,127,000 and a profit for the year of HK$284,769,000) and no expense was incurred during the current year as the disposal of the Disposal Group was completed on 31 December 2015. For further information, please refer to note 32 to the consolidated financial statements of the Group in the Company's 2017 annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS AND PROSPECTS

In view of achieving the best interests of the Company and its shareholders as a whole, the Group has been putting effort in enlarging its operations of property operating business. Substantial resources have been placed into property operating business to explore future prospects and develop the relevant markets, with a view to enhance the Company's development and to maximise the shareholders' return. By doing this, the Group is principally engaged in property operating business and owns two properties, namely the Jiachao's Shopping Mall and the Jiacong's Shops. Both properties are situated in Zhengzhou City, Henan Province, the PRC and were acquired in 2015 for rental purpose.

The Group's long-term plans are to upgrade its tenants of the Jiachao's Shopping Mall by offering tenancies to more popular brands and will continue to diversify the types of tenants to meet the needs and interests of customers from different ages and backgrounds. To achieve these aims, the Group conducts large scale marketing and promotion activities so that a stable and constant stream of rental income and fairly rigid cash flow can be continuously generated to the Group. The Jiacong's Shops are in the giant theme shopping mall selling textile materials, accessories and products. The extensive knowledge, experience and network of the directors of the Company in the textile business enables the Group to grasp decisive opportunities in the promotion of renting these shops; hence, more suitable and profitable textile business operators are identified as target tenants of the Jiacong's Shops.

Apart from investing into the Jiachao's Shopping Mall and the Jiacong's Shops, the Group provides rental, management and operating services by leasing the Zone C Shopping Mall from its real estate developer in order to expand the source of income. Subsequent to the end of the reporting period, an indirect wholly-owned PRC subsidiary of the Company leased a shopping mall ("Longwu Shopping Mall") located in the countryside of Zhengzhou City, Longwu Town, for a term of 10 years. Longwu Shopping Mall is still under construction and expected to be completed in the mid of 2018, which is the commencement date of the lease. Longwu Shopping Mall is targeted to lease out as retail shops, restaurants and/or for entertainment and leisure use which offers a wide range of services and goods including an aquarium, fashion, lifestyle, premium supermarket and food and beverages restaurants. More caliber and experienced management and staff will be recruited to operate Longwu Shopping Mall. Since Longwu Shopping Mall will be the largest commercial complex in that area after its erection with comprehensive and coherent facilities, such as government bodies, educational institutions and hospitals, the population is expected to surge as a result of the development of residencies nearby in next few years. Besides, the travelling time from Longwu Shopping Mall to either Zhengzhou City or Xinzheng International Airport is approximately 30 minutes, which accelerates the growth of the whole district.

By leveraging on the Group's current strategic plan and established strengths, experience and foresight, the Group continues to seize opportunities to penetrate into property operating markets, explore other new market potential and increase profit margin. Moreover, the Group intends to manage and operate the property operating segment by the current caliber management and competent employees of its subsidiaries. Simultaneously, the Group continues to implement conservative and stringent cost control policies in order to maintain sufficient working capital by imposing control over operating costs and capital expenditures and strengthening accounts receivable management.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward, the Group continues to place additional resources to realise growth momentum from the development of property operating markets. The Jiachao's Shopping Mall and the Jiacong's Shops acquired by the Group are situated in Zhengzhou City, the centre and one of the Regional Central Cities of the PRC, and with good economic and demographic fundamentals, which enables the Group to diversify its business operations into property operating market in depth. The business growth of the Group is expected to accelerate and accordingly, the positive outcome will be gradually reflected in the future with full recovery of the worldwide economy. By continually diversifying the Group's business, the market value of the Company and the return to its shareholders will be maximised in long-term.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had net current liabilities and total assets less current liabilities of approximately HK$380,222,000 (2016: HK$392,372,000) and HK$2,685,058,000 (2016: HK$2,695,188,000), respectively. The Group had maintained its financial position by financing its operations with internally generated resources, bonds and loans. As at 30 June 2017, the Group had cash and bank deposits of approximately HK$30,459,000 (2016: HK$62,338,000). The current ratio of the Group was approximately 12.9% (2016: 18.6%).

Total equity of the Group as at 30 June 2017 was approximately HK$1,640,611,000 (2016: HK$1,562,595,000). As at 30 June 2017, the total borrowings of the Group, repayable from within 12 months to eight years from the end of the reporting period, denominated in RMB568,000,000 were equivalent to approximately HK$652,874,000 (2016: HK$1,043,453,000) and three bonds measured at amortised cost was HK$25,191,000 (2016: HK$25,149,000). As at 30 June 2017, the gross debt gearing ratio (i.e. total borrowings and bonds/shareholders' fund) was approximately 41.3% (2016: 68.4%).

The Group has maintained and will continue to maintain a reasonable amount of working capital on hand in order to meet its financial position, and sufficient resources are expected to be generated from its business operations and the financial support from a substantial shareholder of the Company in meeting its short-term and long-term obligations.

FINANCING

As at 30 June 2017, the total borrowing facilities of the Group amounted to approximately HK$652,874,000 (2016: HK$1,043,453,000), of which, all facilities (2016: all facilities) was utilised. In addition, three bonds (2016: three bonds) amounted to approximately HK$25,191,000 in aggregate (2016: HK$25,149,000), measured at amortised cost, was arranged with three independent third parties.

The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As at 30 June 2017, the share capital of the Company comprises ordinary shares only.

On the capital structure of the Company, the authorised share capital of the Company was increased from HK$20,000,000 divided into 2,000,000,000 shares to HK$50,000,000 divided into 5,000,000,000 shares by creation of an addition of 3,000,000,000 shares of HK$0.01 par value each in the capital of the Company during the current year.

During the current year, the Company completed a bonus issue. As a result, a total number of 1,342,502,580 new shares were issued and allotted. Details of which are set out in note 25 to the consolidated financial statements of the Group in the Company's 2017 annual report, the circular of the Company dated 1 November 2016, and the announcements of the Company dated 16 November 2016 and 28 November 2016, respectively.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the current year, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in RMB. Hence, no financial instrument for hedging was employed.

The Board monitors interest rate change exposure and may consider a hedging policy should the need arise.

CHARGE ON GROUP'S ASSETS

As at 30 June 2017, certain investment properties of the Group with aggregate carrying values of approximately HK$1,196,738,000 (2016: HK$1,203,282,000) were pledged to a bank to secure banking facilities granted to the Group.

CAPITAL EXPENDITURE

During the year ended 30 June 2017, the Group invested approximately HK$2,486,000 (2016: HK$11,663,000) in property, plant and equipment; all was used for purchase of furniture, fixtures, office equipment, motor vehicles and leasehold improvements.

As at 30 June 2017, the Group had capital commitments of approximately HK$377,000 (2016: Nil) in property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

STAFF POLICY

The Group had 161 employees altogether in the PRC and Hong Kong as at 30 June 2017. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are required to make respective contribution to fund the endowment insurance, unemployment insurance, medical insurance, employees' compensation insurance and birth insurance (for employers only) at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for its employees in Hong Kong.

The Group also provides periodic internal training to its employees.

Four independent non-executive Directors are appointed by the Company for a term of one year commencing from 11 April, 19 September, 15 October and 1 December respectively each year.

CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Chen Jinyan（陳錦艷）, aged 48, is the Chairman of the Company and is responsible for the Group's operation. Mr. Chen has over 26 years of experience in the textile industry. Mr. Chen obtained a Diploma in the Design of Textile Products from the Textile Engineering Faculty of Jiangxi Textile Industry Academy（江西紡織工業學院）. He is the elder brother of Mr. Chen Jindong and Mr. Chen Jinqing.

Mr. Chen Jindong (alias Chen Dong)（陳錦東）, aged 46, is the Chief Executive Officer of the Company responsible for administration and finance of the Group. Mr. Chen has over 23 years of experience in the textile industry. Mr. Chen obtained a Diploma in Industrial and Financial Accounting from Fuzhou Industrial Academy（福州工業學院）. He is the younger brother of Mr. Chen Jinyan and the elder brother of Mr. Chen Jinqing.

Mr. Chen Jinqing（陳錦慶）, aged 41, is an Executive Director responsible for sales and marketing of the Group, especially promoting the Jiacong's Shops through the distribution network developed before. Mr. Chen has over 23 years of experience in the textile industry. He is the younger brother of both Mr. Chen Jinyan and Mr. Chen Jindong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwan Chi Fai（關志輝）, aged 53, is appointed as an Independent Non-executive Director since April 2016. Mr. Kwan is a Certified Public Accountant (Practising) in Hong Kong. Mr. Kwan is also a member of the Hong Kong Institute of Certified Public Accountants, a fellow of Association of Chartered Certified Accountants and a Certified Tax Advisor. Mr. Kwan has over 21 years of experience in auditing and accounting services.

Mr. Lin Ye（林野）, aged 63, is appointed as an Independent Non-executive Director since October 2013. Mr. Lin is the Vice General Manager of Zhengzhou Yi Mian Textile Company Limited ("Yi Mian")（鄭州一棉有限責任公司）and is responsible for administration works since 2004. Mr. Lin was the team leader, the assistant supervisor and the vice-supervisor of product development centre of Yi Mian（鄭州一棉有限責任公司）from 1976 to 1998, respectively. Mr. Lin was the supervisor of the branch factory of Yi Mian（鄭州一棉有限責任公司）from 1998 to 2004.

Mr. Yang Zeqiang（楊澤強）, aged 47, is appointed as an Independent Non-executive Director since September 2012. Mr. Yang obtained a Diploma in Accounting and a Bachelor's degree in Accounting from Zhongyuan University of Technology（中原工學院）(formerly known as the Zhengzhou Textile Institute（鄭州紡織工學院）) in 1992 and 2005, respectively. Mr. Yang is currently the financial controller of Xuchang Yishui Xincheng Real Estate Development Company Limited（許昌潩水新城房地產開發有限公司）.

Ms. Chong Sze Pui Joanne（張詩培）, aged 44, is appointed as an Independent Non-executive Director since December 2016. Ms. Chong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Chartered Accountant of the Institute of Chartered Accountants Ontario, Canada and a Certified Public Accountant of the America Institute of Certified Public Accountants. Ms. Chong obtained a bachelor's degree of commerce from the University of Melbourne in Australia in 1994. Ms. Chong has over 17 years of experience in auditing, taxation and business development.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The activities of its principal subsidiaries at 30 June 2017 are set out in note 34 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing by the Group and an indication of likely future development in the Group's business, can be found in the Chairman's Statement and Management Discussion and Analysis set out on pages 3 to 12 of this annual report. This discussion forms part of this Directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 41 to 42.

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2017 (2016: Nil).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 111 of the annual report.

INVESTMENT PROPERTIES

Details of movements during the year ended 30 June 2017 in investment properties of the Group are set out in note 17 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year ended 30 June 2017, construction in progress of HK$253,000 (2016: HK$4,104,000) was completed and transferred to leasehold improvements. Details of the movements in the property, plant and equipment of the Group during the year ended 30 June 2017 are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 30 June 2017 comprised the retained profits of HK$483,916,000 (2016: HK$497,771,000). Details of movements in reserves and changes in equity of the Company during the year ended 30 June 2017 are set out in note 33 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Mr. Chen Jinyan
Mr. Chen Jindong (alias Chen Dong)
Mr. Chen Jinqing

Independent non-executive directors:
Mr. Kwan Chi Fai
Mr. Lin Ye
Mr. Yang Zeqiang
Ms. Chong Sze Pui Joanne (appointed on 1 December 2016)

In accordance with Articles 86 and 87 of the Articles of Association of the Company, Mr. Chen Jindong, Mr. Yang Zeqiang and Ms. Chong Sze Pui Joanne will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. Chen Jindong was re-appointed by the board of Directors on 1 September 2017 to continue to act as an executive director of the Company for a term of one year after the expiration of his service agreement on 31 August 2017. Mr. Chen Jinqing was re-appointed by the board of Directors on 1 February 2017 to act as an executive director of the Company for a term of one year after the expiration of his service agreement on 31 January 2017. The service agreement for Mr. Chen Jinyan expired on 31 August 2016 and he was re-appointed by the board of Directors on 1 September 2016 to continue to act as an executive director of the Company for a term of two years. All of the above service agreements can be terminated by either party by giving three months' prior written notice.

Each of the independent non-executive Directors entered into service agreements with the Company for a term of one year and either the Company or the independent non-executive Directors may terminate the appointment by giving the other a prior notice of two months in writing before its expiration.

