# KINGWELL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1195

# 2017 ANNUAL REPORT

# Contents



# Corporate Information

## DIRECTORS

Mu Dongsheng *(Chairman)*
Yang Xue Jun *(Chief Executive Officer)*
Sze Ming Yee
Cheung Chuen*
Ling Aiwen*
Han Hongwei*

* Independent Non-executive Director

## COMPANY SECRETARY

Poon Yan Wai

## AUTHORISED REPRESENTATIVES

Yang Xue Jun
Poon Yan Wai

## AUDIT COMMITTEE

Ling Aiwen *(Chairman)*
Cheung Chuen
Han Hongwei

## REMUNERATION COMMITTEE

Ling Aiwen *(Chairman)*
Yang Xue Jun
Cheung Chuen

## NOMINATION COMMITTEE

Mu Dongsheng *(Chairman)*
Ling Aiwen
Han Hongwei

## CORPORATE GOVERNANCE COMMITTEE

Han Hongwei *(Chairman)*
Ling Aiwen
Cheung Chuen

## LEGAL ADVISOR FOR CAYMAN ISLANDS LAW

Conyers Dill & Pearman

## AUDITOR

Ernst & Young

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 314-315
Wing On Plaza
62 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

## HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

## TRADING CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

1195

## WEBSITE

http://kingwell.todayir.com

# Financial Results

- Revenue for the Year increased to approximately RMB10.5 million.
- Gross profit for the Year was approximately RMB1.7 million.
- Loss before tax for the Year increased to approximately RMB91.5 million.
- Loss for the Year attributable to owners of the Company was approximately RMB90.7 million.
- Total comprehensive loss for the Year attributable to owners of the Company was approximately RMB87.4 million.
- Basic loss per share attributable to ordinary equity holders of the Company was RMB3.15 cents.
- Total equity of the Group decreased to RMB218.4 million.

# Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Kingwell Group Limited ("Kingwell" or the "Company"), I am presenting the financial report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2017 (the "Year").

In order to sustain the continuous growth of the Group and meet the coming challenges, the Group had successfully developed its property development and property leasing business in Anlu City, Hubei Province in the People's Republic of China (the "PRC"). The Anlu Taihe Paradise comprised 3 phases, constructions were completed in 2007, 2009 and 2011 respectively and majority of the units has been sold. In our inventories, there are 53 unsold villas, 34 unsold shops and apartments in Phase I, 22 unsold shops and condos in Phase II, and 8 unsold condos in Phase III as at 30 June 2017. The Group will search for new investment opportunities in property market around Hubei Province, the PRC. The Group will utilize its experience in Anlu City project and identify new land resources close to the railway network in Xiaogan City and Anlu City. The property investment opportunities could be residential, commercial or industrial development project.

As for the gold mining business, the Russia gold mining company is currently in the process of small scale exploitation and will start preparation of trial run production from November 2017. It is expected that the trail run production will begin in April 2018 with a production area of about 70,400 square meters, locating in the exploration line 174-176.

In January 2015, the Company acquired a 35% equity interest of Port First Limited (the "Port First"). Major assets of Port First are its 70% equity interest in each of Longkou Jinxin Gold Co., Ltd. ("Jinxin Company") and Longkou Jinhui Gold Co., Ltd. ("Jinhui Company"). Jinxin Company (i) holds the mine exploitation license and mine exploration license of the Shanchakou Mine; (ii) holds the mine exploitation license of Jinjiling Area; and (iii) owns a gold processing plant and a gold refinery plant. Jinhui Company holds the mine exploitation license and mine exploration license of the Yaojia Mine. During the Year, both companies were upgrading their plants and equipment to fulfill the increasingly rigorous environmental requirements. The upgrading process as well as the interrupted production has resulted in reduced and limited production scale during the Year and it is estimated to continue in the coming years, which has undermined the profitability of the gold mining business.

Looking ahead, the Group will continue to implement its diversified development strategy and proactively search for potential investment opportunities.

Finally, I would like to express my greatest gratitude to the Board, management and staff of the Group for their strenuous contribution in the past year. Furthermore, I would also like to take this opportunity to sincerely thank our customers, suppliers, business partners and shareholders for their continuous support and trust. I believe all members of the Group will dedicate their best effort to drive business growth and to deliver enhanced returns to shareholders.

**Mu Dongsheng**
*Chairman*

Hong Kong, 27 September 2017

## RESULTS

For the Year, revenue of the Group amounted to approximately RMB10,542,000 (2016: RMB8,670,000), representing an increase of approximately 21.6% as compared with last year. The increase in revenue was mainly due to the increase in sales in property development and property leasing business.

During the Year, the Group recorded a gross profit of approximately RMB1,714,000 (2016: RMB1,559,000) and loss before tax of approximately RMB91,497,000 (2016: RMB49,020,000) respectively. The increase in gross profit was mainly due to the larger revenue contribution from the sales of properties. The increase in loss before tax was mainly due to the provision for impairment of an associate (the "Port First") of approximately RMB73,058,000 (2016: Nil). Port First is an investment holding company and its subsidiaries, Jinxin Company and Jinhui Company, are engaged in the mining, processing, refining and sale of gold bars in Mainland China.

The loss attributable to owners of the Company for the Year was approximately RMB90,724,000 (2016: RMB44,401,000). Basic loss per share during the Year was RMB3.15 cents (2016: RMB1.8 cents).

The reason for the provision for impairment of Port First is that, unlike the practices of previous years where notices of government were issued to producers for self-implementation, local government made frequent on site visits to conduct environmental and safety checking, which required and led to temporary suspension of production from time to time during the Year. In order to fulfill the more rigorous environmental requirements, both Jinxin Company and Jinhui Company are in the process of upgrading their plants and equipment. The upgrading process as well as the interrupted production has resulted in reduced and limited production scale during the Year and it is estimated to continue in the coming years.

References of the local government notices are listed as below:

| Date of notice | Purpose |
|---|---|
| 18 August 2016 | To (i) increase the environmental efficiency and effectiveness control checking over the non-coal mine; and (ii) prevent potential accidents at gold and non-coal mines |
| 19 December 2016 | To fulfill the safety checking over the non-coal mine from December 2016 to April 2017 |
| 20 January 2017 | To appoint Shangdong Xin Li Safety Technology Company Limited（山東信力安全技術有限公司）to perform the safety checking over the non-coal mine |
| 27 March 2017 | To submit the operation data including the environmental and safety data for local government review for non-coal mine |
| 19 May 2017 | To implement the safety checking control over the flooding season and production safety checking for non-coal mine |

Management considered that impairment indicators for the investment in Port First existed in the Year. As a result, the Company appointed Greater China Appraisal Limited ("GCA"), an independent professional qualified valuer, to conduct a valuation to evaluate the recoverable amounts of the investment in Port First by using the discounted cash flow methodology (the "DCF") under the income approach.

The GCA adopted (i) value-in-use ("VIU"); and (ii) fair value as valuation methods for estimating the valuation of the 35% equity interest in Port First. The 35% equity interest in Port First is identified as cash generating unit (the "CGU"). The VIU and fair value of the CGU were determined by using the DCF. All of the assumptions, basis and methodologies employed are in conformance with Hong Kong Financial Reporting Standards ("HKFRSs"), issued by Hong Kong Institute of Certified Public Accountant.

Both of the estimated VIU and fair value of the investment in the 35% equity interest in Port First as at 30 June 2017 were RMB52,769,000. As a result, an impairment loss of RMB73,058,000 was recognised.

At 30 June 2016, the Company had its internal assessment, applying the DCF under the income approach for the valuation of the recoverable amounts of the investment in Port First, with the assistance of GCA in building the valuation model.

Key changes in assumptions and parameters used in the valuation as at 30 June 2016 and 30 June 2017 are set out as below:

| | **30 June 2017** | 30 June 2016 |
|---|---|---|
| **Methodology** | **Income Approach – DCF** | Income Approach – DCF |
| **Key Assumptions** | | |
| 1. Production Capacity | | |
| a) Jinxin Company | **57,000 tonne** | 80,000 tonne |
| b) Jinhui Company | **47,000 tonne** | 66,000 tonne |
| 2. Spot Gold Price | **USD1,242/oz** | USD1,317/oz |
| 3. Discount Rate (Pre-tax) | **18.54%** | 17.00% |
| 4. Long Term Growth Rate | **3%** | 3% |
| 5. Mine Operating Costs | ***Management estimation with reference to the actual cost*** | Management estimation with reference to the Technical Report issued by Greater China Mineral & Energy Consultants Limited in 2014 |

Reasons for the change of each parameter are listed below:

Production capacity: For the valuation as at 30 June 2016, the management estimated the annual production would be 146,000 tonne. However, due to the increasingly rigorous environmental requirements, the mining procedures became more complex and affected the forecast production capacity and volume. The actual production cannot meet the expected production capacity.

Spot gold price: The update in gold price was due to the availability of the market data from Bloomberg.

Discount rate (pre-tax): The discount rate was changed to reflect the changes in prevailing market data.

Mine operating costs: For the valuation as at 30 June 2016, due to the limited mining record, actual mining operation cost was considered as immature and the mining operating costs used in valuation relied on technical report issued by Greater China Mineral & Energy Consultants Limited in 2014 (the "Technical Report"). The suggested mining operating costs in the Technical Report was estimated on the basis of high production capacity, so that it was lower as a result of economy of scale.

For the valuation as at 30 June 2017, due to the increasingly rigorous environmental requirements, mining procedures are required to be improved as compared to 2016 and the estimated production volume is expected to be reduced, leading to higher unit production cost and increased operation cost.

The suggested mine operating costs in the Technical Report could not reflect the current operating environment, including annual production capacity and environmental requirements. The management believes the circumstances will continue in the future. As such, the management considered the mine operating costs under the current operating environment would be a more reasonable basis for projecting the future costs.

## BUSINESS REVIEW

### Gold Mining Business

The Company acquired a 51% equity interest in a gold mining company in Russian Federation and completed the acquisition on 15 August 2012. The gold mining company is a company established under the laws of Russian Federation with limited liability and currently operates and owns the legal and beneficial interest in a mining project. The mining area is of about 309.3 square kilometres and the ore type is gold mineral. The mine is operated by the gold mining company and located in Molchan river, Zeyskiy region, Amur area, the Russian Federation. The Group has exploration and exploitation rights on the mine (BLG 02398BR) with an expiry date on 31 December 2027.

Since the mining area is too large and the rock composition in the northern Molchan region is complex, the gold mining company planned to conduct small scale production prior to large scale exploitation, which is common for all the mining exercise. The gold mining company is currently in the process of small scale exploitation and will start preparation of trial run production from November 2017.

On 30 January 2015, the Company acquired a 35% equity interest of Port First. Major assets of Port First are its 70% equity interest in each of Jinxin Company and Jinhui Company. Jinxin Company (i) holds the mine exploitation license and mine exploration license of the Shanchakou Mine; (ii) holds the mine exploitation license of Jinjiling Area; and (iii) owns a gold processing plant and a gold refinery plant. Jinhui Company holds the mine exploitation license and mine exploration license of the Yaojia Mine. During the Year, both companies were upgrading their plants and equipment to fulfill the increasingly rigorous environmental requirements. The upgrading process as well as the interrupted production has resulted in reduced and limited production scale during the Year, which has undermined the profitability of the gold mining business.

The gold mining business has valid licenses, environmental protection policies and permits for conducting its business operations and has complied with relevant local requirements and applicable laws and regulations for its business operations.

The principal risk and uncertainties of the gold mining business are (i) the fluctuation of gold prices, which will directly affect the sales performance; and (ii) the change of the social and environmental requirements, complaints or protests by the local community, which will directly affect the efficiency and the cost of the operation.

During the Year, the gold mining segment recorded a loss of approximately RMB5,738,000 as compared to a loss of approximately RMB8,445,000 in 2016. As at 30 June 2017, the gold mining business had segment assets of approximately RMB145,416,000 (2016: RMB219,776,000) and segment liabilities of approximately RMB12,000 (2016: RMB88,000).

## Property Development and Property Leasing Business

The property development project "Anlu Taihe Paradise" at Liang Ji Bei Road, Anlu Economic Development District in Anlu City, Hubei Province in the PRC (Postal code 432600), is wholly owned by the Group and is having positive contribution to the Group. The project comprises three phases, with a total gross floor area of approximately 272,568 square meters and are approved for residential and commercial composite uses. The land use rights of the properties have been granted for a term expiring on 22 August 2065.

The Anlu Taihe Paradise comprised 3 phases, constructions were completed in 2007, 2009 and 2011 respectively and majority of the units has been sold. In our inventories, there are 53 unsold villas, 34 unsold shops and apartments in Phase I, 22 unsold shops and condos in Phase II and 8 unsold condos in Phase III as at 30 June 2017.

Some of the properties are held by the Group as investment purpose (as shops and kindergarten) to generate rental income. Properties held by the Group for investment purpose as at 30 June 2017 are listed as below:

Shop Nos. 101-103, 106-107 and 112-116 of Block 4, Shop Nos. 101-114 and 201 of Block 25, and Shop Nos. 117-118 of Block 53 in Anlu Taihe Paradise.

The property development and property leasing business has valid licenses and permits for conducting its business operation, and has complied with relevant local requirements and applicable laws and regulations for its business.

The principal risk and uncertainties of the property development and property leasing business are (i) economic conditions, both domestic and global issues will directly affect the sales performance; and (ii) government policies, any change of the PRC government policies over the property industry will directly affect the sales performance and the cost of operation.

During the Year, the PRC property market condition had made challenges to the property development and property leasing business. The property sales situations and average selling prices were still under great pressure and undermined the profitability of the property development and property leasing business.

During the Year, the property development and property leasing segment recorded a loss of approximately RMB135,000 as compared to a profit of approximately RMB873,000 in 2016. As at 30 June 2017, the property development and property leasing business had segment assets of approximately RMB96,245,000 (2016: RMB146,703,000) and segment liabilities of approximately RMB19,660,000 (2016: RMB46,133,000).

### Geographic Information

Revenue from operations of RMB10,542,000 (2016: RMB8,670,000) was derived from sales to external customers located in Mainland China.

## BUSINESS PROSPECTS

In order to sustain the continuous growth of the Group and meet the coming challenges, the Group developed its property development and property leasing business in Anlu City, Hubei Province in the PRC. The real estate project, comprising various types of properties including villas, apartments and commercial buildings. Although the property market is still under great pressure, the Directors expect that the property development and property leasing business will continue to provide positive contribution in the future. Also, the Group will search for new investment opportunities in property market around Hubei Province, the PRC. The Group will utilize its experience in Anlu City project and identify new land resources close to the railway network in Xiaogan City and Anlu City. The property investment opportunities could be residential, commercial or industrial development project.

As for the gold mining business, the Russia gold mining company is in the process of making a trial production plan. Since the mining area is too large and the rock composition in the northern Molchan region is complex, the gold mining company planned to conduct small scale production prior to large scale exploitation, which is common for all the mining exercise. The gold mining company is currently in the process of small scale exploitation and will start preparation of trial run production from November 2017. It is expected that the trail run production will begin in April 2018 with a production area of about 70,400 square meters, locating in the exploration line 174-176.

Subject to finalization, the gold mining company expects to operate 1 production line, including 28 laborers, 2 excavators, 1 bulldozer, 2 loaders, 2 heavy engineering transporters, 1 gold moving band as well as electric generator, water pump, accessories and living facilities. This production line could process 30,000 to 45,000 cubic meters ore per month, which should be able to produce around 24kg to 36kg gold. Due to the cold weather in Russia, the gold mining company could conduct production for only six months every year, the gross revenue will be subject to the output of the trial run production.

Looking ahead, the Group will continue to implement its diversified development strategy and proactively search for potential investment opportunities.

## LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the year ended 30 June 2017, the Group's working capital requirement was principally financed by its internal resources.

As at 30 June 2017, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of approximately RMB44,139,000 (2016: RMB38,779,000), RMB86,145,000 (2016: RMB104,429,000) and RMB227,788,000 (2016: RMB315,961,000), respectively.

As at 30 June 2017, the Group had no interest-bearing borrowings (2016: Nil).

Total equity attributable to owners of the Company as at 30 June 2017 decreased by approximately RMB87,419,000 to approximately RMB172,982,000 (2016: RMB260,401,000). The gearing ratio (calculated as the ratio of net debt: capital and net debt) of the Group as at 30 June 2017 was in net cash position (2016: 5%).

## SIGNIFICANT INVESTMENTS

The Group held no significant investment during the Year.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the Year, the Group had no material acquisition and disposals of subsidiaries and associated companies.

## EMPLOYEE INFORMATION

As at 30 June 2017, the Group employed a total of 32 (2016: 36) employees. It is a policy of the Group to review its employees' pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industry. During the Year, the employment cost (including Directors' emoluments) amounted to approximately RMB8,766,000 (2016: RMB20,316,000). In order to align the interests of staff, Directors and consultants with the Group, share options may be granted to staff, Directors and consultants under the Company's 2010 share option scheme (the "2010 Scheme"). There were 245,179,840 share options outstanding under the 2010 Scheme as at 30 June 2017.

## CHARGES ON GROUP ASSETS

As at 30 June 2017, no Group's assets were pledged to secure general banking facilities to the Group (2016: Nil).

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

In the future, the Group will continue to implement its diversified development strategy and proactively search for potential investment opportunities.

The Group had no future plans for material investments and expected sources of funding as at 30 June 2017.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies, principally in Hong Kong dollars and Russian ruble. The Group does not expect any appreciation or depreciation of the Renminbi against foreign currency which might materially affect the Group's result of operations. The Group did not employ any financial instruments for hedging purposes.

## CAPITAL COMMITMENTS

As at 30 June 2017, the Group had no capital commitments (2016: RMB176,000,000).

On 29 June 2016, the Company and Quick Nimble Group Limited ("Quick Nimble"), a company incorporated in the BVI, entered into the sale and purchase agreement, pursuant to which the Company conditionally agreed to purchase the entire issued share capital of Quick Nimble at the consideration of RMB176,000,000. The consideration would be fully satisfied by the allotment and issue of not more than 692,182,017 shares at the initial issue price of HK$0.301 per share. Upon completion the reorganisation of Shenzhen Zhongke Blue Sky Investment Limited ("Zhongke"), a company established in the PRC, Quick Nimble would hold a 51% equity interest in Zhongke. Zhongke and its subsidiaries are principally engaged in the investment, development, construction and operation of renewable energy power plants in the PRC.

On 12 October 2016, the Company and Quick Nimble entered into a termination letter whereby the parties had mutually agreed to terminate the sale and purchase agreement with immediate effect and to release and discharge each other from its respective obligations under the sale and purchase agreement.

Details of the transaction were set in the announcements of the Company dated 29 June 2016 and 12 October 2016.

## CONTINGENT LIABILITIES

As at 30 June 2017, the banking facilities of RMB503,000 were granted to buyers of certain properties developed by the Group (2016: RMB735,000).

# Biographical Information of Directors and Senior Management

## DIRECTORS

### Executive Directors

Mr. Mu Dongsheng (穆東升), aged 47, is an Executive Director and Chairman of the Company. He has 20 years of working experience in management in both government and private sector in the PRC and abroad. He holds a Master's Degree in Laws from the Beijing Foreign Affairs College. Mr. Mu was appointed as an Executive Director on 15 January 2016 and was a consultant of the Company prior to joining the Company.

Mr. Yang Xue Jun (楊學軍), aged 53, is an Executive Director and Chief Executive Officer of the Company. He holds a bachelor's degree in Marine Meteorology from the Ocean University of China and is a postgraduate student of Financial Management of the La Trobe University of Australia. Mr. Yang, with over 27 years' experience in marketing and promotion and strategic planning, had held various senior executive positions with firms in the PRC. Mr. Yang was appointed as an Executive Director on 2 July 2010 and was a consultant of the Company prior to joining the Company.

Mr. Sze Ming Yee (施明義), aged 52, is an Executive Director of the Company. He has more than 22 years' experience in property development and investment and is currently engaged in property development primarily in the PRC and primarily in Wenzhou. He also invests in securities in the PRC. He is a postgraduate student of Zhejiang University. Mr. Sze joined the Group on 15 January 2010 and is a director of Union Day Group Limited, the substantial shareholder of the Company.

### Independent Non-executive Directors

Mr. Cheung Chuen (張全), aged 43, is an Independent Non-executive Director of the Company. He is a certified public accountant practicing in the United States of America and Hong Kong. Mr. Cheung graduated from Hong Kong Shue Yan University in 1999 with majoring in accounting and obtained a master degree in professional accounting from the Hong Kong Polytechnic University in 2004. He is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over the years gained extensive experience in accounting and auditing. He has been appointed as an Independent Non-executive Director of the Company since 30 September 2004. Mr. Cheung was an independent non-executive director of Anxin-China Holdings Limited (formerly known as Board Intelligence International Pharmaceutical Holdings Limited), a company listed in Hong Kong, from 14 September 2004 to 24 September 2015. Mr. Cheung currently is an executive director of China High Precision Automation Group Limited, a listed company in Hong Kong.

Mr. Ling Aiwen (凌愛文), aged 38, is an Independent Non-executive Director of the Company. He is the executive general manager and A-share sponsor representative of the Jiuzhou Securities Company since March 2015. He was the executive director of the Goldman Sachs (Asia) & Goldman Sachs Gaohua Securities Company from 2011 to 2014. Mr. Ling has working experience in various securities firms in PRC, and has over 15 years of experience in the investment banking field. Mr. Ling graduated from the University of Science and Technology of China with Dual Bachelors' Degree in Management Science & Engineering, and in Computer Science. Mr. Ling also holds a Master's degree in Management Science from the Peking University. Mr. Ling has been appointed as an Independent Non-executive Director of the Company on 31 July 2015.

### Independent Non-executive Directors (Continued)

Mr. Han Hongwei（韓紅偉）, aged 47, is an Independent Non-executive Director of the Company. He is the chairman of the Bei Jing Yin He Xing Ye Asset Management Limited since 2009. He was the chairman of Kai Feng Yin He Dong Jing Zhi Ye Limited from 2011 to 2014. He was the chairman of Kai Feng Yin He Ri Hua Limited from 2010 to 2014. He was the chairman of He Nan Mao Dun Ri Hua Limited from 2005 to 2012. Mr. Han has working experience in various private sector in PRC, and has over 21 years of experience in the investment and management field. He has been appointed as an Independent Non-executive Director of the Company on 31 July 2015.

## SENIOR MANAGEMENT

Mr. Poon Yan Wai（潘仁偉）, aged 47, is the Financial Controller, Company Secretary and Authorised Representative of the Company. Mr. Poon joined the Company in March 2011 and has over 20 years of experience in the auditing and accounting field. Mr. Poon is a Fellow Member of the Hong Kong Institute of Certified Public Accountants. He also holds a Bachelor's degree in Accountancy and Master's degree in Corporate Finance from the Hong Kong Polytechnic University.

# Corporate Governance Report

The Group is committed to statutory and regulatory corporate governance standards and adherence to the principles of corporate governance emphasising accountability, transparency, independence, fairness and responsibility.

The Group has complied with the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Year, except the following deviation:

## CODE PROVISION A.6.7

Under the code provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Some non-executive Directors were not able to attend the annual general meeting held on 16 December 2016 due to their respective business engagements. Other Board members who attend the annual general meeting were already of sufficient calibre and number for answering questions raised by the shareholders at that annual general meeting.

## A. SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code of Securities Transaction by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiries of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the Year.

## B. BOARD OF DIRECTORS

### 1. Composition of the Board of Directors

As at 30 June 2017, the Board consisted of three Executive Directors and three Independent Non-executive Directors. Each of Directors' respective biographical details are set out in the section headed "Biographical Information of Directors and Senior Management" of this annual report.

The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. To the best knowledge of the Company, save as disclosed in the section headed "Biographical Information of Directors and Senior Management" of this annual report, there is no financial, business, family or other material/relevant relationship among members of the Board (including the Chairman and the Chief Executive Officer).

## 2. Role and Functions of the Board of Directors

The Board is accountable to the shareholders for managing the Company in a responsible and effective manner. Also, the Board decides on overall strategies and monitors the Group's performance.

The Board is responsible for the oversight of the Company's business and affairs with the objective of enhancing shareholder value. The Board also makes decisions on matters such as approving the annual results and interim results, notifiable and connected transactions, appointment and re-appointment of Directors, declaring dividends and adopting accounting policies, etc. Details of the experience and qualifications of Directors are set out in the section headed "Biographical Information of Directors and Senior Management" of this annual report.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to the Executive Directors and the management. When the Board delegates aspects of its management and administration functions to the management, it has given clear directions as to the powers of the management, in particular, with respect to the circumstances where the management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

## 3. Board Meetings and Board Practices

During the Year, the Board conducted 7 meetings and the Board will meet on other occasions when a board level decision on a particular matter is required. The attendance records of those meetings held are set out below:

| **Directors' Attendance at Board Meetings** | **No. of attendance** |
|---|---|
| **Executive Directors** | |
| Mr. Mu Dongsheng | 7/7 |
| Mr. Yang Xue Jun | 7/7 |
| Mr. Sze Ming Yee | 6/7 |
| **Independent Non-executive Directors** | |
| Mr. Cheung Chuen | 6/7 |
| Mr. Ling Aiwen | 6/7 |
| Mr. Han Hongwei | 6/7 |

The Directors will receive details of agenda items for decision and detail documents in advance of each Board meeting. The Company Secretary is responsible for distributing detailed documents to Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing to the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

## 4. General Meetings

During the Year, the Company convened one general meeting on 16 December 2016 which was the annual general meeting of the Company.

| Directors' Attendance at General Meetings | No. of attendance |
|---|---|
| **Executive Directors** | |
| Mr. Mu Dongsheng | 1/1 |
| Mr. Yang Xue Jun | 1/1 |
| Mr. Sze Ming Yee | 0/1 |
| **Independent Non-executive Directors** | |
| Mr. Cheung Chuen | 1/1 |
| Mr. Ling Aiwen | 0/1 |
| Mr. Han Hongwei | 0/1 |

## 5. Directors' Training

According to the code provision A.6.5 of the CG Code, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors of the Company. The Company continuously updates the Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the Year, the Directors participated in the following continuous professional development:

| Name of Directors | Training organized by the Company[1] | Reading materials updating on new rules and regulations |
|---|---|---|
| **Executive Directors** | | |
| Mr. Mu Dongsheng | ✓ | ✓ |
| Mr. Yang Xue Jun | ✓ | ✓ |
| Mr. Sze Ming Yee | ✓ | ✓ |
| **Independent Non-executive Directors** | | |
| Mr. Cheung Chuen | ✓ | ✓ |
| Mr. Ling Aiwen | ✓ | ✓ |
| Mr. Han Hongwei | ✓ | ✓ |

Notes:

1. Professional training was arranged by the Company to update the Directors' knowledge.

2. The Company received from each of the Directors the confirmations on taking continuous professional training.

## 6. Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, there are three Independent Non-executive Directors representing half of the Board. Among the three Independent Non-executive Directors, one of them has appropriate professional qualifications in accounting or relevant financial management expertise as required by Rule 3.10(2) of the Listing Rules.

The Independent Non-executive Directors bring independent judgment on issues of strategy, performance and risk. The Company has received from each of the Independent Non-executive Directors written confirmations of their independence pursuant to Rule 3.13 of the Listing Rules. Based upon the said confirmations, the Board considers that all the Independent Non-executive Directors are independent.

## 7. Chairman and Chief Executive Officer

The role of the Chairman is performed by Mr. Mu Dongsheng. The role of the Chief Executive Officer is performed by Mr. Yang Xue Jun during the Year. This segregation ensures a clear distinction between the Chairman's and the Chief Executive Officer's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability.

## 8. Appointment, Re-election and Removal of Directors

According to the articles of association of the Company, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years.

According to the code provision A.4.1 of the CG Code, Non-executive Directors should be appointed for a specific term of service. Mr. Cheung Chuen, Mr. Ling Aiwen and Mr. Han Hongwei were appointed as Independent Non-executive Directors on 30 September 2004, 31 July 2015 and 31 July 2015, their appointment letters have been signed with the Company for a term of one year commencing from 1 January 2017, 31 July 2017 and 31 July 2017, respectively. According to their terms of service, Mr. Cheung Chuen, Mr. Ling Aiwen and Mr. Han Hongwei are subject to retirement by rotation and offer themselves for re-election in accordance with the articles of association of the Company.

## 9. Remuneration of Directors and Senior Management

The emoluments of the members of the senior management by band for the year ended 30 June 2017 are set out below:

| | Number of members | |
|---|---|---|
| | **2017** | 2016 |
| Emolument bands | | |
| Nil to HK$1,000,000 | **1** | 1 |
| HK$1,000,001 to HK$1,500,000 | **–** | – |
| HK$1,500,001 to HK$2,000,000 | **–** | – |

Further particulars regarding Directors' emoluments and the five highest paid individuals as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the financial statements.

## C. BOARD COMMITTEES

### 1. Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") in November 2005 with written terms of reference no less exacting terms than the CG Code. The Remuneration Committee is responsible for advising the Board on the remuneration policy and framework of the Directors and senior management, as well as reviewing and having delegated responsibility to determine the remuneration packages of individual executive directors and senior management, including benefits in kinds, pension rights and compensation payments, with reference to the Company's objectives from time to time.

As at 30 June 2017, the Remuneration Committee consisted of three members, comprising one Executive Director, Mr. Yang Xue Jun, and two Independent Non-executive Directors, Mr. Ling Aiwen and Mr. Cheung Chuen. Mr. Ling Aiwen is the chairman of the Remuneration Committee. During the Year, two meetings were held to review the remuneration packages of the Board and the senior management. The attendance records of the Remuneration Committee meetings held are set out below:

| **Directors' Attendance at Remuneration Committee Meetings** | **No. of attendance** |
|---|---|
| Mr. Ling Aiwen *(Chairman of the Remuneration Committee)* | 2/2 |
| Mr. Cheung Chuen | 2/2 |
| Mr. Yang Xue Jun | 2/2 |

### 2. Audit Committee

The Company established an audit committee (the "Audit Committee") in May 2001 with written terms of reference revised to be substantially the same as the provisions as set out in the CG Code. The Audit Committee acts as an important link between the Board and the Company's auditor in matters within the scope of the Group's audit. The duties of the Audit Committee are to review and discuss on the effectiveness of the external audit and risk evaluation of the Company, as well as the Company's annual report and accounts, interim reports and to provide advice and comments to the Board. The Audit Committee is also responsible for reviewing and supervising the Group's financial reporting, risk management and internal control systems. The Audit Committee has reviewed the annual results of the Group for the Year.

As at 30 June 2017, the Audit Committee consisted of three members and they are all the Independent Non-executive Directors, namely Mr. Cheung Chuen, Mr. Ling Aiwen and Mr. Han Hongwei. Mr. Ling Aiwen is the chairman of the Audit Committee. During the Year, two meetings were held to review the consolidated financial statements for the Year and the unaudited condensed consolidated interim financial statements for the six months ended 31 December 2016 with the recommendations to the Board for approval; and to review the accounting principals and policies adopted by the Group and its system of risk management and internal control systems. The attendance records of the Audit Committee meetings held are set out below:

| **Directors' Attendance at Audit Committee Meetings** | **No. of attendance** |
|---|---|
| Mr. Ling Aiwen *(Chairman of the Audit Committee)* | 2/2 |
| Mr. Cheung Chuen | 2/2 |
| Mr. Han Hongwei | 2/2 |

## 3. Nomination Committee

The Company established a nomination committee (the "Nomination Committee") on 26 March 2012 with written terms of reference no less exacting terms than CG Code. The Nomination Committee is responsible for electing and recommending candidates for directorship, based on assessment of their professional qualifications and experience and is also responsible for assessing the independence of each Independent Non-executive Director.

