

CAPITAL  GRAND



ANNUAL REPORT

2017

BEIJING CAPITAL GRAND LIMITED
首創鉅大有限公司

(Formerly known as Beijing Capital Junda Limited
首創鉅大有限公司)

STOCK CODE : 1329

Incorporated in the
Cayman Islands with limited liability

CONTENTS

2	Corporate Information	73	Consolidated Statement of Profit or Loss
4	Major Events of the Year	74	Consolidated Statement of Comprehensive Income
6	Chairman's Statement	75	Consolidated Statement of Financial Position
12	Management Discussion and Analysis	77	Consolidated Statement of Changes in Equity
23	Environmental, Social and Governance Report	79	Consolidated Statement of Cash Flows
45	Biographical Details of the Directors and Senior Management	81	Notes to the Consolidated Financial Statements
50	Report of the Directors	155	Five-Year Financial Summary
60	Corporate Governance Report		
69	Independent Auditor's Report		



CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhong Beichen (*Chairman*)
Mr. Feng Yujian (*Chief Executive Officer*)

NON-EXECUTIVE DIRECTORS

Mr. Sun Shaolin
Mr. Su Jian
Mr. Wang Honghui
Mr. Yang, Paul Chunyao

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ngai Wai Fung
Ms. Zhao Yuhong
Mr. He Xiaofeng

AUDIT COMMITTEE

Dr. Ngai Wai Fung (*Chairman*)
Ms. Zhao Yuhong
Mr. He Xiaofeng

REMUNERATION COMMITTEE

Ms. Zhao Yuhong (*Chairman*)
Mr. Sun Shaolin
Mr. Yang, Paul Chunyao
Dr. Ngai Wai Fung
Mr. He Xiaofeng

NOMINATION COMMITTEE

Mr. Zhong Beichen (*Chairman*)
Mr. Wang Honghui
Dr. Ngai Wai Fung
Ms. Zhao Yuhong
Mr. He Xiaofeng

STRATEGIC INVESTMENT COMMITTEE

Mr. Feng Yujian (*Chairman*)
Mr. Su Jian
Mr. Wang Honghui
Mr. Yang, Paul Chunyao
Mr. He Xiaofeng

COMPANY SECRETARY

Mr. Lee Sze Wai

AUTHORIZED REPRESENTATIVES

Mr. Feng Yujian
Mr. Lee Sze Wai

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISER

AS TO HONG KONG LAWS:
Norton Rose Fulbright Hong Kong

AS TO CAYMAN ISLAND LAWS:

Conyers Dill & Pearman

AS TO PRC LAWS:

Beijing Jingtian & Gongcheng

鉅MAX

首創鉅大有限公司
Beijing Capital Grand Limited



CORPORATE INFORMATION

REGISTERED OFFICE

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

PRC HEADQUARTER

Building 18, No. 6 Langjiayuan
Tonghuihe North Road, Chaoyang District
Beijing, China

HONG KONG OFFICE

Suites 2906-08
AIA Central, 1 Connaught Road
Central Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Agricultural Bank of China
Bank of Communications
The Hongkong and Shanghai Banking Corporation Limited
Dah Sing Bank Limited

CORPORATE WEBSITE

www.bcgrand.com
www.bjcapitaloutlet.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square Hutchins Drive P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LISTING INFORMATION

EQUITY SECURITY LISTED ON THE STOCK EXCHANGE OF HONG KONG

Ordinary Shares (1329.HK)

DEBT SECURITY LISTED ON THE STOCK EXCHANGE OF HONG KONG

RMB1,300,000,000 guaranteed notes due 2018 at the rate of 5.25% (85719.HK)

INVESTOR RELATIONS CONTACT

Email: contactus@bcgrand.com



MAJOR EVENTS OF THE YEAR



JAN

- Successfully bid the commercial land in Banan District, Chongqing. Capital Outlets expanded into Chongqing
- Hainan Wanning Capital Outlets Phase II was opened