Other than as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2017, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

(a) Ordinary shares of HK$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held *(Note 4)*	Percentage of the issued share capital of the Company
Mr. Chen Jindong	Held by his spouse *(Note 1)*	369,100,000	13.75%
Mr. Chen Jinyan	Held by controlled corporation *(Note 2)*	593,480,000	22.10%
Mr. Chen Jinqing	Held by controlled corporation *(Note 3)*	166,000,000	6.18%

Notes:

(1) Among the 369,100,000 shares, 324,340,000 shares are held by Jinjie Limited, a company incorporated in the British Virgin Islands (the "BVI"), the entire issued share capital of which is beneficially owned by the spouse of Mr. Chen Jindong, Ms. Lin Lin and 44,760,000 shares are held by Ms. Lin Lin. Mr. Chen Jindong is deemed to be interested in 369,100,000 shares of the Company.

(2) The shares are held by Fully Chain Limited ("Fully Chain"), a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinyan. Mr. Chen Jindong is the younger brother of Mr. Chen Jinyan.

(3) The shares are held by Ultimate Name Limited, a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinqing. Mr. Chen Jinqing is the youngest brother of Mr. Chen Jinyan and Mr. Chen Jindong. All three of them are executive Directors.

(4) Adjusted for the effect of the bonus issue on 28 November 2016. For details, please refer to the Company's circular dated 1 November 2016 and announcement dated 28 November 2016.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Long positions *(Continued)*

(b) Share options

Name of director	Capacity	Number of share options held *(Note)*	Number of underlying shares
Mr. Chen Jinyan	Beneficial owner	3,800,000	3,800,000
Mr. Lin Ye	Beneficial owner	2,080,000	2,080,000
Mr. Yang Zeqiang	Beneficial owner	2,080,000	2,080,000

Note: Adjusted for the effect of the bonus issue on 28 November 2016. For details, please refer to the Company's circular dated 1 November 2016 and announcement dated 28 November 2016.

Other than as disclosed above, none of the Directors, chief executives or their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 30 June 2017.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share options" above, at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 30 June 2017.

MANAGEMENT CONTRACTS

No contracts, other than a contract of service with any Directors or any person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 30 June 2017.

DIRECTORS' REPORT

DIRECTORS' REMUNERATION

The remuneration committee makes recommendations to the Board on the remuneration and other benefits paid by the Company to the Directors. The remuneration of all Directors is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate. Details of the Directors' remuneration are set out in note 12 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in shares and underlying shares" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions – Ordinary shares of HK$0.01 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held *(Note)*	Percentage of the issued share capital of the Company
Lin Lin	Beneficial owner and interest in a controlled corporation	369,100,000	13.75%
Dresdner VPV N. V.	Investment manager	139,755,200	5.21%

Note: Adjusted for the effect of the bonus issue on 28 November 2016. For details, please refer to the Company's circular dated 1 November 2016 and announcement dated 28 November 2016.

Other than disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2017.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 27 to the consolidated financial statements.

The following table disclosed movements in the Company's share options during the year:

Grantee	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1.7.2016	Granted during the year	Exercised during the year	Bonus issue during the year	Outstanding at 30.6.2017
Directors								
Mr. Chen Jinyan	10.7.2008	1.8.2008 to 31.7.2018	0.179	1,900,000	–	–	1,900,000	3,800,000
Mr. Lin Ye	22.5.2014	22.5.2014 to 21.5.2024	0.166	1,040,000	–	–	1,040,000	2,080,000
Mr. Yang Zeqiang	22.5.2014	22.5.2014 to 21.5.2024	0.166	1,040,000	–	–	1,040,000	2,080,000
				3,980,000	–	–	3,980,000	7,960,000
Employees	22.5.2014	22.5.2014 to 21.5.2024	0.331	10,400,000	–	(10,400,000)	–	–
				10,400,000	–	(10,400,000)	–	–
Granted Total				14,380,000	–	(10,400,000)	3,980,000	7,960,000

Note: (1) The exercise prices of the outstanding share options and the number of shares that can be subscribed for upon the exercise of the outstanding share options are adjusted upon the issuance of bonus shares on 28 November 2016 in accordance with the factual findings reported by the auditor.

(2) Adjusted for the effect of the bonus issue on 28 November 2016. For details, please refer to the Company's circular dated 1 November 2016 and announcement dated 28 November 2016.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers that all of the independent non-executive Directors are independent.

CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 30 to the consolidated financial statements constitute connected transactions of the Company under Chapter 14A of the Listing Rules exempt from shareholders' approval and all disclosure requirements.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 30 June 2017, the aggregate sales attributable to the Group's five largest customers accounted for 31% (2016: 33%) of the Group's total sales and the sales attributable to the Group's largest customer were approximately 16% (2016: 16%) of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 34% (2016: two largest suppliers accounted for 100%) of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 16% (2016: 64%) of the Group's total purchases.

None of the Directors, their associates or any shareholders of the Company which, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year ended 30 June 2017.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 22 to 31 of this annual report.

SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL POLICIES

Information on the work done and efforts made by the Company on environmental protection and other aspects for the sustainable growth and development of the business of the Group are set out in the Environmental, Social and Governance Report on pages 32 to 35 of this annual report.

EVENT AFTER THE REPORTING PERIOD

The event after the reporting period is set out in note 35 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Centurion ZD CPA Limited as auditor of the Company.

On behalf of the Board

Chen Jinyan
CHAIRMAN

Hong Kong
29 September 2017

CORPORATE GOVERNANCE REPORT

The Group is committed to achieving the best corporate governance practices as a listed company. The corporate governance policy aims to improve the accountability and transparency of the Group by regulating the Group's corporate governance practices. During the financial year ended 30 June 2017, the Group applied the principles and met the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Group has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry, all Directors have complied with the code of conduct and the required standard set out in the Model Code throughout the financial year ended 30 June 2017.

BOARD OF DIRECTORS (THE "BOARD")

During the year under review, the composition of the Board, with at least one-third of which are independent non-executive Directors, was as follows:

Mr. Chen Jinyan	*(Chairman, Executive Director)*
Mr. Chen Jindong	*(Chief Executive Officer, Executive Director)*
Mr. Chen Jinqing	*(Executive Director)*
Mr. Kwan Chi Fai	*(Independent Non-executive Director)*
Mr. Lin Ye	*(Independent Non-executive Director)*
Mr. Yang Zeqiang	*(Independent Non-executive Director)*
Ms. Chong Sze Pui Joanne	*(Independent Non-executive Director) (appointed on 1 December 2016)*

Each executive Director (the "Executive Director") has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

Each independent non-executive Director (the "Independent Non-executive Director") has confirmed his/her independence with the Company and the Company considers that each of the Independent Non-executive Directors to be independent under Rule 3.13 of the Listing Rules. Each Independent Non-executive Director was appointed for a term of one year. The Board members have no financial, business or other material/relevant relationships with each other except that Mr. Chen Jinyan is the eldest brother of Mr. Chen Jindong and Mr. Chen Jinqing.

BOARD OF DIRECTORS (THE "BOARD") *(Continued)*

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company and its shareholders taken as a whole. During the financial year ended 30 June 2017, sixteen Board meetings were held and the attendance of all Directors at the Board meetings was as follows:

Name of Directors	Attendance
Mr. Chen Jinyan	16/16
Mr. Chen Jindong	16/16
Mr. Chen Jinqing	16/16
Mr. Kwan Chi Fai	16/16
Mr. Lin Ye	16/16
Mr. Yang Zeqiang	16/16
Ms. Chong Sze Pui Joanne *(appointed on 1 December 2016)*	4/16

Note 1: 12 Board meetings were held during the period from 1 July 2016 to 30 November 2016.

Note 2: 4 Board meeting was held during the period from 1 December 2016 to 30 June 2017.

The Board convened the Board meetings in performance of its duties, to consider, approve and review, inter alia,

- the interim review fee for the period ended 31 December 2016 and the annual audit fee for the financial year ended 30 June 2017;
- declaration, recommendation and payment of interim and final dividends;
- the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and their training programmes and budget;
- the appointment of the Independent Non-executive Director of the Company and relevant qualification and experience;
- the allotment and issue of the Company's shares as a consequence of the exercise of share options;
- the bonus issue of shares and increase in authorised share capital;
- the change of the Company's names;
- the change of the Company's auditor;
- publication of interim and annual results announcements; and
- the internal control review report of the Company.

Directors' training is an ongoing process and its purpose is to improve Directors' knowledge of, and performance in, business operations and compliance matters. During the financial year ended 30 June 2017, Directors received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. Moreover, all Directors are required to provide the Company with their respective training records.

CORPORATE GOVERNANCE REPORT

OPERATION OF THE BOARD

The principal roles of the Board are to oversee the Company's operation, administration and finance, to design and set corporate policies and development strategies and to implement and monitor the Company's business plans, such as property operating market expansion and tenant growth with delighting shoppers, while the senior management is responsible for the execution of the Board's decisions in order to achieve the Company's goals and objectives. The Board has separate and independent access to the senior management for collecting information on operation.

The Board is also responsible for reviewing the effectiveness of the Group's internal control system. An external professional party conducted review of the effectiveness of the Group's system of internal control. The audit committee of the Board reviewed the findings and opinion of the external professional party on the effectiveness of the Group's system of internal control. In respect of the financial year ended 30 June 2017, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

The Company has arranged appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed regularly to ensure its effectiveness and sufficiency.

In addition, the Board reviewed the adequacy of the resources, qualifications and experience of staff for the Group's accounting and financial reporting function, and their training programmes and budget. The audit committee also reviewed and was satisfied with the adequacy of the staffing of the financial reporting functions.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the financial position of the Company and the Group and of the financial performance and cash flows of the Group for that period. The Directors ensure that the financial statements for the financial year ended 30 June 2017 were prepared in accordance with statutory requirements and applicable accounting standards. The financial statements were prepared on a going concern basis. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. It is the responsibility of the auditor to form an independent opinion on these statements and to report their opinion to the Group.

DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer are segregated in order to ensure a balance of power and authority in the management of the Board and the day-to-day management of the business. The Chairman of the Company is Mr. Chen Jinyan while the Chief Executive Officer is Mr. Chen Jindong who is the younger brother of Mr. Chen Jinyan. The duties of the Chairman include:

(a) to ensure all Directors are properly briefed on issues arising at Board meetings;

(b) to ensure all Directors receive adequate information, which must be complete and reliable, in a timely manner;

DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER *(Continued)*

(c) to ensure appropriate steps have been taken to provide effective communication with shareholders, such as release of website announcements, circulars, interim and annual reports and holding of annual general meeting etc.;

(d) to ensure that good corporate governance practices and procedures are established; and

(e) to conform to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by the Listing Rules or other applicable laws, rules and regulations.

The duties of the Chief Executive Officer include:

(a) to be responsible for the day-to-day management of the Group's business;

(b) to be responsible for the performance of the Group and the implementation of the Board's strategy and policies;

(c) to maintain effective systems of internal control and risk management;

(d) to ensure that proper financial records and accounts are kept; and

(e) to ensure all applicable laws, rules and regulations and other relevant statements of best practice are complied with.

COMMITTEES OF THE COMPANY

The Board had established the audit committee, remuneration committee and nomination committee and their authorities and duties that stated in specific written terms of reference had been discussed and approved in the Board meeting.

AUDIT COMMITTEE

With specific written terms of reference, the audit committee (the "AC") comprises four members, all being Independent Non-executive Directors; namely, Mr. Kwan Chi Fai, Mr. Lin Ye, Mr. Yang Zeqiang and Ms. Chong Sze Pui Joanne (appointed on 1 December 2016). Mr. Kwan Chi Fai, who is a member of the Hong Kong Institute of Certified Public Accountants, a fellow of Association of Chartered Certified Accountants and a Certified Tax Advisor, is the chairman of the AC. The AC's terms of reference are posted on the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE *(Continued)*

The principal role and function of the AC are:

(a) to recommend the Board on the appointment, re-appointment and removal of external auditors, as well as to approve the remuneration and terms of engagement of the external auditors;

(b) to monitor the integrity of financial statements of the Group and the annual reports and interim reports;

(c) to review and make recommendations of the Group's financial control, internal control and risk management systems;

(d) to discuss with the management the system of internal control and ensure that the management has discharged its duty to have an effective internal control system; and

(e) to review the Group's financial and accounting policies and practices.