As at 30 June 2017, the Nomination Committee consisted of three members, comprising one Executive Director, Mr. Mu Dongsheng, and two Independent Non-executive Directors, Mr. Ling Aiwen and Mr. Han Hongwei. Mr. Mu Dongsheng is the chairman of the Nomination Committee. During the Year, the Nomination Committee conducted one meeting to assess the Independence of the Independent Non-executive Director. The attendance record of the Nomination Committee meeting held is set out below:

| Directors' Attendance at Nomination Committee Meetings | No. of attendance |
|---|---|
| Mr. Mu Dongsheng *(Chairman of the Nomination Committee)* | 1/1 |
| Mr. Ling Aiwen | 1/1 |
| Mr. Han Hongwei | 1/1 |

## 4. Corporate Governance Committee

The Company established a corporate governance committee (the "Corporate Governance Committee") on 26 March 2012 with written terms of reference no less exacting terms than the CG Code. The Corporate Governance Committee is responsible for developing and reviewing the Company's policies and practices on corporate governance.

As at 30 June 2017, the Corporate Governance Committee consisted of three members and they are all the Independent Non-executive Directors, namely Mr. Cheung Chuen, Mr. Ling Aiwen and Mr. Han Hongwei. Mr. Han Hongwei is the chairman of the Corporate Governance Committee. During the Year, two meetings were held by the Corporate Governance Committee to review the corporate matters of the Company that the Company had complied with the principles and applicable code provision of the CG Code and was not aware of any non-compliance to relevant legal and regulatory requirements. The attendance records of the Corporate Governance Committee meetings held are set out below:

| Directors' Attendance at Corporate Governance Committee Meetings | No. of attendance |
|---|---|
| Mr. Han Hongwei *(Chairman of the Corporate Governance Committee)* | 2/2 |
| Mr. Cheung Chuen | 2/2 |
| Mr. Ling Aiwen | 2/2 |

## D. ACCOUNTABILITY AND AUDIT

### 1. Directors' and Auditor's Responsibility for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements. The Group's consolidated financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies have been adopted and applied consistently, and that judgments and estimates made are prudent and reasonable.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

The reporting responsibilities of external auditor of the Company are disclosed in "Independent Auditor's Report".

### 2. Auditor's Remuneration

During the Year, the remuneration paid/payable to the Company's auditor, Ernst & Young, is set out as follows:

| **Nature of Services** | **Fee paid/payable**<br>RMB'000 |
|---|---|
| Audit services | 1,933 |

## E. COMPANY SECRETARY

Mr. Poon Yan Wai was appointed as the Financial Controller, Company Secretary and Authorised Representative of the Company. The biographical information of Mr. Poon is set out on page 13 under the section headed "Biographical Information of Directors and Senior Management". According to Rule 3.29 of the Listing Rules, Mr. Poon took no less than 15 hours of relevant professional training.

# F. SHAREHOLDERS' RIGHTS

## Convening an extraordinary general meeting

Pursuant to article 58 of the articles of association of the Company, any one or more members of the Company 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, to require an extraordinary general meeting 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. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

## Putting enquiries to the Board

To ensure effective communication between the Board and the Shareholders, the Company has adopted a shareholders' communication policy (the "Policy") on 26 March 2012. Under the Policy, the Company's information shall be communicated to the Shareholders mainly through general meetings, including annual general meetings, the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's head office and principal place of business in Hong Kong or the Company's Hong Kong branch registrar and transfer office, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

## Putting forward proposals at shareholders' meeting

The number of shareholders necessary for a requisition for putting forward a proposal at a shareholders' meeting shall be any number of shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the requisition.

A copy or copies of requisition signed by all requisitionists shall be deposited, with a sum reasonably sufficient to meet the Company's expenses in giving notice of the proposed resolution or circulating any necessary statement, at the Company's head office and principal place of business in Hong Kong in the case of:

(i) a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

(ii) any other requisition, not less than one week before the meeting.

The Company will verify the requisition and upon confirming that the requisition is proper and in order, the Board will proceed with necessary procedures.

## G. INVESTORS AND SHAREHOLDERS RELATIONS

The Company continues to pursue a proactive policy in promoting investor relations and communications with the shareholders of the Company. The Board also recognised that effective communication with investors is the key to establish investor confidence and to attract new investors.

The Company communicates with its shareholders and investors through the publication of annual and interim reports, press announcements and releases, also the Company's website at http://kingwell.todayir.com.

The annual general meeting of the Company also provides an important opportunity for constructive communication between the Board and the shareholders of the Company. The Chairman as well as the chairman of the audit and remuneration committees, or in their absence, members of the relevant committees are available to answer any questions raised by the shareholders.

The Group regularly releases corporate information, such as awards received, and the latest news of the Group's developments on the Company's website. The public are welcome to give their comments and make their enquiries through the Company's website, the management will give their prompt response thereto.

## H. RISK MANAGEMENT AND INTERNAL CONTROL

Maintaining a sound risk management and internal control systems is vital to the fulfillment of the Group's business objectives as well as its long-term sustainable growth. The Board acknowledges its overall responsibility in evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensures that the Group had established and maintained an appropriate and effective risk management and internal control systems. The Audit Committee will review and control significant risks.

The Company's management encourages increasing the awareness on risk and control throughout the Group, and set up the objectives, performance targets and policies for managing the key risks, including strategic planning, business operations, legal and regulatory compliance, expenditure control, environment, health and safety. The Group has a well-established organizational structure with defined levels of responsibility and authority and reporting procedures. The Group adopts a control and risk self-assessment methodology and continuously assesses and manages its risk profile on a regular basis. The Group identifies, assesses and ranks the risks according to their likelihood, financial consequence and reputational impact on the Group, so as to ascertain relevant risks that need priority control. Staff accountable for risks are required to submit risk alerts with risk mitigation plan promptly and regular risk reports are presented to the management, the Board and the Audit Committee for on-going review and monitoring.

The Executive Directors review operational and financial reports and key operating statistics and hold regular meetings with division managers to review the implementation of the Group's risk management and internal control.

Budgets are prepared annually by the management and are subject to review and approval firstly by Chief Executive Officer and then by the Board. Amendments to the operating results budget of each year are prepared on a quarterly basis, and submit for Executive Directors' approval after comparing with its original budgets.

The Group has established guidelines and procedures for expenditure approval and control. Operating expenditure is subject to overall budget control, with the approval levels being set by reference to the level of authority of each executive and officer. Capital expenditure is also subject to overall control within the approved budget of individual projects with more specific control and approval being required for overspending, non-budgeted expenditure and significant expenditure within the approved budget. Monthly reports of actual versus budgeted and approved expenditure are also reviewed by the management.

The Group has established effective guidelines, procedures and internal control systems for the identification, capture and reporting of operational, financial and compliance-related information to ensure all the employees to carry out their designed responsibilities.

Any material internal issues identified are timely communicated and evaluated for their potential impacts. The corrective measures should obtain proper approval from management before implementation. The implementation steps should be monitored by both management and internal audit department to ensure these issues are properly recorded and resolved.

The Company has also established policies and procedures for the handling and dissemination of inside information. It is the responsibility of all Directors and employees who have access to and in control of the Group's information to provide adequate safeguard to prevent any abuse or misuse of those information. The information to be disclosed should be properly reviewed and approved by proper management to ensure its appropriateness and accuracy, and be closed monitored before and after disclosure. The Group strictly prohibits the use of insider information to secure personal advantage.

The Company's internal audit department plays a major role in risk management and internal control system. The major duties of the internal audit department include assurance on the effectiveness of the Company's governance, risk management and internal controls in daily operations, safeguarding of assets, reporting and compliance, and conducting internal audits of all department and subsidiaries of the Company on a regular basis. The Board keeps on monitoring the Group's risk management and internal control systems through the Audit Committee. The internal audit review report with recommendations is reported to the Audit Committee and the Board. In respect of the Year, the Audit Committee and Board had reviewed the annual internal control report to access the Company's risk management and the internal control system, which covering the finance, operational, compliance issues, risk management and employees' opinions. Based on the review, the Board considered that the Group's risk management and internal control systems were effective and adequate.

There are inherent limitations in any internal control systems and accordingly the Group's internal control systems is established to provide reasonable (but not absolute) assurance against any material misstatement or losses.

## I. ENQUIRIES TO THE BOARD

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal office address at Units 314-315, Wing On Plaza, 62 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong.

## J. CONSTITUTIONAL DOCUMENTS

During the Year, there is no change in the Company's constitutional documents.

The Directors submit herewith this annual report together with the audited consolidated financial statements for the Year.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 1 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the Year are set out in note 4 to the financial statements.

## BUSINESS REVIEW

The business review of the Group for the Year is set out in the sections of Chairman's Statement, Management Discussion and Analysis, Environmental, Social and Governance ("ESG") Report, Five Year Financial Summary and the paragraphs below.

Details of the Group's ESG progress and performance in 2017 are disclosed in the 2017 ESG Report.

The Group complies with the requirements under the Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "SFO") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. No important event affecting the Group has occurred since the end of the Year.

### Key Risk Factors

The following lists out the key risks and uncertainties facing the Group.

### Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

### Third-Party Risks

The Group has been relying on third-party service providers in parts of business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

### Key Relationships with Employees, Customers and Suppliers

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the Year.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 17% | |
| Five largest customers in aggregate | 59% | |
| The largest supplier | | N/A |
| Five largest suppliers in aggregate | | N/A |

During the Year, the Group has no purchases from the suppliers. It is because the property development project of the Group was completed in previous years.

At no time during the Year have the Directors, their close associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## FINANCIAL STATEMENTS

The loss of the Group for the Year and the financial position of the Group as at 30 June 2017 are set out in the financial statements on pages 45 to 120.

## DIVIDENDS

The Board does not recommend the payment of a final dividend for the Year (2016: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 11 December 2017 to 15 December 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 8 December 2017.

## SHARE CAPITAL

Details of movements in share capital of the Company during the Year are set out in note 26 to the financial statements.

## RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity and in note 28 to the financial statements.

## DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Company during the Year are set out in note 37 to the financial statements.

As at 30 June 2017, the Company had no reserves available for cash distribution. In accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association, the contributed surplus of the Company is available for distribution or payment of dividends to shareholders provided that the Company is able to pay off its debts as and when they fall due. The Company's share premium account, with a balance of RMB676,605,000 as at 30 June 2017, may be distributed in the form of fully paid bonus shares.

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 30 June 2017 are set out in note 1 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Year are set out in note 12 to the financial statements.

## BORROWING FACILITIES

No borrowing facilities was granted to the Group as at 30 June 2017 (2016: Nil).

## CHARITABLE DONATIONS

No charitable donation was made by the Group during the Year (2016: Nil).

## COMMITMENTS

Particulars of the commitments of the Group as at 30 June 2017 are set out in note 32 to the financial statements.

## EQUITY-LINKED AGREEMENT

Details of the equity-linked agreement entered into during the Year or subsisting at the end of the Year are set out below:

Other than the share option schemes as disclosed below, as at 30 June 2017, 3,000,000 non-redeemable convertible preferred shares of the Company with aggregate principal amount of HK$3,000,000 may be issued 10,000,000 ordinary shares under the acquisition agreement dated 26 April 2011. The non-redeemable convertible preferred shares can be converted into ordinary shares of the Company at a conversion price of HK$0.30 per share. Details of the non-redeemable convertible preferred shares of the Company are set out in the note 23 to the financial statements.

On 29 June 2016, the Company and Quick Nimble Group Limited ("Quick Nimble"), a company incorporated in the British Virgin Islands, entered into the sale and purchase agreement, pursuant to which the Company conditionally agreed to purchase the entire issued share capital of Quick Nimble at the consideration of RMB176,000,000. The consideration would be fully satisfied by the allotment and issue of not more than 692,182,017 shares at the initial issue price of HK$0.301 per share. Upon completion of the reorganisation of Shenzhen Zhongke Blue Sky Investment Limited ("Zhongke"), a company established in the PRC, Quick Nimble would hold a 51% equity interest in Zhongke. Zhongke and its subsidiaries are principally engaged in investment, development, construction and operation of renewable energy power plants in the PRC. On 12 October 2016, the Company and Quick Nimble entered into a termination letter whereby the parties had mutually agreed to terminate the sale and purchase agreement with immediate effect and to release and discharge each other from its respective obligations under the sale and purchase agreement.

Details of the transaction were set in the announcements of the Company dated 29 June 2016 and 12 October 2016.

## SHARE OPTION SCHEME (2003)

At the extraordinary general meeting of the Company held on 9 January 2003, an ordinary resolution was passed to adopt a share option scheme (the "2003 Scheme").

### Summary of the 2003 Scheme

#### (A) Purpose of the 2003 Scheme

The purpose of the 2003 Scheme is to provide incentives and rewards to eligible participants (as defined hereinafter) who contribute to the success of the Group.

#### (B) Participants of the 2003 Scheme

Pursuant to the 2003 Scheme, the Board may offer eligible participants (being employees (whether full time or part time) or executives or officers of the Company or any of its subsidiaries (including executive and non-executive Directors of the Company or any of its subsidiaries) and business consultants, agents, legal or financial advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of its subsidiaries) ("Eligible Participants") options to subscribe for such number of shares in the Company.

### (C) Total number of shares available for issue under the 2003 Scheme

The total number of shares which may be issued upon exercise of all options to be granted under the 2003 Scheme will be 40,262,500 shares, representing 10% of the shares in issue as at the adoption date on 9 January 2003. On 23 December 2005 and 22 December 2006, an ordinary resolution was passed at each of that annual general meeting to refresh the number of shares available for issue up to 10% of the shares in issue as at the resolution date, representing 46,762,500 and 55,316,900 shares respectively. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2003 Scheme must not in aggregate exceed 30% of the relevant shares of the Company in issue from time to time. As at the date of this annual report, there are no outstanding share options and no shares are available for issue under the 2003 Scheme.

### (D) Maximum entitlement of each participant

The maximum number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting.

### (E) Option period

Option may be exercised after it has vested at any time during the year to be notified by the Board at the time of the grant of the option but shall be in any event not later than 10 years from the offer date, subject to the provisions for early termination of the 2003 Scheme.

### (F) Payment on acceptance of option

Options granted must be taken up within 21 days from the offer date, upon payment of HK$1.00 per grant.

### (G) Basis of determining the subscription price

The subscription price per share under the 2003 Scheme is determined by the Board, save that such price must not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer to grant option, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer to grant option; and (c) the nominal value of the share of the Company.

### (H) Remaining life of the 2003 Scheme

The 2003 Scheme was terminated following the adoption of a new share option scheme on 11 February 2010.

## SHARE OPTION SCHEME (2010)

At the extraordinary general meeting of the Company held on 11 February 2010, an ordinary resolution was passed to adopt a share option scheme (the "2010 Scheme").

### Summary of the 2010 Scheme

#### (A) Purpose of the 2010 Scheme

The purpose of the 2010 Scheme is to provide incentives and rewards to Eligible Participants (as defined hereinafter) who contribute to the success of the Group.

#### (B) Participants of the 2010 Scheme

Pursuant to the 2010 Scheme, the Board may offer eligible participants (being employees (whether full time or part time) or executives or officers of the Company or any of its subsidiaries (including executive and non-executive Directors of the Company or any of its subsidiaries) and business consultants, agents, legal or financial advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of its subsidiaries) ("Eligible Participants") options to subscribe for such number of shares in the Company.