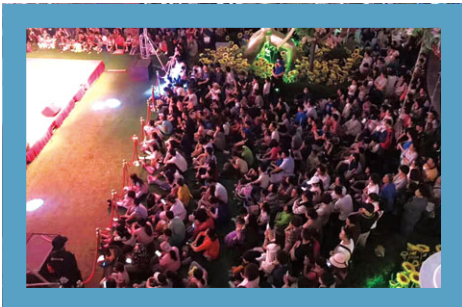
MAR

- Awarded the "2016 Outlets Innovative Marketing Awards" (「2016年度奧特萊斯創新營銷大獎」) issued by the Outlets Industrial Organization
- The 4th Capital Outlets Brand Ceremony – ACT AS ONE(首創奧特萊斯品牌商私享會-鉅大可為) was grandly held in Shanghai



APR

- Awarded the "China Commercial Real Estate Operation Management Innovation Awards" (「中國商業地產運營管理創新獎」) issued by the CCREA
- "Capital Outlets, Run for Fun", Mass Road Run National Series held by the Olympic Sports Center was launched in Shanghai



MAY

- The anniversary celebration of Beijing Capital Outlets broke through RMB60 million of sales volume



JUN

- Successfully bid the commercial land in Wuhua District, Kunming. Capital Outlets expanded into Kunming

MAJOR EVENTS OF THE YEAR



JUL

- Wanning Capital Outlets in Hainan won the “Golden Lily Award for Best Outlets Shopping Center” (「金百合最佳奥特莱斯型购物中心大奖」) issued by China Chain-Store & Franchise Association (CCFA)



OCT

- Beijing Capital Outlets launched a marketing and promotion activity where the store remained open for 60 consecutive hours in celebration of the National Day. It recorded total sales of RMB22.18 million on 2 October, achieving new high record in the single-day sales since its commencement



- signed a contract with JUMP360 – a brand leader of the indoor extreme trampoline sports in Beijing



- 鉅MAX online mall opened the first offline outlets experience store in Fangshan, Beijing

- 鉅MAX launched ‘Double 11 is coming to Outlets’ (「雙11來了」) happy shopping activity and recorded total online sales of over RMB10 million on the date



NOV

- Hangzhou Capital Outlets was grandly opened, indicating that the Capital Outlets 2.0 was officially launched



- Kunshan Capital Outlets Phase II was opened

DEC

- Nanchang Capital Outlets was grandly opened, indicating Capital Outlets’ strong entry into the market in Central Region of China

CHAIRMAN'S STATEMENT



Hangzhou Capital Outlets

Dear Shareholders,

On behalf of the board of directors (the "Board") of Beijing Capital Grand Limited ("Capital Grand" or the "Company", together with its subsidiaries collectively referred to as the "Group"), I am pleased to present the annual results of the Group for the year ended 31 December 2017.

Commencing 2017, the world economy has recovered mildly and the external environment has been favorable. The domestic economy has achieved steady growth with the gross domestic product (GDP) of RMB82.7 trillion, which increased by 6.9% year-on-year on the basis of comparable prices, making a solid foundation for achieving index to an overall moderately prosperous society in 2020. With the strong guidance and support of national policies, the retail entities in China actively took the initiative to transform and upgrade and speeded up the pace of innovation, which accelerated the growth of sales volume and strengthened the upturn in physical retail sales continuously. The upgrading of consumption structure led by constant growth in household income and the rising of consumers' brand awareness continued to benefit Outlets consumer market, which lift the scales of domestic outlets newly opened and their business. According to the latest research report jointly issued by the Ministry of Commerce and CCFA, outlet malls reported solid operational performance, with their composite index outperforming those of three other types, namely metropolitan shopping malls, regional malls and community malls in two consecutive quarters.

CHAIRMAN'S STATEMENT



Hangzhou Capital Outlets

During the period, the Group upheld its strategy of "Construction Align with Shop-opening". With the acquisition of two new projects in Chongqing and Kunming, the Group owned and managed a total of 14 outlets projects, further strengthening its leading position on industry scale. On 11 November, Huangzhou Capital Outlets situated on the bank of Fuchun River held its grand opening, becoming a new landmark on the golden cultural belt of tourism from Hangzhou to Thousand-island Lake. On 1 December, Nanchang Capital Outlets held its grand opening, which marked Capital Outlets's entry into the market in Central Region of China, fully demonstrating the Company's competitive advantages under the chain operation and the capability of systematic replication and expansion.