In addition, the AC has been delegated by the Board to be responsible for performing the corporate governance duties that are listed as follows:

(a) to develop and review the Company's policies and practice on corporate governance and make recommendations to the Board;

(b) to perform the Company's corporate governance functions;

(c) to review and monitor the training and continuous professional development of directors and senior management of the Company;

(d) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(e) to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors of the Company; and

(f) to review the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

During the financial year ended 30 June 2017, eight AC meetings were held and the attendance of its members was as follows:

Name of members	Attendance
Mr. Kwan Chi Fai	8/8
Mr. Lin Ye	8/8
Mr. Yang Zeqiang	8/8
Ms. Chong Sze Pui Joanne *(appointed on 1 December 2016)*	5/8

Note 1: 3 AC meetings were held during the period from 1 July 2016 to 30 November 2016.

Note 2: 5 AC meeting was held during the period from 1 December 2016 to 30 June 2017.

AUDIT COMMITTEE *(Continued)*

The following is a summary of the work performed by the AC during the financial year ended 30 June 2017 in discharging its responsibilities and its duties set out in the CG Code:

- reviewed the annual report and interim report, focusing particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the going concern assumptions, compliance with accounting standard and compliance with the Listing Rules and the Companies Ordinance;

- assessed the risk environment and risk management system, reviewed internal control procedure manual of the Group and auditor's findings and opinion on the Group's system of internal control and considered that the internal control system and the risk management system are effective and adequate;

- reviewed the adequacy of the resources, qualifications and experience of staff for the Group's accounting and financial reporting function, and their training programmes and budget and was satisfied with the adequacy;

- reviewed external auditor's significant audit matters;

- considered and approved the annual audit fee and interim review fee; and

- reviewed and monitored the external auditor's independence and engagement to perform non-audit services.

The chairman of the AC reports the findings and recommendations of the AC to the Board after each meeting. The AC had discussed with the auditor regarding the annual audit for the financial year ended 30 June 2016 and the interim review for the period ended 31 December 2016 before the Board meeting.

The Group's audited consolidated financial statements for the financial year ended 30 June 2017 have been reviewed by the AC, which was of the opinion that the preparation of such financial statements complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

The AC considered that the existing proposed terms in relation to the appointment of the Group's external auditors are fair and reasonable.

REMUNERATION COMMITTEE

With specific written terms of reference, all members of the remuneration committee of the Company (the "RC") are Independent Non-executive Directors; namely, Mr. Kwan Chi Fai, Mr. Lin Ye, Mr. Yang Zeqiang and Ms. Chong Sze Pui Joanne (appointed on 1 December 2016). Mr. Kwan Chi Fai is the chairman of the RC. The RC's terms of reference are posted on the websites of the Company and the Stock Exchange.

REMUNERATION COMMITTEE *(Continued)*

The role and function of the RC include making recommendations to the Board on the Company's policy and structure for all remuneration of key executives of the Company, proposing their specific remuneration packages by considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and the Company's performance and ensuring that no Director of the Company or any of his/her associate(s) is involved in deciding his/her own remuneration. The RC performs an advisory role to the Board, with the Board retaining the final authority to approve key executives' remuneration.

The chairman of the RC reports the findings and recommendations of the RC to the Board after each meeting. During the financial year ended 30 June 2017, there were three RC meetings and the attendance of its members was as follows:

Name of members	Attendance
Mr. Kwan Chi Fai	3/3
Mr. Lin Ye	3/3
Mr. Yang Zeqiang	3/3
Ms. Chong Sze Pui Joanne *(appointed on 1 December 2016)*	0/3

Note 1: 3 RC meetings were held during the period from 1 July 2016 to 30 November 2016.

Note 2: No RC meeting was held during the period from 1 December 2016 to 30 June 2017.

The work performed by the RC during the financial year ended 30 June 2017 included the review of the remuneration policy for this financial year and the remuneration of the Executive Directors and the Independent Non-executive Directors.

NOMINATION COMMITTEE

With specific written terms of reference, all members of the nomination committee of the Company (the "NC") are Independent Non-executive Directors; namely, Mr. Kwan Chi Fai, Mr. Lin Ye, Mr. Yang Zeqiang and Ms. Chong Sze Pui Joanne (appointed on 1 December 2016). Mr. Kwan Chi Fai is the chairman of the NC. The NC's terms of reference are posted on the websites of the Company and the Stock Exchange.

The role and function of the NC include:

(a) to review the structure, size and composition of the Board at least annually and make recommendations to the Board regarding any proposed changes so as to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to make recommendations to the Board on relevant matters related to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer of the Company;

NOMINATION COMMITTEE *(Continued)*

(d) to assess the independence of Independent Non-executive Directors;

(e) where the Board proposes a resolution to elect an individual as an Independent Non-executive Directors at the general meeting, the NC should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent; and

(f) to review the objectives of the Diversity Policy and closely monitor it in order to ensure the effectiveness of the implementation of this policy.

The chairman of the NC reports the findings and recommendations of the NC to the Board after each meeting. During the financial year ended 30 June 2017, there were two NC meetings and the attendance of its members was as follows:

Name of members	Attendance
Mr. Kwan Chi Fai	2/2
Mr. Lin Ye	2/2
Mr. Yang Zeqiang	2/2
Ms. Chong Sze Pui Joanne *(appointed on 1 December 2016)*	0/2

Note 1: 2 NC meetings were held during the period from 1 July 2016 to 30 November 2016.

Note 2: No NC meeting was held during the period from 1 December 2016 to 30 June 2017.

The NC recommended that one Executive Director, Mr. Chen Jinqing and one Independent Non-executive Director, Mr. Kwan Chi Fai, retiring by rotation at the annual general meeting (the "AGM") held in November 2016, be re-elected. The NC made this recommendation for re-appointment based on their contributions to the Board and their firm commitment to their roles. The Board accepted the NC's recommendation and accordingly, the Executive Director and the Independent Non-executive Director above offered themselves for re-election at the AGM held in November 2016. The NC also considered the contribution of each Director to the effectiveness of the Board, reviewed the attendance and participation of the Directors at the Board and Board meetings.

AUDITOR'S SERVICES

(a) Audit service

The fee for annual audit quoted by Centurion ZD CPA Limited had been reviewed by the Board and the AC. For the financial year ended 30 June 2017, the auditor's remuneration was HK$990,000.

(b) Non-audit service

The fee charged by Dominic K.F. Chan & Co. ("DCC") of interim review for the period ended 31 December 2016 was HK$300,000. DCC reviewed the interim financial statements and made a review conclusion.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board and the NC adopted and approved the Board diversity policy (the "Diversity Policy") on 26 August 2013 for the purpose of supporting the attainment of strategic objectives and sustainable and balanced development of the Company. A summary of the Diversity Policy, together with the measurable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

Measurable Objectives

In designing the Board's composition, all Board appointments will be based on merits, and candidates of the Board membership will be considered against objective criteria, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, with due regard for the benefits of diversity on the Board.

Monitoring and Reporting

The NC will report annually the composition of the Board in the Corporate Governance Report. The NC will also review the objectives of the Diversity Policy and closely monitor it in order to ensure the implementation of this policy. Furthermore, the NC will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this report, the Board comprises seven Directors, four of them are Independent Non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, age, experience, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

COMMUNICATION WITH SHAREHOLDERS

The Board uses the AGM and the extraordinary general meeting (the "EGM") to communicate with shareholders and encourages their participation. At the AGM held in November 2016, the Chairman proposed a separate resolution in respect of each substantially separate issue and at each of the three EGMs held in September 2016, November 2016 and June 2017, the Chairman proposed a number of ordinary and special resolutions in relation to (i) the change of company names; (ii) the bonus issue of shares and increase in authorised share capital; and (iii) the change of auditor, respectively. The Chairman also arranged a member of the AC and the auditor to answer questions at all these meetings. Moreover, the Company provides extensive information to its shareholders in its annual reports, interim reports, announcements and circulars that are published on the websites of the Company and the Stock Exchange. Shareholders may at any time send their enquiries and concerns to the Board addressing to the Company Secretary of the Company by fax or by post to the Company's head office and principal place of business in Hong Kong as follows:

Art Group Holdings Limited
Unit 1407, 14th Floor
China Merchants Tower
Shun Tak Centre
168 – 200 Connaught Road Central
Hong Kong
Fax: +852 3106 6987

COMPANY SECRETARY

The Company Secretary is Ms. Yeow Mee Mooi. She had taken not less than 15 hours of relevant professional training during the financial year ended 30 June 2017 as required under Rule 3.29 of the Listing Rules.

RIGHTS OF SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 58 of the articles of association of the Company, shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company deposited at the Company's head office and principal place of business in Hong Kong, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

There are no provisions allowing shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law (2011 Revision) or the articles of association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

VOTING BY POLL

The articles of association of the Company set out the procedures, requirements and circumstances where voting by poll is required. Pursuant to Rule 13.39 of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll.

The poll results will be published on the websites of the Stock Exchange and of the Company as soon as possible after conclusion of the general meeting, but in any event not later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day following the general meeting.

CHANGES TO CONSTITUTIONAL DOCUMENTS

During the financial year ended 30 June 2017, there was no significant change in the Company's constitutional documents, and these documents are published on the websites of the Company and the Stock Exchange.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to the long term sustainability of the environment and communities in which it engages. Acting in an environmentally responsible manner, the Group endeavours to identify and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. This report is prepared by the Group in compliance with the Environmental, Social and Governance ("ESG") Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Listing Rules. This report complies with the "comply or explain" provisions set out in the ESG Reporting Guide for the financial year ended 30 June 2017 by making general disclosures on environmental and social information.

ENVIRONMENTAL

Emissions

In order to prevent the pollution caused by catering industry fumes on the atmospheric environment and living environment, the Group, in accordance with the "Air Pollution Control Law of the PRC"（中國大氣污染防治法）and "Catering Fume Emission Standards"（飲食業油煙排放標準）specially formulated by the Ministry of Environmental Protection of the PRC, installed fume purification facilities and implemented pollution prevention and control measures to achieve pollutant discharge standards.

1. The exhaust emissions are mainly underground garage automobile exhaust, residents' fumes, etc. After using the relevant control measures, the impact on the surrounding environment becomes minimal. Fume purification facilities are installed and used after inspection and approval by the units qualified by the PRC government. And the government environmental protection administrative department is responsible for monitoring the implementation. The specification of the fume purification facilities are at the standard. The Group monitors the status of the fumes emissions in the catering shop units.

2. Through the use of rain and sewage diversion system and the compliance of sewage treatment by the septic tank, the Group deals with waste water drainage by the municipal sewage pipe network in accordance with the sewage standards issued by the government departments.

During the reporting period, the Group has complied with policies and relevant laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

ENVIRONMENTAL *(Continued)*

Use of Resources

1. Zhengzhou Power Supply Company provides commercial electricity to the investment properties. The charges of electricity usage in office, public facilities such as landscape area, public access etc. is borne by the Group while tenants of each commercial unit bear their own costs based on independent measurement by meters.

2. Zhengzhou Water Supply Investment Co., Ltd. provides urban water for commercial use in office and public facilities such as public restrooms and the water fee is borne by the Group while tenants of each commercial unit bear their own water fee based on independent measurement by meters. The water fee includes the sewage charge paid to the government.

3. Zhengzhou China Resources Gas Co., Ltd. provides commercial gas to some tenants for use in their food and beverage business at their own costs with independent measurement by meters.

4. Henan Xinli Electric Co., Ltd. provides heating to office and public areas during the period from November 15 to March 15 the following year and the cost is borne by the Group while tenants of a number of commercial units bear their own costs had they arranged extra heating supply in their shops.

The Environment and Natural Resources

In accordance with the "Environmental Protection Law of the PRC"（中國環境保護法）and the "Regulations on the Administration of Environmental Protection of Construction Projects"（建設項目環境保護管理條例）, the facilities for pollution prevention and control in the construction project must be designed, constructed and put into use at the same time as the main project. Pollution prevention and control facilities, such as "three simultaneous" concept, are considered as the effective measures to strictly control the new pollution sources and pollutant emissions and to curb the trend of environmental deterioration. During the project construction and operation period, pollution prevention and control measures are strictly complied with the relevant provisions of the PRC government:

1. Atmospheric environment: the Group sets up an independent air supply and exhaust system in underground parking lot that meets the standard overall.