#### (C) Total number of shares available for issue under the 2010 Scheme

The initial total number of shares which may be issued upon exercise of all options to be granted under the 2010 Scheme will be 95,024,050 shares, representing 10% of the shares in issue as at the date of the 2010 extraordinary general meeting. On 24 May 2010, 7 December 2010, 20 December 2013, 12 December 2014, and 18 December 2015 an ordinary resolution was passed at each of the extraordinary general meeting or annual general meeting to refresh the number of shares available for issue up to 10% of the shares in issue as at the resolution date, representing 106,203,250, 151,234,450, 218,844,789, 239,868,256 and 288,409,173 shares respectively. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2010 Scheme must not in aggregate exceed 30% of the relevant shares of the Company in issue from time to time.

During the Year, no options were granted exercised, lapsed and cancelled under the 2010 Scheme. There is 245,179,840 options remained outstanding, representing approximately 8.5% of the total issued number of shares of the Company as at 30 June 2017.

#### (D) Maximum entitlement of each participant

The maximum number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting.

#### (E) Option period

An option may be exercised after it has vested at any time during the year to be notified by the Board at the time of the grant of the option but shall be in any event not later than 10 years from the offer date, subject to the provisions for early termination of the 2010 Scheme.

(F) Payment on acceptance of option

Options granted must be taken up within 7 days or such other period as the Board may decide from the offer date, upon payment of HK$1.00 per grant.

(G) Basis of determining the subscription price

The subscription price per share under the 2010 Scheme is determined by the Board, save that such price must not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer to grant option, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer to grant option; and (c) the nominal value of the share of the Company.

(H) Remaining life of the 2010 Scheme

The 2010 Scheme will remain valid until 10 February 2020.

## SHARE OPTIONS

The following table discloses movements in the Company's share options of the 2010 Scheme during the Year:

| | Name or category of participant | Date of grant | Outstanding as at 1 July 2016 | Granted during the Year | Exercised during the Year | Cancelled/ Lapsed during the Year | Outstanding as at 30 June 2017 | Exercisable period | Exercise price HK$ | Market value per share at date of grant of options HK$ |
|---|---|---|---|---|---|---|---|---|---|---|
| (a) | Director | | | | | | | | | |
| | Mr. Mu Dongsheng | 14 October 2015 | 13,000,000 | – | – | – | 13,000,000 | 14 October 2015 to 13 October 2019 | 0.300 | 0.300 |
| (b) | Eligible employees | 8 January 2014 | 12,891,840 | – | – | – | 12,891,840 | 8 January 2014 to 7 January 2019 | 0.587 | 0.600 |
| | | 9 January 2015 | 17,576,000 | – | – | – | 17,576,000 | 9 January 2015 to 8 January 2020 | 0.560 | 0.550 |
| | | 14 October 2015 | 61,000,000 | – | – | – | 61,000,000 | 14 October 2015 to 13 October 2019 | 0.300 | 0.300 |
| (c) | Eligible consultants | 8 January 2014 | 38,896,000 | – | – | – | 38,896,000 | 08 January 2014 to 07 January 2019 | 0.587 | 0.600 |
| | | 9 January 2015 | 88,816,000 | – | – | – | 88,816,000 | 9 January 2015 to 8 January 2020 | 0.560 | 0.550 |
| | | 14 October 2015 | 13,000,000 | – | – | – | 13,000,000 | 14 October 2015 to 13 October 2019 | 0.300 | 0.300 |
| | | | 245,179,840 | – | – | – | 245,179,840 | | | |

As at the date of this annual report, the total number of shares, available for issue under the 2010 Scheme was 533,589,013, representing approximately 18.50% of the issued share capital of the Company.

Information on the accounting policy for share options granted and the weighted average value per option is provided in notes 2.4 and 27 to the financial statements.

Apart from the foregoing, at no time during the Year was the Company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS

The Directors during the Year and up to the date of this annual report are:

**Executive Directors**
Mr. Mu Dongsheng *(Chairman)*
Mr. Yang Xue Jun *(Chief Executive Officer)*
Mr. Sze Ming Yee

**Independent Non-executive Directors**
Mr. Cheung Chuen
Mr. Ling Aiwen
Mr. Han Hongwei

In accordance with articles 87(1) of the Company's articles of association, Mr. Yang Xue Jun and Mr. Ling Aiwen shall retire by rotations and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE AGREEMENTS

Each of the Executive Directors appointed after 1 July 2009 listed below has entered into a service contract with the Company for a term of one year from the date of their appointments and their appointments will continue thereafter until terminated by six months' notice in writing served by either party on the other. The commencement dates of the renewal contracts at the same terms as per above of the Executive Directors are as follows:

| | |
|---|---|
| Mr. Mu Dongsheng | 15 January 2016 |
| Mr. Sze Ming Yee | 1 January 2013 |
| Mr. Yang Xue Jun | 1 January 2013 |

Mr. Cheung Chuen, Mr. Ling Aiwen and Mr. Han Hongwei were appointed as Independent Non-executive Directors on 30 September 2004, 31 July 2015 and 31 July 2015, respectively, each of their appointment letters has been renewed with the Company for a term of one year commencing from 1 January 2017, 31 July 2017 and 31 July 2017 respectively.

According to their terms of services, Mr. Cheung Chuen, Mr. Ling Aiwen and Mr. Han Hongwei are subject to retirement by rotation and offer themselves for re-election in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors has a service agreement with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

### Long positions in the shares of the Company

| Name | Capacity | Number of shares | Number of issued ordinary shares held | Number of underlying shares held pursuant to share options | Total approximate % of the issued share capital |
|---|---|---|---|---|---|
| Mr. Sze Ming Yee | Interest held as beneficial owner and through controlled corporation | 384,198,376 | 384,198,376 (Note 1) | – | 13.32% |
| Mr. Mu Dongsheng | Beneficial owner | 13,000,000 | – | 13,000,000 (Note 2) | 0.45% |

Note 1: 384,198,376 Shares are held by Union Day Group Limited (a company incorporated in the British Virgin Islands with limited liability) which is 72% beneficially owned by Mr. Sze Ming Yee.

Note 2: 13,000,000 share options are held by Mr. Mu Dongsheng.

Save as disclosed above, as at 30 June 2017, none of the Directors nor the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2017, according to the register of members kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following person/entity (other than the Directors or chief executives of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

### Long positions in the shares of the Company

| Name | Capacity | Number of shares | Number of issued ordinary shares held | Number of underlying shares held | Total Approximate % of the issued share capital |
|---|---|---|---|---|---|
| Union Day Group Limited | Beneficial Owner | 384,198,376 | 384,198,376 (Note 1) | – | 13.32 |
| Mr. Hui Lung Hing | Beneficial Owner | 286,097,777 | 277,777,777 | 8,320,000 (Note 2) | 9.92 |
| Mr. Yin Jia Tang | Beneficial Owner | 166,162,963 | 160,962,963 | 5,200,000 (Note 3) | 5.76 |

Note 1: 384,198,376 shares are held by Union Day Group Limited (a company incorporated in the British Virgin Islands with limited liability) which is 72% beneficially owned by Mr. Sze Ming Yee.

Note 2: 8,320,000 share options are held by Mr. Hui Lung Hing.

Note 3: 5,200,000 share options are held by Mr. Yin Jia Tang.

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO as at 30 June 2017.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed above and save as disclosed in the paragraph under "PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES" in this report, at no time during the Year was the Company, its holding company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective close associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## DISCLOSURE OF CHANGE IN INFORMATION ON DIRECTOR

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of information on Director is as follows:

Mr. Cheung Chuen, Mr. Ling Aiwen and Mr. Han Hongwei are Independent Non-executive Directors, have re-entered into appointment letters with the Company for a term of one year commencing from 1 January 2017, 31 July 2017 and 31 July 2017.

## INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Year.

## DIRECTORS OF SUBSIDIARIES

The names of directors who have served on the Board of Directors of the subsidiaries of the Company during the Year and up to the date of this report are as follows:

Mr. Mu Dongsheng
Mr. Yin Jia Tang
Mr. Kam Kit

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 33 to the financial statements, no transaction, arrangement or contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the Year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or the management shareholders or the substantial shareholders of the Company, or any of their respective close associates (as defined in the Listing Rules) had any material interest in a business that competes or may compete with the business of the Group.

## MANAGEMENT CONTRACT

Save as disclosed herein, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the Year.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 121 to 122 of the annual report.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## PRE-EMPTIVE RIGHTS

There is no provision 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 existing shareholders.

## AUDIT COMMITTEE

The Company established the Audit Committee since 8 May 2001 with written terms of reference and the duties of the Audit Committee include reviewing the Company's annual reports and interim reports and providing advice and comments to the Directors. The Audit Committee is also responsible for reviewing and supervising the financial reporting, risk management and internal control systems of the Group.

As at the date of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. Cheung Chuen, Mr. Ling Aiwen and Mr. Han Hongwei. During the Year, the Audit Committee met twice to review the interim and annual results of the Group.

## CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 14 to 24.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

## AUDITOR

Ernst & Young retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board

**Mu Dongsheng**
*Chairman*

Hong Kong, 27 September 2017

**Independent auditor's report**
**To the shareholders of Kingwell Group Limited**
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Kingwell Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 45 to 120, 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, the consolidated statement of changes in equity and the 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.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

## KEY AUDIT MATTERS (Continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| **Key audit matter** | **How our audit addressed the key audit matter** |
|---|---|
| *Net realisable value of inventories* | |
| As at 30 June 2017, the carrying value of the Group's completed properties held for sale ("Inventories") of RMB69,779,000 was significant. These Inventories are stated at the lower of cost and net realisable value.<br><br>The calculation of the net realisable value of the Inventories at the end of the reporting period was performed by management by reference to the valuation report of the Inventories issued by an independent professionally qualified valuer. The calculation of the net realisable value of the Inventories involved significant management judgement and estimation in assessing the expected future selling prices, the estimated future selling costs and the relevant taxes.<br><br>We identified the assessment of the net realisable value of the Group's Inventories as a key audit matter because of the significance of the Inventories to the total assets of the Group and the inherent risks involved in estimating future selling prices, particularly in light of the current economic circumstances and property market measures introduced in various cities across Mainland China.<br><br>Related disclosures are included in notes 3 and 16 to the financial statements. | We conducted site visit to the Inventories on a sample basis. We evaluated the valuation methodology adopted by management for assessing the net realisable value of the Inventories and compared the key estimates and assumptions adopted in the valuations, including those relating to selling prices, with market available data, historical data, and sales budget plan maintained by the Group. We also considered the competence, capabilities and objectivity of management's external expert. We also involved our valuation expert to assist us in critically assessing the methodology and assumptions utilised in the evaluation of the fair value of the Inventories by management's external expert. |

## KEY AUDIT MATTERS (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of mining and exploration rights and exploration and evaluation assets* | |
| The delay of production schedule and recent volatile gold prices were considered an impairment indicator of mining and exploration rights and exploration and evaluation assets. Management of the Group engaged an independent professional qualified valuer to perform an impairment test on the mining and exploration rights and exploration and evaluation assets by using a discounted cash flow model as at 30 June 2017. Based on the outcome of the impairment test, the Group did not recognise any impairment provision.<br><br>This area was important to our audit because the mining and exploration rights and exploration and evaluation assets of RMB76,238,000 were significant to the Group and significant judgement was involved in the assessment of the recoverable amount of the mining and exploration rights and exploration and evaluation assets. This assessment required management to make assumptions on the discounted cash flow model. The most critical assumptions were the future gold prices, production volume and discount rate.<br><br>Related disclosures are included in notes 3 and 14 to the financial statements. | We considered the competence, capabilities and objectivity of management's external expert. We evaluated and challenged the methodology and assumptions used by management and management's external expert to estimate the recoverable amount of the assets. We compared management's gold price assumptions with the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts. We checked consistency of the forecast production volume against the development plan of the gold mine. We also involved our valuation expert to assist us in critically assessing the methodology and assumptions applied in the model, including the discount rate. |

## KEY AUDIT MATTERS (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of investment in an associate* | |
| The Group's associate is principally engaged in the mining, processing, refining and sale of gold bars in Mainland China. The decrease of production volume and recent volatile gold prices were considered an impairment indicator of the investment in an associate.<br><br>Management of the Group engaged an independent professional qualified valuer to perform an impairment test on the investment in an associate with reference to the share of estimated future cash flows expected to be generated by the associate by using a discounted cash flow model as at 30 June 2017. Based on the outcome of the impairment test, the Group recognised an impairment provision of RMB73,058,000 for the year and the carrying value of the Group's investment in an associate was RMB52,769,000 as at 30 June 2017. This area was important to our audit because the investment in an associate was significant to the Group and significant judgement was involved in the assessment of the recoverable amount of the investment in an associate. This assessment required management to make assumptions on the discounted cash flow model. The most critical assumptions were the future gold price, production volume and discount rate.<br><br>Related disclosures are included in notes 3 and 15 to the financial statements. | We considered the competence, capabilities and objectivity of management's external expert. We evaluated and challenged the methodology and assumptions used by management and management's external expert to estimate the recoverable amount of the investment in an associate. We compared management's gold price assumptions with the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts. We checked consistency of the forecast production volume against historical data and production budget plan maintained by the Group. We also involved our valuation expert to assist us in critically assessing the methodology and assumptions applied in the model, including the discount rate. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, 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 judgement and maintain professional scepticism 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.

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

We communicate with the Audit Committee 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 the Audit Committee 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 the Audit Committee, 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 this independent auditor's report is Lee Mee Kwan, Helena.