During the period, the six operating stores in Fangshan of Beijing, Wanning of Hainan, Kunshan of Jiangsu, Huzhou of Zhejiang, Hangzhou of Zhejiang, Nanchang of Jiangxi recorded superior performance with a year-on-year increase in turnover of over 35% in such six stores. In addition, Beijing Capital Outlets ranked top 3 in Top 20 of 2017 China Outlets Sales, its influence in the industry has also been increasing over the years. As its marketing strategy shifted from creating "Outlets with a view" to "launching micro-tourism", not only has Beijing Capital Outlets become an industry pioneer, it had also established itself as a successful practitioner who explored innovative marketing. During the National Day Holiday, Beijing Capital Outlets launched a major marketing promotion activity "No Business Closing in Celebration of the National Day for 60 Hours", and achieved total sales of RMB60.21 million, in which the sales of RMB22.18 million on 2 October set a new record in single-day sales since the commencement. Beijing Capital Outlets achieved total sales of RMB120.79 million during 8 days of the National Day Holiday and average daily sales of RMB15.10 million, representing a year-on-year increase of 58%.

CHAIRMAN'S STATEMENT

During the period, on top of its on-going commitment towards improving operational efficiency, expanding product portfolio, improving service quality and increasing brand influence, the Group also actively explored online channels and introduced new business formats, aiming to integrate the Capital Outlets shopping experience into the daily life of its target customer groups and meet the increasing needs from consumers for their good living. Since the official launch of “鉅MAX”, our self-operated e-commerce platform currently embraces the number of registered users of nearly 120,000. With premium goods from Outlets offline stores, the visitor traffic for a single day on the WeChat store reached a peak of 0.6 million in the activities of Double Eleven, and online sales per day was nearly RMB12 million. “Outlets at fingertips” further extended the time and space of interactions with consumers. We also operated a trampoline-themed park through a joint venture arrangement with JUMP360 – a leader in the trampoline industry, by which we created a Capital-styled consumption experience providing the new generation of consumers with an excellent opportunity for relaxation and parent-child interaction.

During the period under review, the Group achieved operating revenue of RMB511,523,000, net profit attributable to the owners of the Company amounted to RMB113,159,000. The Board resolved not to declare the dividend for the year ended 31 December 2017.

During the period, the Group maintained sufficient communication and coordination with its strategic shareholders, Sino-Ocean Group and KKR, in relation to a number of aspects including project resources, commercial resources, enhancement of business operation management and capital operation, fully and comprehensively introduced and absorbed the advanced management concepts of strategic shareholders, rich expertise and international views of grasping the rule of industry development to improve the standardization of the governance of the company and the professionalization of decision-making in the operation, which laid a solid foundation for the future development of the Group.

CHAIRMAN'S STATEMENT

Looking ahead to 2018, industry reform will be proceeded gradually in terms of depth and width as offline retail and e-commerce will be further integrated, adjusted and innovated, and retails without boundaries will become a new normal. The Group will continue to effectively give full play to the advantages of online and offline channel integration. With consumer experience and the value of brand owners as the two main cores, and taking digital innovation as a breakthrough point, the Group will establish a timely and effective feedback mechanism on consumers' personalized demands for experience, interaction, selectivity and professionalization and others, provide more value-added services for the brand owners and strived to set new retail standards for the outlets industry!

On behalf of the Board, I would like to extend my sincere gratitude to all shareholders, cooperative partners and clients for their caring and strong support to Capital Grand. We will progress aggressively, have our feet on the ground and promote innovation. Based on the improvements in quality and operational efficiency, we will make full use of the scale advantages of the Group's chain operation, focus on more premium band resources, thereby orderly driving forward the business-opening plan and capturing opportunities for industry mergers and acquisitions and integrations to create long-term values for our shareholders!