2. Water environment: waste water quality meets the third standard of the "Integrated Wastewater Discharge Standard"（污水綜合排放標準）(GB8978-1996) and B grade standard of the "Sewage into the City Sewer Water Quality Standard"（污水排入城市下水道水質標準）(CJ343-1996) before the waste water being transferred to the Wulongkou sewage treatment plant.

3. Solid waste garbage clean-up: the Group sets up an area for centralised collection of waste garbage, such as garbage produced from daily life and garbage produced from construction, which is cleaned up respectively by two companies daily by delivering it to the municipal solid waste landfill for sanitary landfill. The Group signed a contract with a pesticide company to carry out pest control in the public area and shop units on a regular basis in order to ensure that the environment meets relevant standards.

4. Ecological environment: The Group has arranged green area of 2,550 square meters so as to improve the ecological environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL

Employment

The Group complies with and implements the relevant laws and regulations of the PRC including, the "Labor Law"（勞動法）, "Recruitment Management Approach"（招聘管理辦法）, "Pay Management Approach"（薪酬管理辦法）, "Attendance Management Approach"（考勤管理辦法）and "Promotion Management Approach"（晉升管理辦法）in respect of recruitment, employment, working hours and resignation without any violation of "Labor Law" up-to-date. The Group sets grassroots positions with equal pay and from top level to bottom level with standard welfare. The Group establishes a fair and impartial promotion mechanism and no discrimination or bias on age, sex, geographical etc. at the time of employment. Moreover, the employment laws and regulations, including the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) are applied to the employees in Hong Kong. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding remuneration, recruitment and promotion, working hours, vacation, equal opportunities, diversity, anti-discrimination and termination of employment.

Health and Safety

According to the relevant laws and regulations of the PRC including, the "Employer's Occupational Disease Hazard Prevention and Control Regulations"（用人單位職業病危害防治八條規定）, it is necessary to carry out the health check, archive personal details for the engineering and technical posts and arrange insurance for the employees, and the Group has strictly followed accordingly. The Group provides qualified protective equipment during work process and erects warning notices during the construction process in order to ensure the safety of employees. Moreover, the laws and regulations, including the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) and the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) are strictly adhered to by the Group in Hong Kong. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding safe working environment and prevention of occupational hazard in workplace.

Development and Training

In order to cultivate internal staff, according to the relevant provisions of the Group's "Internal Training and Training Points Management System", the Group adopts the combination of internal training and external training. There are two types of internal training, namely training hosted by internal lecturers and external lecturers. Theme topics and content of these trainings are tailor-made for staff at mid-to-high-level and grass-root level. A training hosted by an external lecturer was held in July 2016 for mid-to-high-level employees. In 2017, a training card system was set up for each employee who should accumulate at least 12 points in one year for one of the appraisal criteria. External training is divided into two categories: the first category is to organise activities every year to improve staff cohesion, such as hiking; the second category is the technical/professional training, such as technician certification and fire certification. The Group provides training costs and time for employees to have training outside so as to improve their professional skills.

Labour Standards

The Group abides by the standard requirements of the "Labor Law"（勞動法）in full in the recruitment of employees in the PRC to perform the screening of resume and interview. Structured interview method and written examination are used for interview process. The Group further confirms the authenticity of employee information through background checks. There is no child labour or forced labour noted in the Group. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding prohibition of child labour and forced labour.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL *(Continued)*

Supply Chain Management

According to the "Seven Principles of Supply Chain Management", the Group based on the required service characteristics to divide the customer base, namely procurement suppliers, constructors and external security and cleaning. The Group selects suppliers and constructors through a unified form of bidding for screening and clearly sets out the standard specifications. A number of departments unify calibration in accordance with the tender requirements. In the process of cooperation, the Group sets up a number of links for control and audit by a number of departments and establishes information systems of supply chain so as to achieve win-win cooperation. At the end of the year, all suppliers and constructors will be surveyed to understand their quality of service. While for external security and cleaning, the Group develops relevant assessment system for assessment and supervision. The assessment system is linked with wage and the implementation of reward and punishment system, thereby to enhance the quality of field service.

Product Responsibility

According to the provisions of the "Product Liability Insurance", products sold by tenants must be genuine and no fake and shoddy products shall be for sale. Catering business should obtain the "Food Safety Permit" and employees should hold health certificate for their posts. The Group, as the owner of investment properties, is required to have public liability insurance. In the ordinary operation, the Jiachao's Shopping Mall has a customer service desk which is designed to deal with customers' complaints and any difficult problems. In order to protect the legitimate and safe operation of tenants, the Group also provides them with advertising and fire safety knowledge training regularly. Apart from providing the above services to tenants, the Group in addition conducts a comprehensive supervision and management on them in the usual business operations. The Group's mission is to provide a safe and effective place for business operations of tenants and also to provide customers with a safe, comfortable and healthy shopping environment. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding health and safety, advertising, labelling and privacy matters in relation to products and services provided and methods of redress.

Anti-corruption

In order to prevent employees, suppliers and tenants from bribery behavior, the Group adopted some measures in this regard. First of all, the Group signs "Honest Agreement" with employees and tenants and "Cooperation Honest Agreement" with suppliers. Secondly, the Group sets up compliant hotline and if any of the employees is found to be engaging in bribery, the Group would strictly follow the "Reward and Punishment Management System" and impose penalty to the involved employees accordingly. Besides, the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong) is strictly adhered to by the Group in Hong Kong. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding anti-bribery, extortion, fraud and money laundering.

Community Investment

The opening of the Jiachao's Shopping Mall and the Jiacong's Shops is not only to improve the facilities for the residents living nearby, but also provides a very convenient shopping environment for a vast number of consumers in different kinds, as well as to create nearly 5,000 job opportunities. There is an affirmative contribution to the community, especially in children's entertainment, education and culture aspects, which is expected to be more prosperous in next few decades. The operation of the Jiachao's Shopping Mall and the Jiacong's Shops definitely stimulates the consumption level of the western part of Zhengzhou City.

INDEPENDENT AUDITOR'S REPORT

中正達會計師事務所有限公司
Centurion ZD CPA Limited
Certified Public Accountants (Practising)

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ART GROUP HOLDINGS LIMITED
錦藝集團控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Art Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 110, which comprise the consolidated statement of financial position as at 30 June 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 year then ended, 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 30 June 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Valuation of investment properties

We identified the valuation of investment properties as a key audit matter due to significance of the balance to the consolidated financial statements as a whole, combined with significant judgment associated with determining the fair value. As at 30 June 2017, the Group's properties, amounted to HK$2,994 million and represented 96% of the Group's total assets. Increase in fair value of investment properties of HK$76 million was recognized in the consolidated statement of profit or loss and other comprehensive income for the year then ended.

As disclosed in note 17 to the consolidated financial statements, these investment properties are stated at fair value based on valuation performed by an independent professional property valuer.

The fair value of the Group's investment properties was determined by adopting the valuation techniques with significant unobservable inputs, assumptions of market conditions and judgements. The Group also worked closely with the independent qualified valuers to establish and determine the appropriate valuation techniques.

How our audit addressed the key audit matter

Our procedures in relation to valuation of investment properties included:

– Evaluating the competence, capabilities and objectivity of the independent professional property valuer;

– Obtaining an understanding from the independent professional property valuer about the valuation methodology, the performance of the property markets, significant assumptions adopted, critical judgment on key inputs and data used in the valuations;

– Assessing the reasonableness of source data used in the valuations by benchmarking the assumptions to relevant market information on sales prices and rentals achieved in other similar properties in the neighbourhood;

– Evaluating the reasonableness of the information provided by the management to independent professional property valuer; and

– Assessing the integrity of information provided by the management to the independent professional property valuer by comparing the details of operational performance, on a sample basis, to the revenue and market data.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company 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.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 are 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 HKSAs 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 these consolidated financial statements.

As part of an audit in accordance with HKSAs, 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.

- 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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Mr. Lai Wing Wai.

Centurion ZD CPA Limited
Certified Public Accountants (Practising)
7/F., Nan Dao Commercial Building,
359-361 Queen's Road Central,

Hong Kong, 29 September 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

	NOTES	**2017** **HK$'000**	2016 HK$'000
Continuing operations			
Turnover	*7*	**185,442**	140,033
Cost of sales		**(59,671)**	(48,881)
Gross profit		**125,771**	91,152
Other income	*8*	**12,499**	14,307
Administrative expense		**(26,755)**	(19,970)
Other expenses		**(444)**	(878)
Change in fair values of investment properties	*17*	**76,084**	268,095
Finance costs	*9*	**(40,451)**	(57,876)
Profit before tax		**146,704**	294,830
Income tax expense	*10*	**(20,141)**	(79,112)
Profit for the year from continuing operations	*11*	**126,563**	215,718
Discontinued operations			
Profit for the year from discontinued operations (net of tax)	*14*	**–**	284,769
Profit for the year	*11*	**126,563**	500,487
Other comprehensive loss:			
Reclassification adjustments relating to exchange difference upon disposal of interests in subsidiaries		**–**	(174,666)
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation		**(51,989)**	(98,140)
Other comprehensive loss for the year (net of tax)		**(51,989)**	(272,806)
Total comprehensive income for the year		**74,574**	227,681

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

	NOTES	2017 HK$'000	2016 HK$'000
Profit for the year attributable to:			
Owners of the Company – continuing operations		**91,094**	156,506
– discontinued operations	14	**–**	284,769
		91,094	441,275
Non-controlling interests – continuing operations		**35,469**	59,212
– discontinued operations	14	**–**	–
		126,563	500,487
Total comprehensive income for the year attributable to:			
Owners of the Company		**49,119**	183,103
Non-controlling interests		**25,455**	44,578
		74,574	227,681
EARNINGS PER SHARE			*(Note)*
From continuing and discontinued operations			
Basic (HK cents per share)	15	**3.40**	16.60
Diluted (HK cents per share)	15	**3.39**	16.54
From continuing operations			
Basic (HK cents per share)	15	**3.40**	5.89
Diluted (HK cents per share)	15	**3.39**	5.87

Note: Adjusted for the effect of the bonus issue on 28 November 2016.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	7,478	7,345
Investment properties	17	2,994,253	3,016,666
Goodwill	18	63,549	63,549
		3,065,280	3,087,560
CURRENT ASSETS			
Trade and other receivables	19	25,892	27,169
Bank balances and cash	20	30,459	62,338
		56,351	89,507
CURRENT LIABILITIES			
Trade and other payables	21	358,177	107,049
Tax liabilities		8,281	7,568
Secured bank and other borrowings	22	70,115	367,262
		436,573	481,879
NET CURRENT LIABILITIES		(380,222)	(392,372)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,685,058	2,695,188
CAPITAL AND RESERVES			
Share capital	25	26,850	13,321
Share premium and reserves		1,297,884	1,258,852
Equity attributable to owners of the Company		1,324,734	1,272,173
Non-controlling interests	26	315,877	290,422
Total equity		1,640,611	1,562,595
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	436,497	431,253
Secured bank and other borrowings	22	582,759	676,191
Bonds	23	25,191	25,149
		1,044,447	1,132,593
		2,685,058	2,695,188

The consolidated financial statements on pages 41 to 110 were approved and authorised for issue by the board of directors on 29 September 2017 and are signed on its behalf by:

Chen Jinyan	**Chen Jindong**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Statutory reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Attributable to owners of the Company HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 July 2015	12,986	255,742	136	191,050	68,044	10,658	610,958	1,149,574	245,844	1,395,418
Profit for the year	–	–	–	–	–	–	441,275	441,275	59,212	500,487
Other comprehensive loss for the year										
– Reclassification adjustments relating to exchange difference upon disposal of interests in subsidiaries	–	–	–	(174,666)	–	–	–	(174,666)	–	(174,666)
– Exchange difference arising on translation	–	–	–	(83,506)	–	–	–	(83,506)	(14,634)	(98,140)
Total comprehensive income/(loss) for the year	–	–	–	(258,172)	–	–	441,275	183,103	44,578	227,681
Issue of shares under employee share option plan	335	15,739	–	–	–	(4,986)	–	11,088	–	11,088
Share option lapsed during the year	–	–	–	–	–	(3,548)	–	(3,548)	–	(3,548)
Disposal of subsidiaries	–	–	–	–	(68,044)	–	–	(68,044)	–	(68,044)
At 30 June 2016	13,321	271,481	136	(67,122)	–	2,124	1,052,233	1,272,173	290,422	1,562,595
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**91,094**	**91,094**	**35,469**	**126,563**
Other comprehensive loss for the year										
– Exchange difference arising on translation	**–**	**–**	**–**	**(41,975)**	**–**	**–**	**–**	**(41,975)**	**(10,014)**	**(51,989)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**(41,975)**	**–**	**–**	**91,094**	**49,119**	**25,455**	**74,574**
Issue of shares under employee share option plan	**104**	**4,887**	**–**	**–**	**–**	**(1,549)**	**–**	**3,442**	**–**	**3,442**
Issue of shares under bonus issue	**13,425**	**(13,425)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 30 June 2017	**26,850**	**262,943**	**136**	**(109,097)**	**–**	**575**	**1,143,327**	**1,324,734**	**315,877**	**1,640,611**