**Ernst & Young**
*Certified Public Accountants*

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

27 September 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 30 June 2017

| | Notes | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|
| REVENUE | 5 | **10,542** | 8,670 |
| Cost of sales | | **(8,828)** | (7,111) |
| Gross profit | | **1,714** | 1,559 |
| Other income and gains | 5 | **5,310** | 1,752 |
| Selling and distribution expenses | | **(460)** | (278) |
| Administrative expenses | | **(15,307)** | (28,512) |
| Other expenses | | **(3,318)** | (13,261) |
| Provision for impairment of an associate | 15 | **(73,058)** | – |
| Finance costs | 7 | **(66)** | (4,617) |
| Share of loss of an associate | 15 | **(6,312)** | (5,663) |
| LOSS BEFORE TAX | 6 | **(91,497)** | (49,020) |
| Income tax credit | 10 | **473** | 2,380 |
| **LOSS FOR THE YEAR** | | **(91,024)** | (46,640) |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **6,094** | (541) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | **6,094** | (541) |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | **(84,930)** | (47,181) |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

Year ended 30 June 2017

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Loss attributable to: | | | |
| Owners of the Company | | **(90,724)** | (44,401) |
| Non-controlling interests | | **(300)** | (2,239) |
| | | **(91,024)** | (46,640) |
| Total comprehensive loss attributable to: | | | |
| Owners of the Company | | **(87,419)** | (44,431) |
| Non-controlling interests | | **2,489** | (2,750) |
| | | **(84,930)** | (47,181) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 11 | **RMB cents** | RMB cents |
| Basic | | **(3.15)** | (1.80) |
| Diluted | | **(3.15)** | (1.80) |

# Consolidated Statement of Financial Position

30 June 2017

| | Notes | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | **1,482** | 1,778 |
| Investment properties | 13 | **5,964** | 3,950 |
| Intangible assets | 14 | **76,238** | 69,478 |
| Investment in an associate | 15 | **52,769** | 132,139 |
| Deferred tax assets | 24 | **5,190** | 4,187 |
| Total non-current assets | | **141,643** | 211,532 |
| CURRENT ASSETS | | | |
| Inventories | 16 | **69,779** | 79,650 |
| Trade receivables | 17 | **70** | 234 |
| Deposits and other receivables | 18 | **405** | 4,006 |
| Pledged deposits | 19 | **503** | 735 |
| Cash and cash equivalents | 19 | **44,139** | 38,779 |
| | | **114,896** | 123,404 |
| Non-current assets classified as held for sale | 20 | **–** | 39,270 |
| Total current assets | | **114,896** | 162,674 |
| CURRENT LIABILITIES | | | |
| Trade payables | 21 | **1,840** | 2,599 |
| Other payables and accruals | 22 | **20,664** | 48,740 |
| Tax payable | | **6,247** | 6,906 |
| Total current liabilities | | **28,751** | 58,245 |
| NET CURRENT ASSETS | | **86,145** | 104,429 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **227,788** | 315,961 |

# Consolidated Statement of Financial Position (Continued)

30 June 2017

| | Notes | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **227,788** | 315,961 |
| NON-CURRENT LIABILITIES | | | |
| Non-redeemable convertible preferred shares | 23 | **572** | 499 |
| Deferred tax liabilities | 24 | **8,845** | 12,161 |
| Total non-current liabilities | | **9,417** | 12,660 |
| Net assets | | **218,371** | 303,301 |
| EQUITY | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | 26 | **252,856** | 252,856 |
| Non-redeemable convertible preferred shares | 23 | **2,252** | 2,252 |
| Other reserves | 28 | **(82,126)** | 5,293 |
| | | **172,982** | 260,401 |
| Non-controlling interests | | **45,389** | 42,900 |
| Total equity | | **218,371** | 303,301 |

**Mu Dongsheng**
*Director*

**Yang Xue Jun**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 30 June 2017

| | | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital RMB'000 | Share premium account RMB'000 | Share option reserve RMB'000 | Non-redeemable convertible preferred shares RMB'000 | Statutory reserve RMB'000 | Capital reserve RMB'000 | Capital contribution reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 July 2015 | | 229,285 | 662,461 | 37,280 | 2,252 | 4,680 | 19 | 48,448 | (8,668) | (720,769) | 254,988 | 45,650 | 300,638 |
| Loss for the year | | – | – | – | – | – | – | – | – | (44,401) | (44,401) | (2,239) | (46,640) |
| Other comprehensive loss for the year | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | (30) | – | (30) | (511) | (541) |
| Total comprehensive loss for the year | | – | – | – | – | – | – | – | (30) | (44,401) | (44,431) | (2,750) | (47,181) |
| Issue of shares | 26 | 23,571 | 14,144 | – | – | – | – | – | – | – | 37,715 | – | 37,715 |
| Equity-settled share option arrangements | 27(c) | – | – | 12,129 | – | – | – | – | – | – | 12,129 | – | 12,129 |
| At 30 June 2016 | | 252,856 | 676,605* | 49,409* | 2,252 | 4,680* | 19* | 48,448* | (8,698)* | (765,170)* | 260,401 | 42,900 | 303,301 |

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 | Share premium account RMB'000 | Share option reserve RMB'000 | Non-redeemable convertible preferred shares RMB'000 | Statutory reserve RMB'000 | Capital reserve RMB'000 | Capital contribution reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 July 2016 | 252,856 | 676,605 | 49,409 | 2,252 | 4,680 | 19 | 48,448 | (8,698) | (765,170) | 260,401 | 42,900 | 303,301 |
| Loss for the year | – | – | – | – | – | – | – | – | (90,724) | (90,724) | (300) | (91,024) |
| Other comprehensive income for the year | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | – | 3,305 | – | 3,305 | 2,789 | 6,094 |
| Total comprehensive income/(loss) for the year | – | – | – | – | – | – | – | 3,305 | (90,724) | (87,419) | 2,489 | (84,930) |
| Transfer to statutory reserve | – | – | – | – | 76 | – | – | – | (76) | – | – | – |
| At 30 June 2017 | 252,856 | 676,605* | 49,409* | 2,252 | 4,756* | 19* | 48,448* | (5,393)* | (855,970)* | 172,982 | 45,389 | 218,371 |

* These reserve accounts comprise deficit in the consolidated other reserves of RMB82,126,000 (2016: comprise consolidated other reserves of RMB5,293,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 30 June 2017

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before tax | | **(91,497)** | (49,020) |
| Adjustments for: | | | |
| Finance costs | 7 | **66** | 4,617 |
| Interest income | 5 | **(24)** | (12) |
| Provision for impairment of an associate | 6 | **73,058** | – |
| Write-off of other receivables | 6 | **1,482** | – |
| Depreciation | 6 | **300** | 375 |
| Changes in fair value of investment properties | 6 | **(1,538)** | 2,305 |
| Write-down of inventories to net realisable value | 6 | **–** | 9,235 |
| Equity-settled share option expense | 6 | **–** | 12,129 |
| Share of loss of an associate | | **6,312** | 5,663 |
| | | **(11,841)** | (14,708) |
| Decrease in inventories | | **8,624** | 6,758 |
| Decrease/(increase) in trade receivables | | **164** | (234) |
| Decrease/(increase) in deposits and other receivables | | **2,119** | (1,038) |
| Decrease in pledged deposits | | **232** | 527 |
| Decrease in trade payables | | **(759)** | (3,805) |
| Increase in other payables and accruals | | **2,452** | 18,729 |
| Cash generated from operations | | **991** | 6,229 |
| Taxes paid | | **(1,002)** | (900) |
| Net cash flows (used in)/from operating activities | | **(11)** | 5,329 |

Year ended 30 June 2017

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Net cash flows (used in)/from operating activities | | **(11)** | 5,329 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **24** | 12 |
| Proceeds from disposal of items of property, plant and equipment | | **–** | 230 |
| Proceeds from disposal of investment properties | | **6,265** | 314 |
| Additions to intangible assets | 14 | **(8)** | – |
| Proceeds from disposal of intangible assets | 14 | **–** | 982 |
| Net cash flows from investing activities | | **6,281** | 1,538 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | 26 | **–** | 37,715 |
| Repayment of other borrowings | | **–** | (17,600) |
| Interest paid | | **(255)** | (3,527) |
| Redemption of the promissory note | 25 | **–** | (27,011) |
| Net cash flows used in financing activities | | **(255)** | (10,423) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **6,015** | (3,556) |
| Cash and cash equivalents at beginning of year | | **38,779** | 37,063 |
| Effect of foreign exchange rate changes, net | | **(655)** | 5,272 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **44,139** | 38,779 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 19 | **44,139** | 38,779 |

## 1. CORPORATE AND GROUP INFORMATION

Kingwell Group Limited is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands.

During the year, the Group was involved in the following principal activities:

- gold mining
- property development and property leasing

### Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

| Company | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Stephigh Group Limited | British Virgin Islands ("BVI")/ Hong Kong | US$50,000 | 100% | – | Investment holding |
| Well Gold Group Limited | Hong Kong | HK$1 | 100% | – | Investment holding |
| Commerce Prosper Limited | BVI/Hong Kong | US$67,115 | 51% | – | Investment holding |
| Rise Win Group Limited | BVI/Hong Kong | US$50,000 | – | 100% | Investment holding |
| Rising Ray China Group Limited | Hong Kong | HK$10,000 | – | 100% | Investment holding |
| Anlu Taihe Real Estate Development Company* | PRC/Mainland China | RMB30,000,000 | – | 100% | Development and sale of real estate |
| Zolotoy Standart Limited | Russia | RUB10,000 | – | 100% | Gold mining |

* Registered as a wholly-foreign-owned enterprise under the PRC law.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## 2.1 BASIS OF PREPARATION (Continued)

### Basis of consolidation (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | Investment Entities: Applying the Consolidation Exception |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to HKAS 1 | Disclosure Initiative |

Other than as explained below regarding the impact of amendments to HKAS 1, the adoption of the above revised standards has had no significant financial effect on these financial statements.

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| 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 Insurances Contracts*[2] |
| HKFRS 9 | *Financial Instruments*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 15 | *Revenue from Contracts with Customers*[2] |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2] |
| HKFRS 16 | *Leases*[3] |
| Amendments to HKAS 7 | *Disclosure Initiative*[1] |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses*[1] |
| HK (IFRIC) – 22 | *Foreign Currency Transactions and Advance Consideration*[2] |
| HK (IFRIC) – 23 | *Uncertainty over Income Tax Treatments*[3] |
| Amendment to HKAS 40 | *Transfers of Investment Property*[2] |
| Amendments to HKFRS 1 included in *Annual Improvements 2014-2016 Cycle* | *First-time Adoption of Hong Kong Financial Reporting Standards*[2] |
| Amendments to HKFRS 12 included in *Annual Improvements 2014-2016 Cycle* | *Disclosure of interests in Other Entities*[1] |
| Amendments to HKAS 28 included in *Annual Improvements 2014-2016 Cycle* | *Investments in Associates and Joint Ventures*[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 No mandatory effective date yet determined but available for adoption

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 July 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 July 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 July 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 July 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 July 2017.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 July 2017.

Amendments to HKAS 40 clarify that, to transfer to or from, investment properties, there must be a change in use. A change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred. The amendments also re-characterised the list of circumstances in HKAS 40.57(a)-(d) as a non-exhaustive list of examples to allow for other circumstances to be accounted for as a transfer, as long as that change is supported by appropriate evidence. The Group expects to adopt the amendments from 1 July 2018.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over these policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate is included as part of the Group's investment in an associate.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method, in all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fair value measurement

The Group measures its investment properties at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Related parties (Continued)

(b) (Continued)

(iii) the entity and the Group 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 entity;

(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); and

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

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | 3.6% |
| Leasehold improvements | 33.3% |
| Plant and machinery | 9% |
| Furniture and fixtures | 18% |
| Motor vehicles | 28% |

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment and depreciation (Continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

### Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated or amortised.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

#### Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to mining rights and are amortised based on the accounting policy as stated in "Mining and exploration rights" below. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

#### Mining and exploration rights

Mining and exploration rights, including transferred exploration and evaluation assets, are stated at cost less accumulated amortisation and any impairment losses. The mining and exploration rights are amortised over the estimated useful lives of the mines in accordance with the production plan of the entities concerned and the proven and probable reserves of the mines using the unit-of-production method. Mining and exploration rights are written off to profit or loss if the mining property is abandoned.

#### Computer software

Software is stated at cost less impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses for receivables.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise to the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to reply.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

#### Financial assets carried at amortised cost (Continued)

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

#### Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

#### Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial liabilities (Continued)

#### Non-redeemable convertible preferred shares

Non-redeemable convertible preferred shares issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

Non-redeemable convertible preferred shares are classified as a liability if interest payments are not discretionary. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the preferred shares and the fair value assigned to the liability component, representing the conversion option for the holder to convert the preferred shares into equity, is included in equity.

In subsequent periods, the liability component of non-redeemable convertible preferred shares is carried at amortised cost using the effective interest method. The equity component will remain in equity until the conversion options are exercised and will be transferred to share capital and share premium of the Company.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Cost is determined by an apportionment of the total costs of land and buildings attributable to unsold properties. Net realisable value is determined by the directors based on the prevailing market prices on an individual property basis less costs to be incurred in selling the property.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax (Continued)

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

### Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Binomial Option Pricing model or Black-Scholes model, further details of which are given in note 27 to the financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Other employee benefits

#### Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in RMB. The functional currency of the Company is the Hong Kong dollar ("HK$"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of the subsidiary in Mainland China is RMB, while the functional currencies of the subsidiaries outside Mainland China are HK$ and Russian ruble ("RUB"). As at the end of the reporting period, the assets and liabilities of those entities of which the functional currencies other than RMB are translated into RMB at exchange rates prevailing at the end of the reporting period and their profit or loss is translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of those entities of which the functional currencies are currencies other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of those entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Judgements (Continued)

#### Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

#### Recognition of a deferred tax liability for withholding taxes

Deferred income tax liability has been established for withholding tax that would be payable on certain profit of the subsidiary in Mainland China to be repatriated and distributed by way of dividends.

### Estimation uncertainty

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, are described below.

#### Provision for impairment of trade and other receivables

Provision for impairment of trade and other receivables is made based on the assessment of the recoverability of trade receivables and other receivables. The identification of impairment of trade and other receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the receivables and impairment of trade and other receivables in the year in which such estimate has been changed.

#### Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty (Continued)

#### Estimation of fair value of investment properties (Continued)

The principal assumptions for the Group's estimation of the fair value include those related to recent market selling prices for similar properties in the same location and condition, appropriate discount rates, and expected future maintenance costs. The carrying amount of investment properties at 30 June 2017 was RMB5,964,000 (2016: RMB3,950,000).

#### Mineral reserves

Engineering estimates of the Group's mineral resources are inherently imprecise and represent only approximate amounts because of the assumptions involved in developing such information.

There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven" and "probable". Proven and probable mineral reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost level change from year to year, the estimate of proven and probable mineral reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation/amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation/amortisation expenses and impairment losses. Depreciation/amortisation rates of the mining structures and mining and exploration rights are determined based on the proven and probable mineral reserve quantity (the denominator) and capitalised costs of the mining structures or mining rights (the numerator).

#### Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### Net realisable value of completed properties held for sale

The Group writes down completed properties held for sale to net realisable value based on assessment of the realisability of completed properties held for sale which takes into account net sales value based on prevailing market conditions. If there is a decrease in net sales value, the net realisable value will decrease which may result in writing down completed properties held for sale to net realisable value. Write-downs are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value of completed properties held for sale is adjusted in the period in which such estimate is changed. As at 30 June 2017, no impairment loss (2016: RMB9,235,000) has been recognised to write down the carrying amount of completed properties held for sale to the estimated net realisable value.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty (Continued)

#### Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets related to tax losses are recognised in respect to these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

#### People's Republic of China ("PRC") land appreciation taxes ("LAT")

The Group is subject to LAT in Mainland China. The provision for LAT is based on management's best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects. The Group has finalised its LAT calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact the LAT expenses and the related provision in the period in which the differences realise. Further details are included in note 22 to the financial statements.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has two reportable operating segments as follows:

(a) the gold mining segment engages in the production and sale of gold; and

(b) the property development and property leasing segment engages in the development of villas, apartments and commercial buildings and property leasing of self-owned properties.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's loss before tax except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets and other unallocated head office and corporate assets, as these assets are managed on a group basis.

Segment liabilities exclude tax payable, non-redeemable convertible preferred shares, deferred tax liabilities and other unallocated head office and corporate liabilities, as these liabilities are managed on a group basis.