Zhong Beichen

Chairman

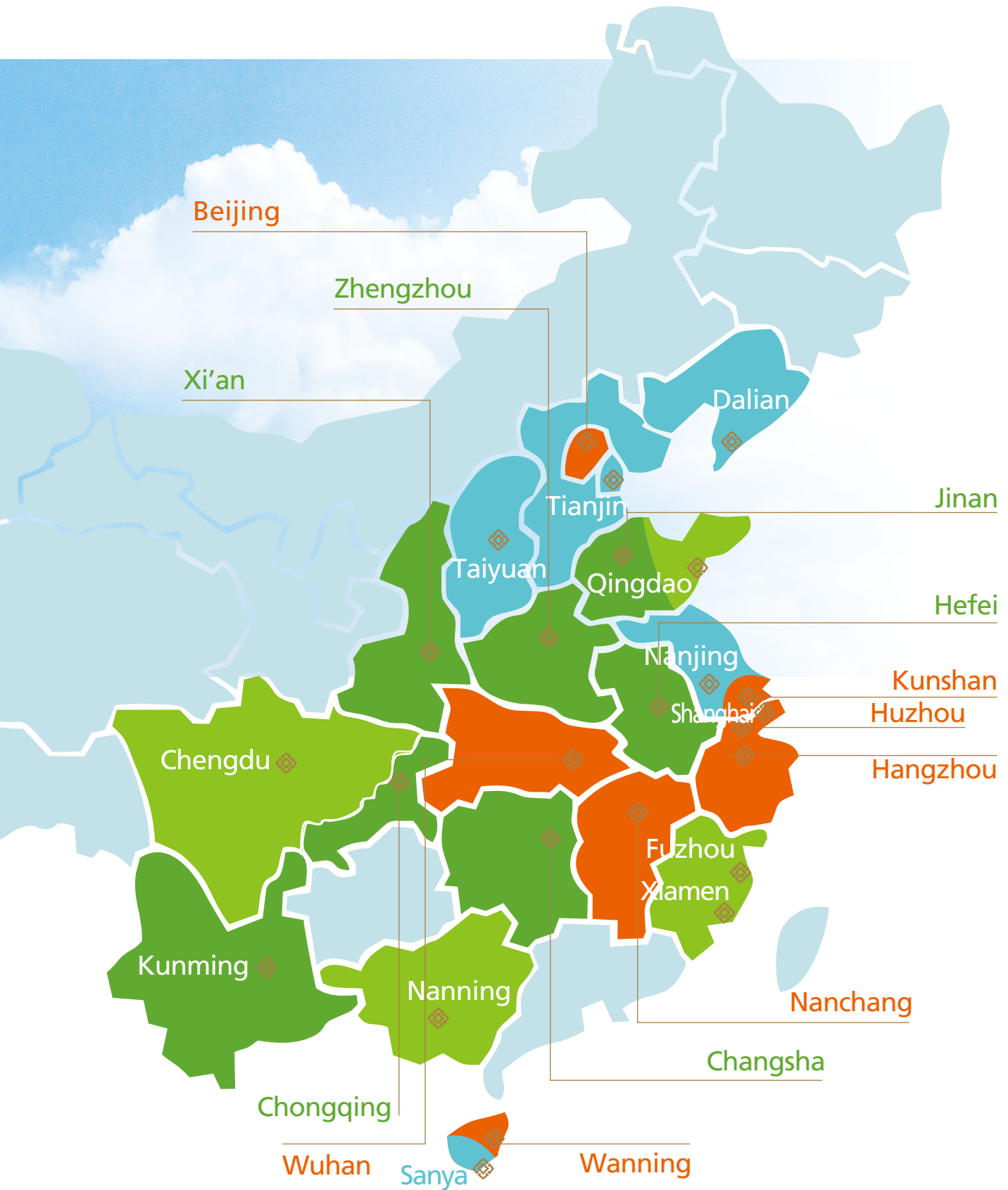
Hong Kong, 26 February 2018

STRATEGIC MAP OF CAPITAL GRAND



- Opened
- Under Construction
- Signed
- Planning

STRATEGIC MAP OF CAPITAL GRAND



MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT PROPERTIES

Project	Approximate Site Area ^(Note 1) (m ²)	Total Gross Floor Area ^(Note 2) (m ²)	Property Type (m ²)	Expected Time of Launching	Attributable Interest
Beijing Capital Outlets (Changyang Town, Fangshan District, Beijing)	90,770 ^(Note 3)	108,720	Outlets: 104,340 Parking Space: 4,380	2013	100%
	90,770 ^(Note 3)	87,770	Outlets: 39,540 Supermarket: 3,260 Parking Space: 44,970	2019	100%
Kunshan Capital Outlets (Kunshan Development Zone)	46,240	50,420	Outlets: 50,420	2015	100%
	46,790	50,110	Outlets: 50,110	2017	100%
Huzhou Capital Outlets (Huzhou Taihu Lake Tourism Resort) ^(Note 4)	109,940	54,700	Outlets: 54,700	2013	100%
Nanchang Capital Outlets (Xinjian District, Nanchang)	56,830	129,700	Outlets: 85,240 Parking Space: 44,460	2017	100%
	30,150 ^(Note 5)	28,370	Cinema: 4,990 Supermarket: 7,660 Parking Space: 15,720	2018	40% ^(Note 8)
Hangzhou Capital Outlets (Fuyang District, Hangzhou)	101,690	112,280	Outlets: 88,980 Parking Space: 23,300	2017	100%

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT PROPERTIES (CONTINUED)

Project	Approximate Site Area <small>(Note 1)</small> (m ²)	Total Gross Floor Area <small>(Note 2)</small> (m ²)	Property Type (m ²)	Expected Time of Launching	Attributable Interest
Wuhan Capital Outlets (Wuhan East Lake High-tech Development Zone)	89,760	107,560	Outlets: 83,740 Parking Space: 23,820	2018	99% <small>(Note 8)</small>