The statutory reserve fund is a reserve required by the relevant laws of the PRC applicable to some of the Company's PRC subsidiaries. Appropriations to such reserve are made out of profit for the year as per the statutory accounts of the PRC subsidiaries and the amount and allocation basis are decided by the respective board of directors annually.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	NOTES	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**126,563**	500,487
Adjustment for:			
Exchange difference		**–**	14,838
Income tax expenses recognised in profit and loss		**20,141**	79,112
Write back of doubtful debts		**–**	(782)
Bad debt written off		**444**	782
Change in fair values of investment properties		**(76,084)**	(268,095)
Depreciation of property, plant and equipment		**2,100**	8,825
Gain on disposal of subsidiaries		**–**	(319,277)
Release of prepaid lease payments		**–**	234
Finance costs recognised in profit or loss		**40,451**	59,416
Interest income		**(79)**	(261)
Movements in working capital		**113,536**	75,279
Decrease in inventories		**–**	375
(Increase) in trade and other receivables		**(93)**	(27,483)
Increase in trade and other payables		**(30,434)**	149,589
Cash generated from operations		**83,009**	197,760
Income tax paid		**(26)**	–
NET CASH GENERATED FROM OPERATING ACTIVITIES		**82,983**	197,760
CASH FLOWS FROM INVESTING ACTIVITIES			
Consideration paid for acquisition of a subsidiary	*31*	**–**	(259,524)
Additions to investment properties		**(5,526)**	–
Purchases of property, plant and equipment		**(2,486)**	(11,663)
Interest received		**79**	261
Net cash inflow from disposal of subsidiaries	*32*	**–**	85,930
Net cash inflow from acquisition of a subsidiary	*31*	**–**	612
NET CASH USED IN INVESTING ACTIVITIES		**(7,933)**	(184,384)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	NOTES	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings raised		–	303,571
Increase in amount due to substantial shareholder		286,207	–
Issue of shares		3,442	7,540
Repayment of bank borrowings		(354,597)	(487,500)
Interest paid on bank and other borrowings		(38,382)	(57,350)
Interest paid on bonds		(2,027)	(2,066)
NET CASH USED IN FINANCING ACTIVITIES		(105,357)	(235,805)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(30,307)	(222,429)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		(1,572)	(16,223)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		62,338	300,990
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	20	30,459	62,338

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange. Its immediate and ultimate holding company is Fully Chain, a private company incorporated in the BVI. Its ultimate controlling party is Mr. Chen Jinyan. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD") and the functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in HKD for the convenience of the shareholders because the Company's shares are listed in Hong Kong.

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 34.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
HKFRS 14	Regulatory Deferral Accounts

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

"HKAS" = Hong Kong Accounting Standard

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") that have been issued but are not yet effective:

Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKAS 40	Transfer of Investment Properties[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS	Annual Improvements to HKFRS 2014-2016 Cycle[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 15 and Clarifications to HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
HK(IFRIC) 22	Foreign Currency Translation and Advance Consideration[2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 Effective for annual periods beginning on or after 1 January 2018 except for HKFRS 12 Amendments which are effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after a date to be determined

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(Continued)*

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the application of HKFRS 9 in the future may have a potential impact on the amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

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 those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a 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.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16 Leases *(Continued)*

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 June 2017, the Group has non-cancellable operating lease commitments of approximately HK$1,297,610,000 as disclosed in note 17. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties that are measured at fair values at the end of each reporting period as explained in the accounting policies set out below. 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 basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

The principal accounting policies are set out below.

Basis of preparation of consolidated financial statements

The Group had net current liabilities of approximately HK$380,222,000 as at 30 June 2017 (2016: HK$392,372,000). Nevertheless, the directors of the Group are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the twelve months from the end of the reporting period given that: i) the Group's ability to renew or refinance the banking facilities upon maturity; ii) continuous effort to control cost of the Group; iii) continuous development and improvement of the Group's services and future cash flows to be generated from new revenue source and new businesses in property operating segment; and iv) a substantial shareholder has confirmed his intention to provide sufficient financial support to the Group so as to enable the Group to meet its liabilities as and when they fall due and to enable the Group to continue operation for the foreseeable future. Accordingly, the directors of the Group are of the opinion that it is appropriate to prepare the financial information on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 "Financial instruments: recognition and measurement", or HKAS 37 "Provisions, contingent liabilities and contingent assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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 from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Operating lease rental income is recognised on straight-line basis over the term of lease agreement. Contingent rental income (representing income over and above base rent) such as turnover rent is recognised accordingly to the terms of the lease agreements when the amount can be measured, in the accounting period in which it is earned. Lease incentives provided, such as rent-free periods, are amortised on a straight line basis and are recognised as a reduction of rental income over the respective term of the lease. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

Property management service income is recognised when services are provided.

Rentals from car parks are recognised on an accrual basis.

Service fees and charges such as air conditioning income arising from the provision of services are recognised when such services are rendered.

Investment properties

Investment properties are properties held to earn rentals properties and/or for capital appreciation.

Investment properties are initially measured at cost, including transactions costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period for which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidation statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Properties in course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, expect where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lumpsum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid lease payments' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

– exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

– exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

– exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting 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) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, 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 borrowing costs eligible for capitalisation.

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

Retirement benefit costs and termination benefits

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Share-based payment arrangements

Share-based payment transactions of the Company

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of items 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 tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax 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 tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group 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 tax assets arising from deductible temporary differences associated with such investments and interests 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 tax 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.

Deferred tax 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 realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax *(Continued)*

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property 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 over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity 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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The accounting policies adopted in respect of loans and receivables are set out below.

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 on points 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 instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

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 trade and other receivables, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity 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 recognised at the proceeds received, net of direct issue costs.

Financial liabilities (including trade and other payables, secured bank and other borrowings and bonds) are subsequently measured at amortised cost using the 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 premiums 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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its 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 the impairment, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. 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 immediately in profit or loss.

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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of the group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, 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 obtainable from other sources. The estimates and underlying 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.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 30 June 2017, the carrying amount of trade receivables is HK$9,811,000 (2016: HK$10,303,000).

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period during the years ended 30 June 2017 and 30 June 2016, using the term and reversion method on the basis of capitalisation of net rental income derived from the existing tenancies with due allowance for reversionary income potential of the property interest, the direct capitalisation method by assuming a stabilised economic income capitalised by a market yield rate and the direct comparison approach with reference to the sales transactions of the comparable properties by independent professionally qualified valuers. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of the valuation techniques and assumptions have been disclosed in note 17.

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the Group has recognised deferred taxes on changes in fair value of investment properties in relation to the PRC's land appreciation tax, which is the additional tax to be charged if a property in the PRC is recovered through sale. As at 30 June 2017, the carrying amount of these properties was HK$2,994,253,000 (2016: HK$3,016,666,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes secured bank and other borrowings disclosed in note 22, bonds disclosed in note 23 and equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

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

In addition to capital risk management, there is a concentration risk on location of net assets owned by the Group. The Group's net assets are principally situated in the PRC and accordingly, they are subject to a concentration of assets realisation risk in the local municipalities and provinces, where they are located. The Group's ability to realise the majority of its net assets is related to the economic conditions in the PRC as a whole and the local areas in which it operates. Management manages this exposure by maintaining a portfolio of assets in different locations with different risk profiles.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017	2016
	HK$'000	HK$'000
Financial assets		
Loan and receivables:		
Financial assets included in trade and other receivables	**23,570**	21,989
Bank balances and cash	**30,459**	62,338
	54,029	84,327
Financial liabilities		
Other financial liabilities at amortised cost:		
Trade and other payables	**358,177**	107,049
Secured bank and other borrowings	**652,874**	1,043,453
Bonds	**25,191**	25,149
	1,036,242	1,175,651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, secured bank and other borrowings and bonds. Details of the financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall policies remain unchanged from prior years.

Market risk

(i) Currency risk

Certain trade payables, bank balances and bonds are denominated in United States dollars ("USD") and HKD which are currencies other than functional currency of the relevant group entities.

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.

Sensitivity analysis

The group entities are mainly exposed to the fluctuation of USD and HKD against RMB.

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2016: 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 relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2016: 5%) change in foreign currency rates.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis *(Continued)*

The sensitivity analysis includes USD and HKD denominated trade and other receivables/payables, bank balances and bonds, as appropriate. A positive or negative number below indicates an increase or a decrease in post-tax loss where RMB strengthen 5% (2016: 5%) against the relevant currency. For a 5% (2016: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss.

	HKD Impact *(Note)*		**USD Impact** *(Note)*	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Profit or loss	**(395)**	(79)	**(1)**	(1)

(Note) This is mainly attributable to the exposure outstanding on USD or HKD trade and other receivables/payables, bank balances and bonds not subject to cash flow hedge at the end of the reporting period in the Group.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating-rate bank borrowings (see note 22 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the rate determined by the People's Bank of China arising from the Group's RMB denominated bank borrowings.

The Group is also exposed to fair value interest rate risk in relation to bank balances, bank and other borrowings and bonds, as set out in notes 20, 22 and 23 respectively.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

The Group maintains a mixture of floating-rate and fixed-rate borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank borrowings at the end of the reporting period carried at floating market interest rate. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points (2016: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 30 June 2017 would decrease/increase by HK$320,000 (2016: HK$366,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank borrowings.

(iii) Other price risk

The Group is not exposed to significant other price risk. Management monitors other price risks and will consider hedging significant price exposure should the need arise.

Credit risk

As at 30 June 2017, 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 is 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 management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The Group has a number of counterparties and customers. However, the Group's credit risk is concentrated on certain major customers. At 30 June 2017, the five largest receivable balances accounted for approximately 64% (2016: 61%) of the Group's total receivable balances. However, taking into account the strong financial background and good creditability of these customers under internal credit assessment adopted by the Group, the management considers that there is no significant uncovered credit risk.

The Group places deposits with major banks in the PRC and Hong Kong, therefore, the credit risk on liquid funds is limited.

Liquidity risk

The Group has net current liabilities of HK$380,222,000 as at 30 June 2017 (2016: HK$392,372,000). The Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cash flows from operations.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on agreed repayment terms. The table has 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. Specially, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity risk tables

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts at 30.6.2017 HK$'000
2017								
Non-derivative financial liabilities								
Trade and other payables		358,177	–	–	–	–	358,177	358,177
Bank and other borrowings								
– floating-rate	4.9%	2,666	13,911	83,991	439,001	237,667	777,236	652,874
Bonds		–	–	–	8,097	25,340	33,437	25,191
		360,843	13,911	83,991	447,098	263,007	1,168,850	1,036,242

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1 - 3 months HK$'000	3 months to 1 year HK$'000	1 - 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts at 30.6.2016 HK$'000
2016								
Non-derivative financial liabilities								
Trade and other payables		107,049	–	–	–	–	107,049	107,049
Bank and other borrowings								
– fixed-rate	10.00	–	–	326,071	–	–	326,071	296,429
– floating-rate	4.90	3,050	14,394	88,438	448,549	356,446	910,877	747,024
Bonds		–	–	–	9,358	26,107	35,465	25,149
		110,099	14,394	414,509	457,907	382,553	1,379,462	1,175,651

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis, if any.

The amounts included above for floating interest rate instruments for non-derivative financial liabilities are subject to change if changes in floating interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

7. TURNOVER AND SEGMENT INFORMATION

Turnover represents the lease payments received and receivable in the normal course of business, net of related taxes for the year. The Group is engaged in the property operating during the year.

Information reported to the Board of the Company, being the chief operating decision maker, for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Therefore, the chief operating decision maker only considers the Group's business from a product perspective, rather than from a geographic perspective. From a product perspective, management assesses the performance from property operating for the year ended 30 June 2017 while management assesses the performance from textile products which includes dyeing process of grey fabrics, and from property operating for the year ended 30 June 2016.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit or loss from each segment without allocation of income tax expense and central administration costs.