## 4. OPERATING SEGMENT INFORMATION (Continued)

| Year ended 30 June 2017 | Gold mining RMB'000 | Property development and property leasing RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Segment revenue:** | | | |
| Sales to external customers | – | 10,542 | 10,542 |
| Other revenue | – | 5,286 | 5,286 |
| | – | 15,828 | 15,828 |
| **Segment results** | (5,738) | (135) | (5,873) |
| *Reconciliation:* | | | |
| Interest income | | | 24 |
| Corporate and other unallocated expenses | | | (12,524) |
| Provision for impairment of an associate | | | (73,058)* |
| Finance costs | | | (66) |
| Loss before tax | | | (91,497) |
| **Segment assets** | 145,416 | 96,245 | 241,661 |
| *Reconciliation:* | | | |
| Corporate and other unallocated assets | | | 14,878 |
| | | | 256,539 |
| **Segment liabilities** | 12 | 19,660 | 19,672 |
| *Reconciliation:* | | | |
| Corporate and other unallocated liabilities | | | 18,496 |
| | | | 38,168 |
| **Other segment information:** | | | |
| Share of loss of an associate | (6,312) | – | (6,312) |
| Depreciation | – | 300 | 300 |
| Investment in an associate | 52,769 | – | 52,769 |

* Related to the gold mining segment

## 4. OPERATING SEGMENT INFORMATION (Continued)

| Year ended 30 June 2016 | Gold mining RMB'000 | Property development and property leasing RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Segment revenue:** | | | |
| Sales to external customers | – | 8,670 | 8,670 |
| Other revenue | – | 1,740 | 1,740 |
| | – | 10,410 | 10,410 |
| **Segment results** | (8,445) | 873 | (7,572) |
| *Reconciliation:* | | | |
| Interest income | | | 12 |
| Corporate and other unallocated expenses | | | (27,608) |
| Finance costs | | | (4,617) |
| Write-down of inventories to net realisable value | | | (9,235)* |
| Loss before tax | | | (49,020) |
| **Segment assets** | 219,776 | 146,703 | 366,479 |
| *Reconciliation:* | | | |
| Corporate and other unallocated assets | | | 7,727 |
| | | | 374,206 |
| **Segment liabilities** | 88 | 46,133 | 46,221 |
| *Reconciliation:* | | | |
| Corporate and other unallocated liabilities | | | 24,684 |
| | | | 70,905 |
| **Other segment information:** | | | |
| Share of loss of an associate | (5,663) | – | (5,663) |
| Depreciation | – | 375 | 375 |
| Investment in an associate | 132,139 | – | 132,139 |

* Related to the property development and property leasing segment

## 4. OPERATING SEGMENT INFORMATION (Continued)

### Geographical information

(a) Revenue of RMB10,542,000 (2016: RMB8,670,000) was derived from sales to external customers located in Mainland China.

(b) Non-current assets

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Mainland China | **60,062** | 137,695 |
| Hong Kong | **124** | 139 |
| Russia | **76,267** | 69,511 |
| | **136,453** | 207,345 |

The non-current asset information above is based on the locations of the assets, which excludes deferred tax assets.

### Information about major customers

During the year, revenue of RMB6,219,000 was derived from sales to five customers of the property development and property leasing segment. Revenue from each of these five customers amounted to 10% or more of the Group's total revenue for the year. During the year ended 30 June 2016, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents revenue from the sale of properties, net of sales related taxes.

An analysis of revenue, other income and gains is as follows:

| | Note | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|
| **Revenue** | | | |
| Sale of properties | | **10,542** | 8,670 |
| **Other income** | | | |
| Bank interest income | | **24** | 12 |
| Rental income | | **537** | 1,740 |
| Exchange gains, net | | **912** | – |
| Compensation income | | **2,299** | – |
| | | **3,772** | 1,752 |
| **Gains** | | | |
| Fair value gains on investment properties | 13 | **1,538** | – |
| | | **5,310** | 1,752 |

## 6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Cost of properties sold | | **8,828** | 7,111 |
| Depreciation | 12 | **300** | 375 |
| Minimum lease payments under operating leases | | **546** | 752 |
| Auditor's remuneration | | **1,933** | 1,828 |
| Staff costs (excluding directors' remuneration): | | | |
| Salaries and wages | | **6,650** | 6,292 |
| Pension scheme contributions | | **259** | 156 |
| Equity-settled share option expense | | **–** | 12,129 |
| | | **6,909** | 18,577 |
| Exchange losses, net* | | **–** | 1,719 |
| Changes in fair value of investment properties# | 13 | **(1,538)** | 2,305 |
| Write-down of inventories to net realisable value* | 16 | **–** | 9,235 |
| Provision for impairment of an associate | 15 | **73,058** | – |
| Loss on disposal of investment properties* | | **1,676** | – |
| Write-off of rental receivables* | | **1,482** | – |
| Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties | | **32** | 305 |

* These amounts were included in "other expenses" in the consolidated statement of profit or loss and other comprehensive income.

# These amounts were included in "other income and gains" or "other expenses" in the consolidated statement of profit or loss and other comprehensive income.

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Interest on: | | |
| Other borrowings | – | 1,241 |
| Non-redeemable convertible preferred shares | 66 | 55 |
| Promissory note | – | 3,321 |
| | 66 | 4,617 |

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Fees | 337 | 323 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 1,494 | 1,350 |
| Pension scheme contributions | 26 | 16 |
| Performance related bonuses | – | 50 |
| | 1,520 | 1,416 |
| | 1,857 | 1,739 |

# 8. DIRECTORS' REMUNERATION (Continued)

## (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Mr. Cheung Chuen | 127 | 120 |
| Ms. Wong Lai Wing* | – | 17 |
| Mr. Huang Jian Zi* | – | 4 |
| Mr. Ling Aiwen[&] | 105 | 91 |
| Mr. Han Hongwei[&] | 105 | 91 |
| | 337 | 323 |

* Resigned as independent non-executive director on 31 July 2015.

& Appointed as independent non-executive director since 31 July 2015.

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

## (b) Executive directors

| | Salaries, allowances and benefits in kind<br>RMB'000 | Pension scheme contributions<br>RMB'000 | Performance related bonuses<br>RMB'000 | Total remuneration<br>RMB'000 |
|---|---|---|---|---|
| **2017** | | | | |
| Mr. Sze Ming Yee | 211 | 10 | – | 221 |
| Mr. Yang Xue Jun | 229 | – | – | 229 |
| Mr. Mu Dongsheng | 1,054 | 16 | – | 1,070 |
| | 1,494 | 26 | – | 1,520 |

## 8. DIRECTORS' REMUNERATION (Continued)

### (b) Executive directors (Continued)

| | Salaries, allowances and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Performance related bonuses RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|
| 2016 | | | | |
| Mr. Sze Ming Yee | 199 | 10 | – | 209 |
| Mr. Hui Lung Hing* | 464 | 6 | 25 | 495 |
| Mr. Yang Xue Jun | 230 | – | 25 | 255 |
| Mr. Mu Dongsheng& | 457 | – | – | 457 |
| | 1,350 | 16 | 50 | 1,416 |

* Retired as executive director on 18 December 2015.

& Appointed as executive director on 15 January 2016.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2016: three) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2016: two) non-director, highest paid employees for the year are as follows:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **1,582** | 1,097 |
| Pension scheme contributions | **53** | 20 |
| | **1,635** | 1,117 |

## 9. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2017** | 2016 |
| Nil to HK$1,000,000 | **4** | 2 |

## 10. INCOME TAX CREDIT

The Company is a tax exempted company registered in the Cayman Islands and conducts substantially all of its business through its subsidiaries established in Mainland China (the "PRC Subsidiaries") and Russia.

No provision for Hong Kong profits tax has been made (2016: Nil) as the Group did not generate any assessable profits in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the rate of 25% (2016: 25%).

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current – Hong Kong | **–** | – |
| Current – Mainland China | | |
| Provision for corporate income tax | **504** | – |
| Provision for LAT | **3,342** | 897 |
| Deferred (note 24) | **(4,319)** | (3,277) |
| Total tax credit for the year | **(473)** | (2,380) |

## 10. INCOME TAX CREDIT (Continued)

A reconciliation of the tax expense applicable to loss before tax at the statutory tax rate for Mainland China in which a major subsidiary of the Company is domiciled to the tax expense at the effective tax rate is as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Loss before tax | (91,497) | (49,020) |
| Tax at the Mainland China statutory tax rate of 25% | (22,874) | (12,255) |
| Lower tax rates on profits arising elsewhere | 18,676 | 3,458 |
| Expenses not deductible for tax | 34 | 57 |
| Effect of withholding tax on the distributable profits of the Group's PRC subsidiary | (280) | (404) |
| Loss attributable to an associate | 1,579 | 1,416 |
| Tax losses not recognised | – | 4,675 |
| Tax losses utilised from previous years | (115) | – |
| Provision for LAT | 3,342 | 897 |
| Tax effect of LAT | (835) | (224) |
| Tax credit at the Group's effective rate | (473) | (2,380) |

## 11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of RMB90,724,000 (2016: RMB44,401,000), and the weighted average number of ordinary shares of 2,884,091,737 (2016: 2,469,315,000) in issue during the year.

The calculation of the diluted loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amount presented for the years ended 30 June 2017 and 2016 in respect of a dilution as the impact of the share options and non-redeemable convertible preferred shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Leasehold improve-ments RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **30 June 2017** | | | | | | |
| Cost: | | | | | | |
| At 1 July 2016 | 2,167 | 428 | 16 | 651 | 1,475 | 4,737 |
| Exchange realignment | – | 8 | – | 8 | 8 | 24 |
| At 30 June 2017 | 2,167 | 436 | 16 | 659 | 1,483 | 4,761 |
| Accumulated depreciation: | | | | | | |
| At 1 July 2016 | 1,092 | 428 | 16 | 541 | 882 | 2,959 |
| Depreciation provided during the year | 72 | – | – | 17 | 211 | 300 |
| Exchange realignment | – | 8 | – | 8 | 4 | 20 |
| At 30 June 2017 | 1,164 | 436 | 16 | 566 | 1,097 | 3,279 |
| Net book value: | | | | | | |
| At 30 June 2016 | 1,075 | – | – | 110 | 593 | 1,778 |
| At 30 June 2017 | 1,003 | – | – | 93 | 386 | 1,482 |

## 12. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Buildings RMB'000 | Leasehold improve-ments RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| 30 June 2016 | | | | | | |
| Cost: | | | | | | |
| At 1 July 2015 | 2,235 | 395 | 16 | 609 | 1,718 | 4,973 |
| Disposals | (45) | – | – | – | (248) | (293) |
| Transfer to investment properties (note 13) | (23) | – | – | – | – | (23) |
| Exchange realignment | – | 33 | – | 42 | 5 | 80 |
| At 30 June 2016 | 2,167 | 428 | 16 | 651 | 1,475 | 4,737 |
| Accumulated depreciation: | | | | | | |
| At 1 July 2015 | 1,013 | 395 | 16 | 491 | 674 | 2,589 |
| Depreciation provided during the year | 84 | – | – | 24 | 267 | 375 |
| Disposals | (4) | – | – | – | (59) | (63) |
| Transfer to investment properties (note 13) | (1) | – | – | – | – | (1) |
| Exchange realignment | – | 33 | – | 26 | – | 59 |
| At 30 June 2016 | 1,092 | 428 | 16 | 541 | 882 | 2,959 |
| Net book value: | | | | | | |
| At 30 June 2015 | 1,222 | – | – | 118 | 1,044 | 2,384 |
| At 30 June 2016 | 1,075 | – | – | 110 | 593 | 1,778 |

## 13. INVESTMENT PROPERTIES

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Carrying amount at beginning of the year** | **3,950** | 45,817 |
| Transfer from completed properties held for sale | **1,247** | – |
| Transfer from owner-occupied property (note 12) | **–** | 22 |
| Transfer to non-current assets classified as held for sale (note 20) | **–** | (39,270) |
| Disposals | **(771)** | (314) |
| Net gain/(loss) from a fair value adjustment (notes 5 and 6) | **1,538** | (2,305) |
| Carrying amount at end of the year | **5,964** | 3,950 |

The Group's investment properties consist of certain commercial properties in Mainland China. The directors of the Company have determined that the investment properties are commercial properties, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 30 June 2017 based on valuations performed by independent professionally qualified valuers, at RMB5,964,000. Each year, the Group's directors and the chief financial officer decide to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's directors and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31(a) to the financial statements.

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

| | Fair value measurement at 30 June 2017 using | | | |
|---|---|---|---|---|
| **Recurring fair value measurement for:** | **Quoted prices in active markets (Level 1) RMB'000** | **Significant observable inputs (Level 2) RMB'000** | **Significant unobservable inputs (Level 3) RMB'000** | **Total RMB'000** |
| Commercial properties | **–** | **–** | **5,964** | **5,964** |

## 13. INVESTMENT PROPERTIES (Continued)

### Fair value hierarchy (Continued)

| | Fair value measurement at 30 June 2016 using | | | |
|---|---|---|---|---|
| Recurring fair value measurement for: | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Commercial properties | – | – | 3,950 | 3,950 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| | **Commercial properties** RMB'000 |
|---|---|
| Carrying amount at 30 June 2015 and 1 July 2015 | 45,817 |
| Transfer from owner-occupied property | 22 |
| Transfer to non-current assets classified as held for sale | (39,270) |
| Disposals | (314) |
| Net loss from a fair value adjustment recognised in other expenses in profit or loss (note 6) | (2,305) |
| Carrying amount at 30 June 2016 and 1 July 2016 | 3,950 |
| Transfer from completed properties held for sale | 1,247 |
| Disposals | (771) |
| Net gain from a fair value adjustment recognised in other income and gains in profit or loss (note 5) | 1,538 |
| Carrying amount at 30 June 2017 | 5,964 |

## 13. INVESTMENT PROPERTIES (Continued)

### Fair value hierarchy (Continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

| | Valuation techniques | Significant unobservable inputs | Range or weighted average | |
|---|---|---|---|---|
| | | | **2017** | 2016 |
| Commercial properties | Direct comparison approach | a. Market unit monthly rental (RMB/sq.m.) | **a. 5 – 12** | a. 5 – 13 |
| | | b. Yield per annum | **b. 2.1% – 5.2%** | b. 2.5% – 6.3% |
| | | c. Market unit sale rate (RMB/sq.m.) | **c. 2,400 – 3,200** | c. 2,000 – 2,900 |

The direct comparison approach requires a valuation by assuming sale of the property interests in its existing state with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market and also considers the basis of capitalisation of the net income receivable, if necessary.

## 14. INTANGIBLE ASSETS

| | Mining and exploration rights RMB'000 | Exploration and evaluation assets RMB'000 | Total RMB'000 |
|---|---|---|---|
| Cost: | | | |
| At 1 July 2016 | 62,740 | 6,738 | 69,478 |
| Addition | – | 8 | 8 |
| Exchange realignment | 6,098 | 654 | 6,752 |
| At 30 June 2017 | 68,838 | 7,400 | 76,238 |
| Accumulated amortisation: | | | |
| At 1 July 2016 | – | – | – |
| Provided for the year | – | – | – |
| At 30 June 2017 | – | – | – |
| Net carrying amount: | | | |
| At 30 June 2016 | 62,740 | 6,738 | 69,478 |
| At 30 June 2017 | 68,838 | 7,400 | 76,238 |

## 14. INTANGIBLE ASSETS (Continued)

| | Mining and exploration rights RMB'000 | Exploration and evaluation assets RMB'000 | Total RMB'000 |
|---|---|---|---|
| Cost: | | | |
| At 1 July 2015 | 66,741 | 8,311 | 75,052 |
| Disposal | – | (982) | (982) |
| Exchange realignment | (4,001) | (591) | (4,592) |
| At 30 June 2016 | 62,740 | 6,738 | 69,478 |
| Accumulated amortisation: | | | |
| At 1 July 2015 | – | – | – |
| Provided for the year | – | – | – |
| At 30 June 2016 | – | – | – |
| Net carrying amount: | | | |
| At 30 June 2015 | 66,741 | 8,311 | 75,052 |
| At 30 June 2016 | 62,740 | 6,738 | 69,478 |

## 15. INVESTMENT IN AN ASSOCIATE

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| **Share of net assets** | **79,181** | 85,493 |
| **Goodwill on acquisition** | **46,646** | 46,646 |
| | **125,827** | 132,139 |
| **Provision for impairment** | **(73,058)** | – |
| | **52,769** | 132,139 |

## 15. INVESTMENT IN AN ASSOCIATE (Continued)

Particulars of the associate are as follows:

| Name | Particulars of issued shares held | Place of incorporation/ registration and business | Percentage of ownership interest attributable to the Group | Principal activity |
|---|---|---|---|---|
| Port First | Ordinary shares of US$1.00 each | BVI | 35 | Investment holding |

Port First Limited ("Port First") is an investment holding company and its subsidiaries, Longkou Jinxin Gold Co., Ltd.（龍口市金鑫黃金有限公司）and Longkou Jinhui Gold Co., Ltd.（龍口市金匯黃金有限責任公司）, are engaged in the mining, processing, refining and sale of gold bars in Mainland China.