Changsha Capital Outlets Joyous Sky Avenue (Xiangjiang New Area, Changsha)	54,600	112,070	Outlets: 81,550 Parking Space: 30,520	2019	30% <small>(Note 8)</small>
Xi'an Capital Outlets (Xi'an Hi-tech Industrial Development Zone)	119,650	118,840	Outlets: 83,040 Parking Space: 35,800	2019	100%
Zhengzhou Capital Outlets (Xingyang City, Zhengzhou)	80,860	96,580	Outlets: 81,070 Parking Space: 15,510	2018	100%
Jinan Capital Outlets (Tangye New Area, Jinan)	114,930 <small>(Note 6)</small>	121,520	Outlets: 76,990 Parking Space: 44,530	2018	100%
Hefei Capital Outlets (Binhu New District, Hefei)	87,910	96,270	Outlets: 75,230 Parking Space: 21,040	2018	100%
Chongqing Capital Outlets (Banan District, Chongqing)	74,350 <small>(Note 7)</small>	110,560	Outlets: 83,640 Parking Space: 50,030	2019	100% <small>(Note 8)</small>
Kunming Capital Outlets (Wuhua District, Kunming)	67,920	133,670	Outlets: 83,640 Parking Space: 50,030	2019	85% <small>(Note 8)</small>

MANAGEMENT DISCUSSION AND ANALYSIS

DEVELOPMENT PROPERTIES

Project	Approximate Site Area (m ²)	Unsold Gross Floor Area (m ²)	Unsold Land Floor Area (m ²)	Property Type	Attributable Interest
Xi'an First City (Xi'an Economic Technology Development Zone)	355,900	506,563	307,888	Residential/ Commercial/ Office Buildings	100%
Nanchang Capital Outlets (Xinjian District, Nanchang)	30,150 <i>(Note 5)</i>	32,580	32,580	Commercial	40% <i>(Note 8)</i>
Jinan Capital Outlets (Tangye New Area, Jinan)	114,930 <i>(Note 6)</i>	62,980	62,980	Commercial	100%
Chongqing Capital Outlets (Banan District, Chongqing)	74,350 <i>(Note 7)</i>	17,090	17,090	Commercial	100%