One single tenant contributed to 10 per cent or more of the Group's turnover for the year ended 30 June 2017. The total amount of turnover from this tenant was HK$29,209,000 (2016: HK$25,719,000).

Turnover from major business services:

	2017 **HK$'000**	2016 HK$'000
Continuing operations:		
Rental income from leasing of properties	**185,442**	140,033
Discontinued operations		
Subcontracting income	**–**	24,127
	185,442	164,160

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

The chief operating decision maker assesses the performance of the operating segments based on sales and net profit.

	Continuing operations	Discontinued operations	
	Property operating HK$'000	**Textile products HK$'000**	**Total HK$'000**
Year ended 30 June 2017			
Turnover	**185,442**	**–**	**185,442**
Segment results	**160,644**	**–**	**160,644**
Income tax expense			**(20,141)**
Central administration costs			**(13,940)**
Profit for the year			**126,563**
Depreciation	**2,091**	**–**	**2,091**

	Continuing operations	Discontinued operations	
	Property operating HK$'000	Textile products HK$'000	Total HK$'000
Year ended 30 June 2016			
Turnover	140,033	24,127	164,160
Segment results	343,373	(19,225)	324,148
Gain on disposal of subsidiaries			319,277
Income tax expense			(79,112)
Central administration costs			(63,826)
Profit for the year			500,487
Depreciation	1,321	7,501	8,822

No geographical market analysis is provided as the Group's turnover and contribution to segment results were substantially derived from the tenants and customers in the PRC and the assets are substantially located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

8. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Continuing operations:		
Bank interest income	**79**	109
Car parking income	**5,870**	4,448
Service income	**6,058**	4,557
Reversal of overprovision of other payables	**–**	1,806
Exchange gain	**487**	88
Others	**5**	3,299
	12,499	14,307
Discontinued operations		
Bank interest income	**–**	152
Others	**–**	122
	–	274
	12,499	14,581

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Continuing operations:		
Interest on		
– Bank and other borrowings wholly repayable within five years	4,980	15,766
– Bank and other borrowings wholly repayable over five years	33,402	40,044
– Bonds	2,069	2,066
	40,451	57,876
Discontinued operations		
Interest on		
– Bank and other borrowings wholly repayable within five years	–	1,540
	40,451	59,416

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

10. INCOME TAX EXPENSE

	2017 **HK$'000**	2016 HK$'000
Continuing operations		
Income tax recognised in profit and loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**26**	8,577
Deferred tax *(note 24)*	**20,115**	70,535
	20,141	79,112
Discontinued operations		
Income tax recognised in profit and loss		
PRC EIT		
– Current income tax	**–**	–

Hong Kong Profits Tax was calculated at 16.5% (2016: 16.5%) of the estimated assessable profit for the financial year. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries was 25%.

As set out in note 24, no deferred tax (2016: Nil) has been provided for in the consolidated financial statements in respect of the undistributed profits earned by the Company's PRC subsidiaries attributable to the Group under the EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

10. INCOME TAX EXPENSE *(Continued)*

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

	2017 HK$'000	2016 HK$'000
Profit before tax from continuing operations	146,704	294,830
Tax at the income tax rate of 25% (2016: 25%)	36,676	73,707
Tax effect of expenses not deductible for tax purpose	4,952	5,442
Tax effect of income not taxable for tax purpose	(2,564)	(37)
Tax effect of deductible temporary differences not recognised	(14,568)	–
Tax effect of tax losses utilized	(4,355)	–
Income tax expense recognised in profit or loss (relating to continuing operations)	20,141	79,112
Profit before tax from discontinued operations	–	284,769
Tax at the income tax rate of 25% (2016: 25%)	–	71,192
Tax effect of expenses not deductible for tax purpose	–	3,642
Tax effect of income not taxable for tax purpose	–	(79,819)
Tax effect of deductible temporary differences not recognised	–	4,985
Income tax expense recognised in profit or loss (relating to discontinued operations)	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

11. PROFIT FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Profit for the year has been arrived at after charging/(crediting):		
Continuing operations		
Staff costs		
– directors' emoluments	**3,976**	3,848
– other staff's salaries and other benefits	**11,914**	8,156
– other staff's retirement benefit scheme contributions	**1,681**	1,420
	17,571	13,424
Auditor's remuneration	**990**	900
Bad debt written off	**444**	–
Depreciation of property, plant and equipment	**2,100**	1,324
Exchange (gain)/loss, net	**(487)**	562
Profit for the year has been arrived at after charging:		
Discontinued operations		
Staff costs		
– other staff's salaries and other benefits	**–**	7,411
– other staff's retirement benefit scheme contributions	**–**	1,280
	–	8,691
Depreciation of property, plant and equipment	**–**	7,501
Exchange loss, net	**–**	14,551
Release of prepaid lease payments	**–**	234
Research and development costs	**–**	127

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the seven (2016: seven) directors were as follows:

(a) Directors' emoluments

Details of emoluments of individual directors are set out as follows:

2017

	Directors' fees HK$'000	**Salaries and other benefits HK$'000**	**Retirement benefit scheme contributions HK$'000**	**Total HK$'000**
Mr. Chen Jindong	**–**	**1,800**	**18**	**1,818**
Mr. Chen Jinyan	**–**	**600**	**18**	**618**
Mr. Chen Jinqing	**–**	**1,200**	**18**	**1,218**
Mr. Kwan Chi Fai	**120**	**–**	**–**	**120**
Mr. Lin Ye	**36**	**–**	**–**	**36**
Mr. Yang Zeqiang	**96**	**–**	**–**	**96**
Ms. Chong Sze Pui Joanne	**70**	**–**	**–**	**70**
	322	**3,600**	**54**	**3,976**

2016

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Mr. Chen Jindong	–	1,800	19	1,819
Mr. Chen Jinyan	–	600	18	618
Mr. Chen Jinqing	–	1,200	19	1,219
Mr. Kwan Chi Fai	27	–	–	27
Mr. Lin Ye	36	–	–	36
Mr. Yang Zeqiang	36	–	–	36
Ms. Yau Lai Ying	93	–	–	93
	192	3,600	56	3,848

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 30 June 2017 included three (2016: three) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining two (2016: two) individuals are as follows:

	2017	2016
	HK$'000	HK$'000
Salaries and other benefits	**1,300**	1,294
Retirement benefit scheme contributions	**18**	18
	1,318	1,312

Their emoluments were all within nil to HK$1,000,000.

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS PAID

No dividend was paid or proposed for the year ended 30 June 2017 nor has any dividend been proposed since the end of the reporting period (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

14. DISCONTINUED OPERATIONS

On 28 August 2015, the Group entered into a conditional sale and purchase agreement to dispose of its entire equity interest in its subsidiaries, Global Art International Limited, Good Fame Group Limited, Art Bright Holdings Limited, Art Gate Limited, Fuzhou Huaguan Knitting and Sprining Co., Ltd. and Fuzhou Huasheng Textile Co., Ltd. (collectively referred to as the "Disposal Group") to an independent third party at a consideration of HK$260,788,000). The principal activity of the Disposal Group is dyeing process of grey fabrics. The disposal was completed on 31 December 2015. Details of the above are set out in the circular of the Company dated 8 December 2015.

Analysis of profit for the year from discontinued operations:

The results of the discontinued operations included in the consolidated financial statements for the current and prior years are set out below. The comparative loss and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the prior year.

		Textile products	
		2017	2016
	Note	**HK$'000**	HK$'000
Turnover	*7*	–	24,127
Cost of sales		–	(34,598)
Gross loss		–	(10,471)
Other income	*8*	–	274
Selling and distribution costs		–	(1,766)
Administrative expenses		–	(6,328)
Other expenses		–	(14,677)
Finance costs	*9*	–	(1,540)
Gain on disposal of discontinued operations		–	319,277
Profit before tax		–	284,769
Income tax expense	*10*	–	–
Profit for the year	*11*	–	284,769

14. DISCONTINUED OPERATIONS *(Continued)*

The cash flows of the discontinued operations for the current and prior years are as follows:

	Textile products	
	2017 **HK$'000**	2016 HK$'000
Net cash used in operating activities	–	(1,134)
Net cash used in investing activities	–	(3,739)
Net cash generated from financing activities	–	4,414
Net cash outflow from discontinued operations	–	(459)

Effect of disposal on the financial position of the Group:

	HK$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	85,541
Prepaid lease payments	17,277
Inventories	720
Trade and other receivables	511,483
Bank balances and cash	2,070
Trade and other payables	(360,382)
Secured bank borrowings	(41,667)
Deferred tax liabilities	(10,165)
	204,877

15. EARNINGS PER SHARE

		2017 **HK$'000**	2016 HK$'000
EARNINGS PER SHARE			
Basic (HK cents per share)	– continuing operations	**3.40**	5.89
	– discontinued operations	**–**	10.71
		3.40	16.60
Diluted (HK cents per share)	– continuing operations	**3.39**	5.87
	– discontinued operations	**–**	10.67
		3.39	16.54

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

15. EARNINGS PER SHARE *(Continued)*

The calculation of the basic and diluted earnings per share attributable to the owners of the Company was based on the following data:

	2017 HK$'000	2016 HK$'000
Earnings		
Profit for the year used in calculation of basic and diluted earnings per share from discontinued operations	–	284,769
Profit for the year used in the calculation of basic and diluted earnings per share from continuing operations	91,094	156,506
Profit for the year attributable to the owners of the Company and earnings for the purposes of basic and diluted earnings per share	91,094	441,275

	2017 '000	2016 '000
Number of shares		*(Note)*
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,681,682	2,657,682
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	5,961	10,158
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,687,643	2,667,840

Note: Adjusted for the effect of the bonus issue on 28 November 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 July 2015	167,589	179,024	2,036	7,445	15,006	371,100
Exchange realignment	(9,976)	(10,654)	(103)	(430)	(892)	(22,055)
Additions	–	–	3,274	699	7,690	11,663
Transfer	–	–	3,943	161	(4,104)	–
Disposal of subsidiaries	(157,613)	(168,370)	(1,628)	(6,104)	(17,700)	(351,415)
At 30 June 2016	–	–	7,522	1,771	–	9,293
Exchange realignment	**–**	**–**	**(250)**	**(52)**	**–**	**(302)**
Additions	**–**	**–**	**–**	**23**	**2,463**	**2,486**
Transfer	**–**	**–**	**253**	**–**	**(253)**	**–**
At 30 June 2017	**–**	**–**	**7,525**	**1,742**	**2,210**	**11,477**
ACCUMULATED DEPRECIATION						
At 1 July 2015	141,079	127,561	853	5,861	–	275,354
Exchange realignment	(8,398)	(7,591)	(33)	(335)	–	(16,357)
Provided for the year	2,591	4,625	1,132	477	–	8,825
Disposal of subsidiaries	(135,272)	(124,595)	(678)	(5,329)	–	(265,874)
At 30 June 2016	–	–	1,274	674	–	1,948
Exchange realignment	**–**	**–**	**(33)**	**(16)**	**–**	**(49)**
Provided for the year	**–**	**–**	**1,784**	**316**	**–**	**2,100**
At 30 June 2017	**–**	**–**	**3,025**	**974**	**–**	**3,999**
CARRYING VALUES						
At 30 June 2017	**–**	**–**	**4,500**	**768**	**2,210**	**7,478**
At 30 June 2016	–	–	6,248	1,097	–	7,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on straight-line basis at the following rates per annum:

Buildings	3% – 10%
Plant and machinery	10% – 20%
Leasehold improvements	20% – 25%
Furniture, fixtures, office equipment and motor vehicles (with 5% residual value on the cost)	16% – 33%

17. INVESTMENT PROPERTIES

	2017 **HK$'000**	2016 HK$'000
Fair value		
At 1 July 2016	**3,016,666**	2,645,570
Exchange realignment	**(104,023)**	(157,475)
Additions	**5,526**	–
Acquired from acquisition of a subsidiary *(note 31)*	**–**	260,476
Change in fair values of investment properties	**76,084**	268,095
At 30 June 2017	**2,994,253**	3,016,666
Unrealised gain on property revaluation included in profit or loss	**76,084**	268,095

The carrying value of investment properties shown above comprises properties situated on:

	2017 **HK$'000**	2016 HK$'000
Land under medium-term leases in the PRC	**2,994,253**	3,016,666

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

At 30 June 2017, the Group's investment properties included certain lands of approximately HK$2,119,984,000 (2016: HK$2,089,671,000) for which the Group were in the process of obtaining the relevant land use rights certificates. The directors do not foresee any major encumbrances to complete the transfer of the legal title of the above-mentioned land use rights to the Group.

17. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties as at 30 June 2017 as well as the date of acquisition of a subsidiary *(see note 31)* have been arrived at on the basis of a valuation carried out on the respective dates by International Valuation Limited ("The Valuer"), an independent qualified professional valuer not connected with the Group. The Valuer has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The Group's investment properties were valued individually, on market value basis, which conforms to Hong Kong Institute of Surveyors Valuation Standards. The fair value was arrived at by reference to comparable sales transactions available in the relevant market together with income approach by capitalising the net rental income derived from the existing tenancies with under various terms.

In estimating the fair value of the investment properties, the directors of the Company has considered that the highest and best use of the properties is their current use upon the application of HKFRS 13 "Fair value measurement". There has been no change of the valuation technique during the year.

All of the Group's investment properties are located in the PRC and classified as Level 3 in the fair value hierarchy.

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

At the end of the reporting period, the management of the Group works closely with the Valuer to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Company.

The following table shows the valuation techniques used in the determination of fair values for investment properties and the key unobservable inputs used in the valuation models.

Description	Fair value as at 30 June 2017	Fair value as at 30 June 2016	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Commercial – shopping mall	RMB2,397,000,000 (Equivalent to HK$2,755,173,000)	RMB2,327,000,000 (Equivalent to HK$2,770,238,000)	Combination of capitalisation method and comparison method	1) reversionary yield derived from market rent and price	2017: 5.75%, 6.5% & 13% p.a. (2016: 5.75%, 6.5% & 13% p.a.)	The higher the reversionary yield, the lower the fair value and vice versa
				2) capitalisation rate	2017: 5% p.a. (2016: 5% p.a.)	The higher the capitalisation rate, the lower the fair value and vice versa
				3) bulk discount rate	2017: 3% (2016: 3%)	The higher the bulk discount rate, the lower the fair value and vice versa

17. INVESTMENT PROPERTIES *(Continued)*

Description	Fair value as at 30 June 2017	Fair value as at 30 June 2016	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Commercial – 164 shops	RMB208,000,000 (Equivalent to HK$239,080,000)	RMB207,000,000 (Equivalent to HK$246,428,000)	Combination of capitalisation method and comparison method	1) reversionary yield derived from market rent and price	2017: 7% p.a. (2016: 7% p.a.)	The higher the reversionary yield, the lower the fair value and vice versa
				2) capitalisation rate	2017: 5% p.a. (2016: 5% p.a.)	The higher the capitalisation rate, the lower the fair value and vice versa
				3) bulk discount rate	2017: 5% (2016: 5%)	The higher the bulk discount rate, the lower the fair value and vice versa

The Group as lessor

Property rental income, management fee income and operating service income earned during the year was HK$185,442,000 (2016: HK$140,033,000). All properties have committed tenants ranging from the next 1 to 17 years and do not include an extension option.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017 HK$'000	2016 HK$'000
Within one year	165,484	167,508
In the second to fifth years inclusive	459,493	484,495
Over five years	672,633	778,004
	1,297,610	1,430,007

At 30 June 2017, certain investment properties of the Group with aggregate carrying values of HK$1,196,738,000 (2016: HK$1,203,282,000) were pledged to a bank to secure banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

18. GOODWILL

	HK$'000
Cost	
At 1 July 2015	34,764
Additional amounts recognised from business combinations occurring during the year *(note 31)*	28,785
At 30 June 2016 and 1 July 2016	63,549
Less: Impairment losses	–
At 30 June 2017	63,549

Goodwill is accounted for in accordance with the Group's accounting policies as set out in note 3. At the end of the reporting period, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. The recoverable amount of the property business is based on its value in use.

The recoverable amounts is determined based on value in use calculation which use cash flow projection based on financial budgets approved by the directors covering a five-year period and a discount rate of 8.1% per annum (2016: 7.3%). Cash flows beyond that five-year period have been extrapolated using a constant growth rate of 4.0% (2016: 3.0%) per annum.

The key assumptions for the value in use calculations are those regarding the discount rate, growth rate and expected changes to revenue and direct costs during the year. The forecast is discounted using a discount rate of 8.1% (2016: 7.3%). The discount rate was determined with reference to weighted average cost of capital of similar companies in the industry and adjusted for specific risks associated with property operation. The growth rate does not exceed the long-term average industry growth forecasts. Changes in revenue and direct costs are based on past practices and the management's expectations of future changes in the market. The Group considers no impairment loss is necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

19. TRADE AND OTHER RECEIVABLES

	2017 **HK$'000**	2016 HK$'000
Trade receivables	**9,811**	10,303
Prepayment and other receivables	**16,081**	16,866
	25,892	27,169

At 30 June 2017, all trade receivables of the Group were in the functional currency of the relevant group entities.

There are no specific credit terms given to the tenants. Monthly rentals in respect of retail properties are payable in advance by tenants in accordance with the leases. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented at the end of the reporting period, which approximated the respective revenue recognition dates:

	2017 **HK$'000**	2016 HK$'000
0 – 90 days	**9,690**	9,350
Over 90 days	**121**	953
Trade receivables	**9,811**	10,303

Before accepting any new tenants, the Group assesses the potential tenants' credit quality. 99% (2016: 91%) of the trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$121,000 (2016: HK$953,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables was between 0 to 90 days (2016: 0 to 90 days) for the year ended 30 June 2017.

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Ageing of trade receivables which are past due but not impaired

	2017	2016
	HK$'000	HK$'000
1 – 60 days	**–**	–
61 – 90 days	**–**	–
Over 90 days	**121**	953
Total	**121**	953

No impairment loss was provided by the Group for the year ended 30 June 2017 (2016: Nil). The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts:

	2017	2016
	HK$'000	HK$'000
Balance at beginning of the year	**–**	884
Disposal of subsidiaries	**–**	(53)
Bad debts written off	**–**	(782)
Exchange realignment	**–**	(49)
Balance at end of the year	**–**	–

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that carry interest rates ranging from 0.01% to 0.35% (2016: 0.01% to 0.35%) per annum and have original maturity of three months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

20. BANK BALANCES AND CASH *(Continued)*

The Group's bank balances and cash denominated in currencies other than functional currency of the relevant group entities are set out as follows:

	2017 HK$'000	2016 HK$'000
USD	**12**	12
HKD	**17,288**	26,725

21. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Receipts in advance	**26,293**	20,462
Deposits received from tenants	**25,151**	21,832
Amount due to substantial shareholder *(Note)*	**293,852**	52,365
Accrued charges and other payables	**12,881**	12,390
	358,177	107,049

Note: The amount is a loan provided by a substantial shareholder to repay part of other borrowings at a high interest rate. The amount is unsecured, interest free and has no fixed term of repayment.

22. SECURED BANK AND OTHER BORROWINGS

	2017 HK$'000	2016 HK$'000
Carrying amount of bank and other borrowings that are		
wholly repayable within one year	**70,115**	367,262
wholly repayable from one to five years	**358,621**	347,619
wholly repayable over five years	**224,138**	328,572
	652,874	1,043,453

22. SECURED BANK AND OTHER BORROWINGS *(Continued)*

The exposure of the Group's fixed-rate and floating-rate borrowings are as follows:

	2017	2016
	HK$'000	HK$'000
Fixed-rate borrowings	**–**	296,429
Floating-rate borrowings	**652,874**	747,024
	652,874	1,043,453

The ranges of effective interest rates per annum (which are equal to contractual interest rates) on the Group's borrowings are as follows:

	2017	2016
Effective interest rate:		
Fixed-rate borrowings	**N/A**	10%
Floating-rate borrowings	**4.90%**	4.90%

The Group's secured bank and other borrowings are wholly repayable within one year and secured by the following:

(i) certain investment properties as set out in note 17; and

(ii) cross guarantee between fellow subsidiaries.

23. BONDS

On 10 July 2013, the Company issued unlisted and non-transferable bond of HK$10,000,000 to an independent third party at face value with issuing cost of HK$120,000. The bond is interest bearing at 8.00% per annum, unsecured and repayable on the seventh anniversary of the date of issue. The bond was initially recognised at HK$9,862,000 less issuing cost of HK$120,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.33% (2016: 8.33%) per annum.

On 13 August 2014, the Company issued two unlisted and non-transferable bonds at face value of HK$5,340,000 and HK$10,000,000 to two independent third parties. The bonds are interest bearing at 8.00% per annum, unsecured and repayable on the seventh and half anniversary of the respective date of issue. The bonds were initially recognised at HK$15,309,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.05% (2016: 8.05%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

23. BONDS *(Continued)*

During the year, interest on the bonds paid by the Company was approximately HK$2,027,000 (2016: HK$2,027,000).

The movements of the liability component of the Group's bonds during the year are as follows

	HK$'000
Liability component at 1 July 2015	25,110
Effective interest charged for the year	2,066
Coupon interest paid/payable	(2,027)
Liability component at 30 June 2016	25,149
Effective interest charged for the year	2,069
Coupon interest paid/payable	(2,027)
Liability component at 30 June 2017	25,191

24. DEFERRED TAX LIABILITIES

The followings are the deferred tax liabilities recognised by the Group and movement thereon during the current and prior years.

	Fair Value adjustment on investment properties HK$'000	**Undistributable profits of PRC's subsidiaries** HK$'000	**Total** HK$'000
At 1 July 2015	351,392	10,808	362,200
Exchange realignment	(20,916)	(643)	(21,559)
Upon fair value adjustment on acquisition of a subsidiary *(note 31)*	30,242	–	30,242
Disposal of subsidiaries *(note 32)*	–	(10,165)	(10,165)
Charge to profit or loss	70,535	–	70,535
At 30 June 2016 and 1 July 2016	431,253	–	431,253
Exchange realignment	(14,871)	–	(14,871)
Charge to profit or loss	20,115	–	20,115
At 30 June 2017	**436,497**	**–**	**436,497**

Under the EIT Law of the PRC, certain subsidiaries are entitled to a withholding tax at the rate of 5% for dividend payments for the year ended 30 June 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

24. DEFERRED TAX LIABILITIES *(Continued)*

The Group has not recognised deferred tax assets in respect of unused tax losses of approximately HK$11,844,000 of certain subsidiaries as it is not probable that sufficient future taxable profits will be available against which the unused tax losses can be utilised. These tax losses can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.

25. SHARE CAPITAL

	Number of shares	Nominal value HK$'000
Authorised:		
Ordinary shares of HK$0.01 each, at 1 July 2015, 1 July 2016	2,000,000,000	20,000
Increase in authorised share capital *(Note 1)*	3,000,000,000	30,000
Ordinary shares of HK$0.01 each, at 30 June 2017	**5,000,000,000**	**50,000**
Issued and fully paid:		
Ordinary shares of HK$0.01 each, at 1 July 2015	1,298,602,583	12,986
Exercise of share options	33,500,000	335
At 30 June 2016 and 1 July 2016	1,332,102,583	13,321
Issue of bonus shares *(Note 2)*	1,342,502,580	13,425
Exercise of share options	10,400,000	104
At 30 June 2017	**2,685,005,163**	**26,850**

Note 1: Ordinary resolution has been passed at extraordinary general meeting held on 16 November 2016 to increase the authorized share capital of the Company by the creation of an additional 3,000,000,000 new shares at a par value of HK$0.01 each.

Note 2: On 28 November 2016, an aggregate of 1,342,502,580 shares were issued on the basis of ten new share credited as fully paid for every ten shares held to shareholders whose names appeared on the Company's register of members on 24 November 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

26. NON-CONTROLLING INTERESTS

	2017 **HK$'000**	2016 HK$'000
Balance at beginning of the year	**290,422**	245,844
Share of profit for the year	**35,469**	59,212
Exchange difference on translation	**(10,014)**	(14,634)
Balance at end of the year	**315,877**	290,422

27. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include directors and employees of the Company, its subsidiaries or any Invested Entity, customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity and any shareholder of any members of the Group or any Invested Entity or any holder of any securities issued by any members of the Group or any Invested Entity. The Scheme became effective on 22 November 2013 (the "Effective Date") and, unless otherwise terminated or amended, will remain in force for 10 years.