As a result of the negative effect of the decrease of production volume and volatile gold prices, the estimated recoverable amount of the Group's investment in Port First, determined with reference to the cash flows expected to be generated by Port First, dropped significantly. The directors, based on the cash flow projections of Port First, considered that the Group's investment in Port First should be impaired and therefore an impairment loss of RMB73,058,000 was charged to the consolidated statement of profit or loss and other comprehensive income for the year (note 6). The pre-tax discount rate applied to the cash flow projections was 18.54% (2016: 17.00%).

Port First which is considered a material associate of the Group, is a strategic partner of the Group engaged in the gold mining business and is accounted for using the equity method.

## 15. INVESTMENT IN AN ASSOCIATE (Continued)

The following table illustrates the summarised financial information of Port First and its subsidiaries adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Current assets | **6,053** | 13,373 |
| Non-current assets | **388,290** | 512,106 |
| Current liabilities | **(59,784)** | (64,453) |
| Non-current liabilities | **(87,350)** | (112,468) |
| Net assets | **247,209** | 348,558 |
| Non-controlling interests | **(96,440)** | (104,293) |
| | **150,769** | 244,265 |
| Reconciliation to the Group's interest in the associate: | | |
| Proportion of the Group's ownership | **35%** | 35% |
| Group's share of net assets of the associate, excluding goodwill | **52,769** | 85,493 |
| Goodwill on acquisition | **–** | 46,646 |
| Carrying amount of the investment | **52,769** | 132,139 |

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Revenue | **49,867** | 58,313 |
| Loss for the year attributable to: | | |
| Owners of Port First | **(18,035)** | (16,180) |
| Non-controlling interests of Port First | **(7,772)** | (6,896) |
| Total comprehensive loss attributable to: | | |
| Owners of Port First | **(18,033)** | (16,142) |
| Non-controlling interests of Port First | **(7,772)** | (6,896) |

## 16. INVENTORIES

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **Property development** | | |
| Completed properties held for sale | **69,779** | 79,650 |

During the year ended 30 June 2016, a provision for impairment of RMB9,235,000 (note 6) was recognised to write down the inventories to net realisable value. During the year, a provision for impairment of RMB1,171,000 was written off.

## 17. TRADE RECEIVABLES

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Trade receivables | **70** | 234 |
| Impairment | **–** | – |
| | **70** | 234 |

The Group's trade receivables arise from the sale of properties. Considerations in respect of the properties sold are payable by the buyers in accordance with the terms of the related sale and purchase agreements. Trade receivables are non-interest-bearing.

The balances of the trade receivables as at 30 June 2017 and 2016 aged within 1 month based on the invoice date, which were neither past due nor impaired. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as they are still considered fully recoverable.

## 18. DEPOSITS AND OTHER RECEIVABLES

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Deposits | **84** | 83 |
| Other receivables | **321** | 3,923 |
| | **405** | 4,006 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

## 19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Cash and bank balances | **44,139** | 38,779 |
| Time deposits | **503** | 735 |
| | **44,642** | 39,514 |
| Less: Time deposits pledged for banking facilities (note) | **(503)** | (735) |
| Cash and cash equivalents | **44,139** | 38,779 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB14,202,000 (2016: RMB3,296,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between six and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Note: The balances of the property development and property leasing segment were pledged to banks in respect of mortgage loan facilities granted by the banks to the buyers of certain properties developed by the Group.

## 20. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

On 7 August and 28 August 2015, the Group entered into letters of intent to dispose of certain investment properties to an independent thirty party (the "Buyer"). On 26 September 2016, the Group entered into a sale and purchase agreement with the Buyer to dispose of the investment properties for a consideration of RMB39,394,000. Details of the transaction are set out in the announcement of the Company dated 26 September 2016.

On 8 April 2016, the Group entered into an agreement with an individual to dispose of an investment property for a consideration of RMB270,000. The disposal of an investment was not yet completed as at 30 June 2016.

The above investment properties were classified as held for sale and the fair value measurement is RMB39,270,000 as at 30 June 2016. During the year, the disposal of those investment properties was completed.

## 21. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within 1 month | **–** | – |
| 3 months to 1 year | **46** | 1 |
| Over 1 year | **1,794** | 2,598 |
| | **1,840** | 2,599 |

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

## 22. OTHER PAYABLES AND ACCRUALS

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Advances from customers | **4,180** | 34,447 |
| Accruals | **23** | 33 |
| LAT payable | **8,455** | 5,589 |
| Other payables | **8,006** | 8,671 |
| | **20,664** | 48,740 |

Included in the other payables as at 30 June 2016 was an amount due to a subsidiary of Port First, Longkou Jinxin Gold Co., Ltd., of RMB3,004,000, which was interest-free and repaid by the Company during the year.

Other payables are non-interest-bearing and have an average term of six months.

## 23. NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES

The Company allotted and issued 93,000,000 non-redeemable convertible preferred shares ("CPS") at HK$1.00 per CPS on 3 May 2011. The holder of the CPS has the right to convert the CPS into a total of 310,000,000 ordinary shares at a price of HK$0.30 per share on any business day after the issue date. A non-cumulative dividend of 2% per annum on the face value is payable by the Company annually in arrears on each anniversary date of the issue date, subject to sufficient reserves permissible by laws from time to time. At the end of the reporting period, the Company had 3,000,000 (2016: 3,000,000) CPS outstanding.

Initial recognition of the CPS recognised at the issuance date was calculated as follows:

| | RMB'000 |
|---|---|
| Fair value of the CPS | 77,820 |
| Equity component of the CPS | (69,801) |
| Liability component of the CPS | 8,019 |

## 23. NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)

The Black-Scholes model was used to value the fair value of the CPS. The inputs to the model were as follows:

| | |
|---|---|
| Valuation date | 3 May 2011 |
| Share price | HK$0.32 |
| Exercise price | HK$0.30 |
| Risk-free rate | 0.169% |
| Expected volatility | 35.577% |
| Expected dividend yield | – |

The liability component represents the Company's contractual obligation of interest payment to the holders of the CPS. For the fair value of the liability component of the CPS at initial recognition, the effective interest rate method is adopted in the valuation. The effective interest rate used in the valuation is 12.867%.

The carrying amounts of the liability component of the CPS during the year were calculated as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Beginning of the year | 499 | 408 |
| Interest expense (note 7) | 66 | 55 |
| Exchange realignment | 7 | 36 |
| End of the year | 572 | 499 |

## 24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

| | Withholding taxes RMB'000 | Fair value adjustment of properties RMB'000 | Revaluation of investment properties RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 July 2015 | 1,056 | 9,279 | 2,793 | 314 | 13,442 |
| Charged/(credited) to profit or loss during the year (note 10) | (404) | (357) | (576) | 56 | (1,281) |
| At 30 June 2016 and 1 July 2016 | 652 | 8,922 | 2,217 | 370 | 12,161 |
| Credited to profit or loss during the year (note 10) | (280) | (920) | (1,746) | (370) | (3,316) |
| At 30 June 2017 | **372** | **8,002** | **471** | **–** | **8,845** |

Pursuant to the PRC Corporate Income Tax Law, withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

### Deferred tax assets

| | Write-down of inventories to net realisable value RMB'000 | Provision for LAT RMB'000 | Accruals and other provision RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 July 2015 | – | 1,201 | 990 | 2,191 |
| Credited/(charged) to profit or loss during the year (note 10) | 2,308 | 196 | (508) | 1,996 |
| At 30 June 2016 and 1 July 2016 | 2,308 | 1,397 | 482 | 4,187 |
| Credited/(charged) to profit or loss during the year (note 10) | (292) | 716 | 579 | 1,003 |
| At 30 June 2017 | **2,016** | **2,113** | **1,061** | **5,190** |

## 24. DEFERRED TAX (Continued)

The Group has unrecognised deferred tax assets from tax losses arising in Mainland China and Russia in an aggregate amount of RMB13,850,000 (2016: RMB14,423,000) that will expire in five and six to ten years, respectively, for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these tax losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the above items can be utilised.

## 25. PROMISSORY NOTE

As part of the consideration for the acquisition of a 35% equity interest in Port First, the Company issued a promissory note with a principal amount of HK$87,500,000 (equivalent to RMB69,250,000) and a maturity date on 30 January 2018. The promissory note carried interest at a rate of 6% per annum. The fair value of the promissory note at initial recognition was HK$76,920,000 (equivalent to RMB60,877,000) which was determined by independent professionally qualified valuers. The effective interest rate of the promissory note was 10.3% per annum.

The Company is allowed to redeem the outstanding promissory note in any amount so long as giving written notice at least 7 days in advance. The Company has early redeemed the promissory note with the whole principal amount as at 30 June 2016.

## 25. PROMISSORY NOTE (Continued)

The movements of the promissory note during the year ended 30 June 2016 were as follows:

| | 2016<br>RMB'000 |
|---|---|
| At beginning of the year | 22,621 |
| Interest expense (note 7) | 3,321 |
| Interest payable | (150) |
| Early redemption | (27,011) |
| Exchange realignment | 1,219 |
| At end of the year | – |

## 26. SHARE CAPITAL

### Shares

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Authorised: | | |
| 5,000,000,000 (2016: 5,000,000,000) ordinary shares of HK$0.10 each | **500,000** | 500,000 |
| 100,000,000 (2016: 100,000,000) CPS of HK$1.00 each | **100,000** | 100,000 |
| | **600,000** | 600,000 |

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Issued and fully paid: | | |
| 2,884,091,737 (2016: 2,884,091,737) ordinary shares | **252,856** | 252,856 |

On 5 November 2015, 288,409,173 offer shares were issued at the subscription price of HK$0.16 per offer share on the basis of one offer share for every nine existing ordinary shares of the Company held under the open offer (the "Open Offer"), resulting in an increase of share capital and share premium of HK$28,841,000 (equivalent to RMB23,571,000) and HK$17,305,000 (equivalent to RMB14,144,000), respectively. All the considerations for the Open Offer were received in cash.

## 26. SHARE CAPITAL (Continued)

A summary of movements in the Company's share capital and share premium account during the year ended 30 June 2016 was as follows:

| | Number of shares in issue | Issued capital RMB'000 | Share premium account RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 July 2015 | 2,595,682,564 | 229,285 | 662,461 | 891,746 |
| Placing of shares | 288,409,173 | 23,571 | 14,144 | 37,715 |
| At 30 June 2016 | 2,884,091,737 | 252,856 | 676,605 | 929,461 |

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 27 to the financial statements.

## 27. SHARE OPTIONS

The Group has launched six lots of share options (the "Options") on 26 May 2010, 8 November 2010, 11 May 2011, 8 January 2014, 9 January 2015 and 14 October 2015, respectively, for the purpose of providing incentives and rewards to the eligible participants who contribute to the success of the Group's operations. Eligible participants of the Options include the Company's executive directors, employees and consultants.

The maximum number of unexercised share options currently permitted to be granted is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Options within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 7 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

## 27. SHARE OPTIONS (Continued)

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The first, second and third lots of share options have been fully exercised up to 30 June 2015. Details of the outstanding three lots of share options granted are as follows:

### (a) The fourth lot of share options

On 8 January 2014, 91,500,000 share options were granted to the eligible participants of the Group. The exercise price of the options is HK$0.610 per share.

The share options are exercisable any time within five years starting from 8 January 2014 with no service conditions and performance conditions attached.

The exercise price of the share options is subject to adjustment in the case of conversion of statutory reserves into capital, split-up of shares, merging of shares, dividend distribution, or other similar changes in the Company's stock price.

The fair value of the fourth lot of equity-settled share options was estimated as at the date of grant using the Binomial Option Pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | |
|---|---|
| Stock price per share | HK$0.600 |
| Exercise price per share | HK$0.610 |
| Expected volatility | 68.363% |
| Risk-free interest rate | 1.437% |
| Expected life | 5 years |
| Fair value per share | HK$0.34 |

The expected life of the options was based on the historical data and was not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility was indicative of future trends, which may also not necessarily be the actual outcome.

## 27. SHARE OPTIONS (Continued)

### (b) The fifth lot of share options

On 9 January 2015, 102,300,000 share options were granted to the eligible participants of the Group. The exercise price of the options is HK$0.582 per share.

The share options are exercisable any time within five years starting from 9 January 2015 with no service conditions and performance conditions attached.

The exercise price of the share options is subject to adjustment in the case of conversion of statutory reserves into capital, split-up of shares, merging of shares, dividend distribution, or other similar changes in the Company's stock price.

The fair value of the fifth lot of equity-settled share options was estimated as at the date of grant using the Binomial Option Pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | |
|---|---|
| Stock price per share | HK$0.550 |
| Exercise price per share | HK$0.582 |
| Expected volatility | 61.462% |
| Risk-free interest rate | 1.237% |
| Expected life | 5 years |
| Fair value per share | HK$0.28 |

The expected life of the options was based on the historical data and was not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility was indicative of future trends, which may also not necessarily be the actual outcome.

### (c) The sixth lot of share options

On 14 October 2015, 87,000,000 share options were granted to the eligible participants of the Group. The exercise price of the options is HK$0.30 per share.

The share options are exercisable any time within four years starting from 14 October 2015 with no service conditions and performance conditions attached.

The exercise price of the share options is subject to adjustment in the case of conversion of statutory reserve into capital, split-up of shares, merging of shares, dividend distribution, or other similar changes in the Company's stock price.

The fair value of the share options granted during the year ended 30 June 2016 was HK$14,790,000 (HK$0.17 each) (equivalent to RMB12,129,000 (RMB0.14 each)), of which the Group recognised a share option expense of RMB12,129,000 during the year ended 30 June 2016.

## 27. SHARE OPTIONS (Continued)

### (c) The sixth lot of share options (Continued)

The fair value of the sixth lot of equity-settled share options was estimated as at the date of grant using the Binomial Option Pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | |
|---|---|
| Stock price per share | HK$0.30 |
| Exercise price per share | HK$0.30 |
| Expected volatility | 77.888% |
| Risk-free interest rate | 0.634% |
| Expected life | 4 years |
| Fair value per share | HK$0.17 |

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Movements in the fourth lot of share options for eligible participants during the years were as follows:

| | **Total number of share options outstanding during the year ended 30 June 2017** | **Weighted average exercise price per share (HK$)** | Total number of share options outstanding during the year ended 30 June 2016 | Weighted average exercise price per share (HK$) |
|---|---|---|---|---|
| Outstanding at beginning of year | **51,787,840** | **0.587** | 49,796,000 | 0.610 |
| Adjusted during the year (note) | **–** | **–** | 1,991,840 | 0.587 |
| Outstanding at end of year | **51,787,840** | **0.587** | 51,787,840 | 0.587 |
| Exercisable at end of year | **51,787,840** | | 51,787,840 | |

## 27. SHARE OPTIONS (Continued)

Movements in the fifth lot of share options for eligible participants during the years were as follows:

| | Total number of share options outstanding during the year ended 30 June 2017 | Weighted average exercise price per share (HK$) | Total number of share options outstanding during the year ended 30 June 2016 | Weighted average exercise price per share (HK$) |
|---|---|---|---|---|
| Outstanding at beginning of year | 106,392,000 | 0.560 | 102,300,000 | 0.582 |
| Adjusted during the year (note) | – | – | 4,092,000 | 0.560 |
| Outstanding at end of year | 106,392,000 | 0.560 | 106,392,000 | 0.560 |
| Exercisable at end of year | 106,392,000 | | 106,392,000 | |

Note: Upon completion of the Open Offer of the Company during the year ended 30 June 2016, the exercise price and the number of outstanding share options were adjusted.