Note 1: Approximate site area is based on State-owned Construction Land Use Right Grant Contract or Land Use Right Certificates;

Note 2: Total gross floor area is based on State-owned Construction Land Use Right Grant Contract and the latest project design plan;

Note 3: The site area of Beijing Capital Outlets is 90,800 m², of which the gross floor areas of Phase I and Phase II are 108,700 m² and 87,800 m² respectively;

Note 4: The site area of Huzhou Capital Outlets is 214,300 m², of which the site area of Phase I and Phase II are 109,900 m² and 104,400 m², respectively;

Note 5: The site area of Land B in Nanchang Capital Outlets is 30,200 m², of which 28,400 m² of the gross floor area is investment property and 32,600 m² is development property;

Note 6: The site area of Jinan Capital Outlets is 114,900 m², of which 121,500 m² of the gross floor area is investment property and 63,000 m² is development property;

Note 7: The site area of Chongqing Capital Outlets is 74,400 m², of which 110,600 m² of the gross floor area is investment property and 17,100 m² is development property;

Note 8: Attributable interests represent equity holding upon completion of capital injection.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW OF OUTLETS

In 2017, the economy in China has maintained the momentum of stable and sound development and demands for consumption continued to be the major driving force for economic growth. The sales of 2,700 typical retail enterprises under the key monitoring of the Ministry of Commerce in 2017 raised by 4.6% year on year, representing an increase of 3 percentage points as compared with the same period last year. The operating profits and total profits increased by 8.0% and 7.1% respectively, representing the growth of 6.5 and 11 percentage points as compared with the same period last year. The physical retail market was further stable and picked up.

In 2017, the domestic outlet industry maintained a rapid growth, but the trend of polarization was obvious. From the outlets operators' frequently strategic deployment at the beginning to seize market share, to exploring the differentiated competition mode and building their own brands, the polymerization effect of brands under the group chain operation became prominent. The polarizations of both business mode and competition landscape were also getting clearer. According to the latest statistics from the industry think tank, 46 outlets projects of various types were newly opened in China in 2017, of which 27 projects were operated by the chain outlets groups, accounting for 60%. With a customer-centric approach, industry leaders were venturing to provide customers with a more pleasant and convenient shopping experience throughout the entire consumption process by integrating physical stores, online malls, mobile applications, mobile payment and social media to create an excellent operation capacity for customer management. Meanwhile, some outlets operators speeded up the pace of diversification and cross-format transformation and upgrades in order to cultivate the operation capability for merchandise. With the constant induction of cross-segment portfolios such as "Outlets + Major Experience" and "Outlets + Micro tourism", "Outlets + Sports", multi-format operation has gradually become the dominant business mode, providing consumers with an improved and refined experience at their outlets and staying ahead of changes in consumers' lifestyle.



Beijing Capital Outlets

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

CONTINUED STRATEGIC ACQUISITION OF NEW PROJECT AND SUCCESSFULLY-LAUNCHED NEW OUTLETS MALLS REFLECTED ACCOMPLISHMENTS IN SYSTEMATIC REPLICATION AND EXPANSION

- During the period, the Group newly expanded projects in Chongqing and Kunming, bringing the total outlets projects owned and managed to 14, further strengthening its competitive edge of leadership on industry scale;
- On 11 November, Hangzhou Capital Outlets was grandly opened with a visitor traffic of more than 90,000 on that day and a sales of RMB12.93 million, creating a new record for the opening day sales of the Capital Outlets. In addition, Hangzhou Capital Outlets is the first project with the land obtained, designed, built and finally leased out all by the Company team upon business restructuring, marking the official commence of Capital Outlets 2.0 version;
- On 1 December, Nanchang Capital Outlets was grandly opened. In the first three days, visitor traffic reached nearly 180,000 and sales achieved RMB21.80 million, which marked Capital Outlets's strong entry into the market in Central Region of China. Meanwhile, Nanchang project was the Company's second project opened in 2017 following Hangzhou Capital Outlets. The time interval of the two projects was less than three weeks, demonstrating both the competitive advantages of the Company in group operation and chain business and the capability of systematic replication and expansion;
- During the period, the Group kept promoting the construction of project development, business preparation and standardization of start-up procedures, upgrading brand levels, optimizing category structure, continuing expansion of brand portfolios and enhancing the management capability of asset operation. The Group also initiated the preliminary study and preparation for the launch of REITs products, so as to achieve the business closed-loop development of "investment, financing, operation, exit" and establish a sustainable platform of capital rotation to complete the transformation and upgrade the business model from "heavy" asset to "light" asset.