As at the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 7,960,000 (Adjusted for the effect of the bonus issue on 28 November 2016) (2016: 14,380,000), representing approximately 0.30% (2016: 1.08%) of the issued share capital of the Company as at the date of this report. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of the Company's shares as equal to 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the Effective Date. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company which shall not be lower than the nominal value of the shares of the Company and shall be at least the higher of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; and (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of the grant.

The following table discloses movements of the Company's share options held by directors, independent non-executive directors and employees during the current and prior years:

(a) The terms and conditions of the grants are as follows:

Category	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1.7.2015	Lapsed during the year	Exercised during the year	Outstanding at 30.6.2016	Granted during the year	Exercised during the year	Bonus issue during the year	Outstanding at 30.6.2017
Directors	10.7.2008	1.8.2008 to 31.7.2018	0.179	4,300,000	(2,400,000)	–	1,900,000	–	–	1,900,000	3,800,000
Independent Non-executive Directors	22.5.2014	22.5.2014 to 21.5.2024	0.166	3,120,000	–	(1,040,000)	2,080,000	–	–	2,080,000	4,160,000
				7,420,000	(2,400,000)	(1,040,000)	3,980,000	–	–	3,980,000	7,960,000
Employees	10.7.2008	1.8.2008 to 31.7.2018	0.179	11,920,000	(11,920,000)	–	–	–	–	–	–
	22.5.2014	22.5.2014 to 21.5.2024	0.331	53,260,000	(10,400,000)	(32,460,000)	10,400,000	–	(10,400,000)	–	–
				65,180,000	(22,320,000)	(32,460,000)	10,400,000	–	(10,400,000)	–	–
Granted Total				72,600,000	(24,720,000)	(33,500,000)	14,380,000	–	(10,400,000)	3,980,000	7,960,000
Exercisable at year end							14,380,000				7,960,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) The number and weighted average exercise prices of share options are as follows:

	2017		2016	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**14,380,000**	**0.335**	72,600,000	0.337
Granted during the year	**–**	**–**	–	–
Bonus issue during the year	**3,980,000**	**0.172**	–	–
Lapsed during the year	**–**	**–**	(24,720,000)	0.347
Exercised during the year	**(10,400,000)**	**0.331**	(33,500,000)	0.331
Outstanding at the end of the year	**7,960,000**	**0.172**	14,380,000	0.335
Exercisable at the end of the year	**7,960,000**	**0.172**	14,380,000	0.335

The options outstanding at the end of the reporting period have a weighted average remaining contractual life of 4.12 years (2016: 7.13 years) and the exercise prices range from HK$0.166 to HK$0.179 (2016: HK$0.331 to HK$0.358).

28. OPERATING LEASE COMMITMENTS

The Group as lessee

	2017 HK$'000	2016 HK$'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	**16,305**	9,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

28. OPERATING LEASE COMMITMENTS *(Continued)*

The Group as lessee *(Continued)*

At the end of the reporting period, the Group has commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

	2017	2016
	HK$'000	HK$'000
Within one year	**17,690**	10,032
In the second to fifth years inclusive	**26,717**	921
Over five years	**–**	–
	44,407	10,953

Operating lease payments represent rentals payable by the Group for certain of its office premises and warehouse facilities. Leases are negotiated for a term ranging from 1 to 5 years (2016: 1 to 5 years) with fixed rentals. Most of the operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

29. CAPITAL COMMITMENTS

	2017	2016
	HK$'000	HK$'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of leasehold improvements	**377**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

30. RELATED PARTY TRANSACTIONS

(a) The remuneration of key management during the year was as follows:

	2017	2016
	HK$'000	HK$'000
Short-term benefits	**3,922**	3,792
Retirement benefit scheme contributions	**54**	56
	3,976	3,848

The remuneration of key management is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

(b) As at 30 June,2017, the Group had the following balance with related party:

	2017	2016
	HK$'000	HK$'000
Amount due to a substantial shareholder *(Note)*	**293,852**	52,365

Note: The amount is a loan provided by a substantial shareholder to repay part of other borrowings at a high interest rate. The amount is unsecured, interest free and has no fixed term of repayment.

31. ACQUISITION OF A SUBSIDIARY

On 30 October 2015, the Group acquired entire equity interest in a company from an independent third party, of which the principal activity of its subsidiary is property services and rental in the PRC. The purchase consideration was RMB218,000,000 (equivalent to approximately HK$259,524,000) in cash and comprised (1) RMB120,294,000 (equivalent to approximately HK$143,207,000) for the entire equity interests in Zhengzhou Jiacong Property Services Company Limited and (2) RMB97,706,000 (equivalent to approximately HK$116,317,000) for repayment of amount due to Zhengzhou Changke Trading Company Limited ("Changke"). Details of the above are set out in the circular of the Company dated 20 July 2015. This acquisition has been accounted for using the purchase method.

31. ACQUISITION OF A SUBSIDIARY *(Continued)*

The assets and liabilities acquired recognised at the date of acquisition:

	HK$'000
Investment properties	260,476
Bank balances and cash	612
Other payables and accruals	(116,424)
Deferred tax liabilities	(30,242)
	114,422
Goodwill	28,785
Repayment of amount due to Changke	116,317
	259,524
Consideration:	
Cash paid for entire equity interests	143,207
Repayment of amount due to Changke	116,317
	259,524
Net cash outflow arising on acquisition:	
Cash consideration paid	259,524
Bank balances and cash acquired	(612)
Net cash outflow	258,912

Acquisition-related costs amounting to HK$2,222,000 has been excluded from the consideration transferred and have been recognised as expenses in the condensed consolidated statements of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

32. DISPOSAL OF SUBSIDIARIES

On 28 August 2015, the Group entered into a conditional sale and purchase agreement to dispose of its entire equity interest in its subsidiaries, Global Art International Limited, Good Fame Group Limited, Art Bright Holdings Limited, Art Gate Limited, Fuzhou Huaguan Knitting and Sprining Co., Ltd. and Fuzhou Huasheng Textile Co., Ltd. (collectively referred to as the "Disposal Group") to an independent third party at a consideration of HK$260,788,000. The principal activity of the Disposal Group is dyeing process of grey fabrics. The disposal was completed on 31 December 2015. Details of the above are set out in the circular of the Company dated 8 December 2015.

	HK$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	85,541
Prepaid lease payments	17,277
Inventories	720
Trade and other receivables	511,483
Bank balances and cash	2,070
Trade and other payables	(360,382)
Secured bank borrowings	(41,667)
Deferred tax liabilities	(10,165)
	204,877
Gain on disposal of subsidiaries:	
Total consideration	281,444
Less: Net assets disposed of	204,877
Statutory reserves	(68,044)
Cumulative exchange differences in respect of the net liabilities of the subsidiaries reclassified from equity to profit or loss on loss of control of the Disposal Group	(174,666)
Gain on disposal	319,277
Total consideration satisfied by:	
Gross cash received	281,444
Less: disposal group loan (A) and (B) *(Note)*	(193,444)
Cash consideration received	88,000
Net cash inflow arising on disposal:	
Cash consideration received	88,000
Bank balances and cash disposed of	(2,070)
Net cash inflow	85,930

Note: Please refer to the circular of the Company dated 8 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

33. FINANCIAL INFORMATION OF THE COMPANY

	NOTES	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**27**	36
Investments in subsidiaries	*34*	**172,770**	172,770
		172,797	172,806
CURRENT ASSETS			
Trade and other receivables		**336**	336
Amount due from subsidiaries	*34*	**808,890**	808,808
Bank balances and cash		**6,996**	16,715
		816,222	825,859
CURRENT LIABILITIES			
Trade and other payables		**1,325**	600
		1,325	600
NET CURRENT ASSETS		**814,897**	825,259
TOTAL ASSETS LESS CURRENT LIABILITIES		**987,694**	998,065
CAPITAL AND RESERVES			
Share capital	*25*	**26,850**	13,321
Share premium and reserves		**935,653**	959,595
Equity attributable to owners of the Company *(Note)*		**962,503**	972,916
NON-CURRENT LIABILITY			
Bonds	*23*	**25,191**	25,149
		987,694	998,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

33. FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

Note: Details of movements of the Company's share capital, share premium and reserves are as follows:

	Share capital	Share Premium	Merger reserve	Exchange reserve	Share option reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2015	12,986	255,742	172,750	20,105	10,658	586,184	1,058,425
Other comprehensive loss for the year							
Exchange difference arising on translation	–	–	–	(4,636)	–	–	(4,636)
Loss for the year	–	–	–	–	–	(88,413)	(88,413)
Total comprehensive loss for the year	–	–	–	(4,636)	–	(88,413)	(93,049)
Share option lapsed during the year	–	–	–	–	(3,548)	–	(3,548)
Issue of shares under employee share option plan	335	15,739	–	–	(4,986)	–	11,088
At 30 June 2016	13,321	271,481	172,750	15,469	2,124	497,771	972,916
Other comprehensive loss for the year							
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(13,855)**	**(13,855)**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(13,855)**	**(13,855)**
Issue of share under bonus issue	**13,425**	**(13,425)**	**–**	**–**	**–**	**–**	**–**
Issue of shares under employee share option plan	**104**	**4,887**	**–**	**–**	**(1,549)**	**–**	**3,442**
At 30 June 2017	**26,850**	**262,943**	**172,750**	**15,469**	**575**	**483,916**	**962,503**

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 30 June 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up/issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2017 %	2016 %	**2017 %**	2016 %	
Conquer Way Limited	Hong Kong	HK$1	**–**	–	**100**	–	Investment holding
Big Luck International (HK) Limited	Hong Kong	HK$1	**–**	–	**100**	100	Investment holding
Right Lane International Limited	BVI	US$30,000 Ordinary shares	**100**	100	**–**	–	Investment holding
Max High International Limited	BVI	US$30,000 Ordinary shares	**–**	–	**100**	100	Investment holding
Worthmore Ventures Limited	BVI	US$1 Ordinary share	**–**	–	**100**	–	Investment holding
Zhengzhou Changdun Assets Management Co., Ltd ("Zhengzhou Changdun")*	PRC	HK$10,000,000	**–**	–	**100**	100	Investment holding
Zhengzhou Jiachao Property Services Co., Ltd ("Zhengzhou Jiachao")**	PRC	RMB20,000,000	**–**	–	**75**	75	Property operating
Zhengzhou Jiacong Property Services Co., Ltd ("Zhengzhou Jiacong")**	PRC	RMB20,000,000	**–**	–	**100**	100	Property operating
Henan Art Commercial Operation Management Co., Ltd ("Henan Art")*	PRC	HK$5,000,000	**–**	–	**100**	–	Property operating

* *Zhengzhou Changdun and Henan Art are established as wholly foreign-owned enterprises under the relevant PRC law and regulations.*

** *Zhengzhou Jiachao and Zhengzhou Jiacong are established as wholly domestic-owned enterprises under the relevant PRC law and regulations.*

None of the subsidiaries had issued any debt securities at the end of the year.

The amounts due from/to subsidiaries are unsecured, interest free and have no fixed term of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

35. EVENT AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the Group entered into a commitment under a non-cancellable operating lease for a term of 10 years. Total future minimum lease payment in respect of this lease are payable as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**–**	–
In the second to fifth years inclusive	**46,056**	–
Over five years	**123,997**	–
	170,053	–

FINANCIAL SUMMARY

RESULTS

	Year ended 30 June				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Turnover	1,430,025	492,939	373,849	164,160	**185,422**
Profit/(loss) for the year	121,873	15,402	(4,654)	500,487	**126,563**

ASSETS AND LIABILITIES

	As at 30 June				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Total assets	1,347,297	1,239,631	3,172,391	3,177,067	**3,121,631**
Total liabilities	(301,239)	(162,691)	(1,776,973)	(1,614,472)	**(1,481,020)**
Equity attributable to owners of the Company	1,046,058	1,076,940	1,395,418	1,562,595	**1,640,611**

SCHEDULE OF INVESTMENT PROPERTIES

Particulars of investment properties as at 30 June 2017

Address	**Existing use**	**Lease term**
Basement 1, Level 1-4, Zones A & B No. 36 Mian Fang West Road Zhongyuan District, Zhengzhou City Henan Province The People's Republic of China	Shopping mall	Medium *(Note)*
Level 1, Phase 2, No. 1 Zheng Shang Road (Middle Section) Zhongyuan District, Zhengzhou City Henan Province The People's Republic of China	Shopping mall	Medium *(Note)*

Note:

The term for which the lease was granted remaining unexpired as at 30 June 2017 is less than 50 years but not less than 10 years.