Movements in the sixth lot of share options for eligible participants during the years were as follows:

| | Total number of share options outstanding during the year ended 30 June 2017 | Weighted average exercise price per share (HK$) | Total number of share options outstanding during the year ended 30 June 2016 | Weighted average exercise price per share (HK$) |
|---|---|---|---|---|
| Outstanding at beginning of year | 87,000,000 | 0.30 | – | – |
| Granted during the year | – | – | 87,000,000 | 0.30 |
| Outstanding at end of year | 87,000,000 | 0.30 | 87,000,000 | 0.30 |
| Exercisable at end of year | 87,000,000 | | 87,000,000 | |

## 27. SHARE OPTIONS (Continued)

At the end of the reporting period, the Company had 245,179,840 (2016: 245,179,840) share options outstanding under the Options. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 245,179,840 (2016: 245,179,840) additional ordinary shares of the Company and additional share capital of HK$24,518,000 (equivalent to RMB21,280,000) (2016: HK$24,518,000, equivalent to RMB20,955,000) and share premium of HK$91,561,000 (equivalent to RMB79,468,000) (2016: HK$91,561,000, equivalent to RMB78,254,000) (before issue expenses and amounts to be transferred from share option reserve).

Subsequent to the end of the reporting period, no share options were exercised. At the date of approval of these financial statements, the Company had 245,179,840 share options outstanding under the Options, which represented approximately 8.50% of the Company's shares in issue as at that date.

## 28. OTHER RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 49 of the financial statements.

### (i) Share premium account

Under the Companies Law (Revised) of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium if (a) it is, or would after the payment be, unable to pay its liabilities as they become due, or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

### (ii) Share option reserve

Share option reserve comprises the portion of the grant date fair value of unexercised share options granted under the share option scheme adopted by the Company.

### (iii) Statutory reserve

In accordance with the PRC regulations, each of the PRC Subsidiaries is required to allocate 10% of its profit after tax, as determined under the PRC accounting regulations, to the statutory reserve until such reserve reaches 50% of its registered capital. Part of the statutory reserve may be used either to offset losses, or to be converted to increase the paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

### (iv) Capital contribution reserve

The capital contribution reserve represents the difference between the fair value of the interest-free financial assistance provided by the former shareholder of the Company initially recognised in the financial statements and the nominal amount of cash received/receivable by the Group.

## 29. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

| | 2017 | 2016 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests: | | |
| Commerce Prosper Limited | **49%** | 49% |

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Loss for the year allocated to non-controlling interests: | | |
| Commerce Prosper Limited | **(300)** | (2,239) |

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Accumulated balances of non-controlling interests at the reporting dates: | | |
| Commerce Prosper Limited | **45,389** | 42,900 |

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

| | Commerce Prosper Limited | |
|---|---|---|
| | 2017<br>RMB'000 | 2016<br>RMB'000 |
| Revenue | **–** | – |
| Total expenses | **(613)** | (4,570) |
| Loss for the year | **(613)** | (4,570) |
| Total comprehensive loss for the year | **(613)** | (4,570) |
| Current assets | **22,645** | 23,775 |
| Non-current assets | **70,000** | 63,865 |
| Current liabilities | **(15)** | (88) |
| Net cash flows (used in)/from operating activities | **(1,735)** | 1,958 |
| Net cash flows (used in)/from investing activities | **(8)** | 1,900 |
| Net (decrease)/increase in cash and cash equivalents | **(1,743)** | 3,858 |

## 30. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities of the Group not provided for in the consolidated financial statements were as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Guarantees given to banks in connection with facilities granted to: | | |
| Buyers of certain properties developed by the Group | **503** | 735 |

As at 30 June 2017, banking facilities of RMB503,000 were granted to the buyers of certain properties developed by the Group (2016: RMB735,000).

## 31. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 13) under operating lease arrangements, with leases negotiated for terms ranging from one to three years (2016: one to two years). The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Within one year | **106** | 577 |
| In the second to fifth years, inclusive | **61** | 39 |
| | **167** | 616 |

### (b) As lessee

The Group leases certain of its office premises under operating lease arrangements for lease terms of one year. At 30 June 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Within one year | **573** | 673 |

## 32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitment at the end of the reporting period:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Acquisition of a subsidiary | – | 176,000 |

On 29 June 2016, the Company and Quick Nimble Group Limited ("Quick Nimble"), a company incorporated in the BVI, entered into the sale and purchase agreement ("S&P"), pursuant to which the Company conditionally agreed to purchase the entire issued share capital of Quick Nimble at the consideration of RMB176,000,000. The consideration would be fully satisfied by the allotment and issue of not more than 692,182,017 shares at the initial issue price of HK$0.301 per share. Upon completion the reorganisation of Shenzhen Zhongke Blue Sky Investment Limited ("Zhongke"), a company established in the PRC, Quick Nimble would hold a 51% equity interest in Zhongke. Zhongke and its subsidiaries are principally engaged in the investment, development, construction and operation of renewable energy power plants in the PRC. Details of the transaction were set out in the announcement of the Company dated 29 June 2016.

On 12 October 2016, due to differences on interpretation and no mutual consensus on the conditions precedent set out in the S&P, the Company and Quick Nimble entered into a termination letter whereby the parties had mutually agreed to terminate the S&P with immediate effect. Details of the transaction were set out in the announcement of the Company dated 12 October 2016.

## 33. RELATED PARTY TRANSACTIONS

### (a) Outstanding balance with a related party:

Details of the Group's amount due to an associate at 30 June 2016 are included in note 22 to the financial statements.

### (b) Compensation of key management personnel of the Group:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Short term employee benefits | 1,582 | 1,047 |
| Post-employment benefits | 53 | 17 |
| Total compensation paid to key management personnel | 1,635 | 1,064 |

Further details of directors' emoluments are included in note 8 to the financial statements.

## 34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**2017**

| | Loans and receivables RMB'000 |
|---|---|
| **Financial assets** | |
| Trade receivables | 70 |
| Financial assets included in deposits and other receivables | 405 |
| Pledged deposits | 503 |
| Cash and cash equivalents | 44,139 |
| | 45,117 |

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| **Financial liabilities** | |
| Trade payables | 1,840 |
| Financial liabilities included in other payables and accruals | 4,674 |
| Non-redeemable convertible preferred shares | 572 |
| | 7,086 |

## 34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2016

| | Loans and receivables RMB'000 |
|---|---|
| **Financial assets** | |
| Trade receivables | 234 |
| Financial assets included in deposits and other receivables | 4,006 |
| Pledged deposits | 735 |
| Cash and cash equivalents | 38,779 |
| | 43,754 |

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| **Financial liabilities** | |
| Trade payables | 2,599 |
| Financial liabilities included in other payables and accruals | 7,346 |
| Non-redeemable convertible preferred shares | 499 |
| | 10,444 |

## 35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Financial liabilities** | | | | |
| Non-redeemable convertible preferred shares | **572** | 499 | **572** | 499 |

Management has assessed that the fair values of trade receivables, financial assets included in deposits and other receivables, pledged deposits, cash and cash equivalents, trade payables and financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of non-redeemable convertible preferred shares has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for the non-redeemable convertible preferred shares at the end of each of the years was assessed to be insignificant.

## 35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

### Liabilities for which fair values are disclosed:

**As at 30 June 2017**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1) RMB'000** | **Significant observable inputs (Level 2) RMB'000** | **Significant unobservable inputs (Level 3) RMB'000** | **Total RMB'000** |
| Non-redeemable convertible preferred shares | **–** | **572** | **–** | **572** |

As at 30 June 2016

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Non-redeemable convertible preferred shares | – | 499 | – | 499 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for the financial liabilities (2016: Nil).

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise non-redeemable convertible preferred shares, cash and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Interest rate risk

The Group's operating results and cash flows are not substantially affected by changes in market interest rates. In addition, the Group has no significant interest-bearing assets and liabilities except for cash and cash equivalents, pledged deposits. Cash at banks earns interest at floating rates based on daily bank deposit rates, and has no material exposures to interest rate risk.

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. The Group is not exposed to material credit risk for the years ended 30 June 2017 and 2016.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 17 and 18 to the financial statements.

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | **2017** | | |
|---|---|---|---|
| | **On demand or less than 12 months RMB'000** | **1 to 5 years RMB'000** | **Total RMB'000** |
| Trade payables | **1,840** | **–** | **1,840** |
| Financial liabilities included in other payables and accruals | **4,674** | **–** | **4,674** |
| Non-redeemable convertible preferred shares | **–** | **572** | **572** |
| | **6,514** | **572** | **7,086** |

| | 2016 | | |
|---|---|---|---|
| | On demand or less than 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
| Trade payables | 2,599 | – | 2,599 |
| Financial liabilities included in other payables and accruals | 7,346 | – | 7,346 |
| Non-redeemable convertible preferred shares | – | 499 | 499 |
| | 9,945 | 499 | 10,444 |

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2017 and 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes trade payables, other payables and accruals, less cash and cash equivalents. Capital includes the non-redeemable convertible preferred shares and equity attributable to owners of the Company.

The gearing ratios as at the end of the reporting periods were as follows:

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Trade payables | **1,840** | 2,599 |
| Other payables and accruals | **20,664** | 48,740 |
| Less: Cash and cash equivalents | **(44,139)** | (38,779) |
| Net (capital)/debt | **(21,635)** | 12,560 |
| Non-redeemable convertible preferred shares, the liability component | **572** | 499 |
| Equity attributable to owners of the Company | **172,982** | 260,401 |
| Adjusted capital | **173,554** | 260,900 |
| Capital and net debt | **151,919** | 273,460 |
| Gearing ratio | **n.a.** | 5% |

## 37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | **124** | 139 |
| Investments in subsidiaries | **105,845** | 105,845 |
| Investment in an associate | **52,769** | 132,139 |
| Total non-current assets | **158,738** | 238,123 |
| CURRENT ASSETS | | |
| Due from subsidiaries | **–** | 6,465 |
| Deposits and other receivables | **84** | 83 |
| Cash and cash equivalents | **9,480** | 3,318 |
| Total current assets | **9,564** | 9,866 |
| CURRENT LIABILITIES | | |
| Due to a subsidiary | **3,586** | – |
| Other payables and accruals | **2,832** | 5,118 |
| Total current liabilities | **6,418** | 5,118 |
| NET CURRENT ASSETS | **3,146** | 4,748 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **161,884** | 242,871 |
| NON-CURRENT LIABILITIES | | |
| Non-redeemable convertible preferred shares | **572** | 499 |
| Total non-current liabilities | **572** | 499 |
| Net assets | **161,312** | 242,372 |
| EQUITY | | |
| Issued capital | **252,856** | 252,856 |
| Non-redeemable convertible preferred shares (note) | **2,252** | 2,252 |
| Other reserves (note) | **(93,796)** | (12,736) |
| Total equity | **161,312** | 242,372 |

**Mu Dongsheng**
*Director*

**Yang Xue Jun**
*Director*

## 37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

| | Notes | Share premium account RMB'000 | Share option reserve RMB'000 | Non-redeemable convertible preferred shares RMB'000 | Capital reserve RMB'000 | Capital contribution reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 July 2015 | | 662,461 | 37,280 | 2,252 | 19 | 48,448 | (18,427) | (633,203) | 98,830 |
| Loss for the year | | – | – | – | – | – | – | (135,581) | (135,581) |
| Other comprehensive loss for the year: | | | | | | | | | |
| Exchange differences on translation | | – | – | – | – | – | (6) | – | (6) |
| Total comprehensive loss for the year | | – | – | – | – | – | (6) | (135,581) | (135,587) |
| Issue of shares | 26 | 14,144 | – | – | – | – | – | – | 14,144 |
| Equity-settled share option arrangements | 27(c) | – | 12,129 | – | – | – | – | – | 12,129 |
| At 30 June 2016 | | 676,605 | 49,409 | 2,252 | 19 | 48,448 | (18,433) | (768,784) | (10,484) |
| At 1 July 2016 | | **676,605** | **49,409** | **2,252** | **19** | **48,448** | **(18,433)** | **(768,784)** | **(10,484)** |
| Loss for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **(81,240)** | **(81,240)** |
| Other comprehensive income for the year: | | | | | | | | | |
| Exchange differences on translation | | **–** | **–** | **–** | **–** | **–** | **180** | **–** | **180** |
| Total comprehensive income/(loss) for the year | | **–** | **–** | **–** | **–** | **–** | **180** | **(81,240)** | **(81,060)** |
| At 30 June 2017 | | **676,605** | **49,409** | **2,252** | **19** | **48,448** | **(18,253)** | **(850,024)** | **(91,544)** |

## 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 September 2017.

| | Years ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014* | 2013* |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | (Restated) | (Restated) |
| **RESULTS** | | | | | |
| **CONTINUING OPERATIONS** | | | | | |
| Revenue | **10,542** | 8,670 | 9,412 | 27,086 | 83,168 |
| Loss from operations | **(12,061)** | (38,740) | (44,331) | (44,685) | (3,336) |
| Provision for impairment of an associate | **(73,058)** | – | – | – | – |
| Finance costs | **(66)** | (4,617) | (8,451) | (4,188) | (6,986) |
| Share of loss of an associate | **(6,312)** | (5,663) | (2,391) | – | – |
| Loss before tax | **(91,497)** | (49,020) | (55,173) | (48,873) | (10,322) |
| Income tax credit/(expense) | **473** | 2,380 | (2,906) | (1,392) | (8,431) |
| Loss for the year from continuing operations | **(91,024)** | (46,640) | (58,079) | (50,265) | (18,753) |
| **DISCONTINUED OPERATION** | | | | | |
| Profit/(loss) for the year from a discontinued operation | **–** | – | 73,842 | (51,999) | (87,919) |
| (Loss)/profit for the year | **(91,024)** | (46,640) | 15,763 | (102,264) | (106,672) |
| (Loss)/profit attributable to: | | | | | |
| Owners of the Company | **(90,724)** | (44,401) | 20,922 | (101,101) | (105,684) |
| Non-controlling interests | **(300)** | (2,239) | (5,159) | (1,163) | (988) |
| | **(91,024)** | (46,640) | 15,763 | (102,264) | (106,672) |
| Dividends | **–** | – | – | – | – |

Note:

* According to HKFRS 5 "Non-current assets held for sale and discontinued operations", the results of the discontinued operation were presented separately in the consolidated statement of profit or loss and other comprehensive income and prior years' results were re-presented.

| | As at 30 June | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **ASSETS AND LIABILITIES** | | | | | |
| Property, plant and equipment | **1,482** | 1,778 | 2,384 | 39,792 | 45,880 |
| Other non-current assets | **140,161** | 209,754 | 260,849 | 146,605 | 146,211 |
| Net current assets | **86,145** | 104,429 | 73,876 | 66,934 | 35,029 |
| Total assets less current liabilities | **227,788** | 315,961 | 337,109 | 253,331 | 227,120 |
| Non-current liabilities | **(9,417)** | (12,660) | (36,471) | (34,534) | (89,382) |
| Net assets | **218,371** | 303,301 | 300,638 | 218,797 | 137,738 |
| **EQUITY** | | | | | |
| Issued capital | **252,856** | 252,856 | 229,285 | 204,451 | 163,540 |
| Non-redeemable convertible preferred shares | **2,252** | 2,252 | 2,252 | 6,004 | 17,263 |
| Equity component of the convertible note | **–** | – | – | – | 305 |
| Other reserves | **(82,126)** | 5,293 | 23,451 | (63,597) | (117,674) |
| Non-controlling interests | **45,389** | 42,900 | 45,650 | 71,939 | 74,304 |
| | **218,371** | 303,301 | 300,638 | 218,797 | 137,738 |