DELIVERING STEADY GROWTH IN OPERATING RESULTS THROUGH THE PURSUIT OF OPERATIONAL EXCELLENCE

- During the period, six outlets projects in operation achieved a turnover of nearly RMB3.24 billion, representing a year-on-year growth of 35%; annual customer traffic was 25.4 million, representing a year-on-year growth of 34%, indicating a steady growth in the operating results;
- During the period, the Group has fully utilized the advantages arising from its chain development of multiple projects across the country, continued to expand new brands that could enter into outlets field, and created brand highlights in each category. In the meantime, the Group has been deeply diving into local premium resources of projects in respective regions to build multiple supplier channels, practically establishing strategic alliance with more premium brands, thereby promoting brand partnership for multiple projects. The Group has made full use of the leverage from stabilized projects to help attract desired brands to under-construction projects, and bring in additional brands for projects under development, with a view to gradually taking advantage of its group development;
- During the period, the Group promoted digitalized works from three aspects: the customers, the goods and the supply chain, to enhance operation efficiency, which preliminarily established group control, chain development, all-segment coverage, and big data closed-loop management of the whole life cycle. The front desk captured the opportunity of accumulating customers and members information as well as the data of transaction demands for the brand owners, while the back office formulated a comprehensive data management system consisting of resources, business, contracts and financial matters. Through real-time supervision, cross analysis and prompt reaction to enhance operation and explore value as well as big data analysis application to reach the customers precisely, a differentiated comprehensive consumer experience of Capital Outlets was enhanced.

MANAGEMENT DISCUSSION AND ANALYSIS

RESHAPE OF “CUSTOMERS”+ “GOODS”+ “MALL”, ACTIVELY PROMOTING THE UPGRADE OF BUSINESS FORMAT

– *Multi-channel development by full integration of online and offline operations*

By launching WeChat store 鉅MAX, our e-commerce platform for Capital Outlets, we have extended our interaction with consumers to a 24/7 basis. From 26 October to 26 November, the WeChat store launched an event “Double 11 is coming to Outlets (雙11來了)”. The sales throughout the first day was nearly RMB12 million, hitting a selling record of online store of 鉅MAX, and the accumulated sales during the event reached RMB22.8 million. As our online sales and offline stores created synergies through shared advantages, meanwhile 鉅MAX online store opened its offline experience store in Fangshan, Beijing in late October, starting up the first outlets O2O experience store in China.

– *Reshape of “Goods”*

In order to continuously foster merchandise management capabilities, we have introduced a number of coveted brands to our projects through proprietary business, providing the Company with potent assistance in its business expansion. During the period, the Group set up a number of Chic Outlets Multi Brands Boutiques. In addition to contributing stronger sales, we have also effectively developed skills in single item management, creating favorable conditions for the next stage of our advancement where we would form “deepened joint operations” with brand owners.



Kunshan Capital Outlets

MANAGEMENT DISCUSSION AND ANALYSIS

– *Reshape of “Mall”*

Experiential consumption was fully promoted, as we have introduced a Jump360 trampoline-based ride to several stores. By breaking homogeneous competition within the industry, and fully exploring the potential of experiential consumption, teenagers and children can experience the joy of indoor trampolining, providing a perfect venue for relaxation and parent-child interaction. Through the creation of a unique experience of “Outlet + Major Experience” at Capital Outlets, we have managed to increase patronage, improve customer retention, and raise their repeat purchase rate.

CONTINUOUSLY INCREASING THE BRAND INFLUENCE OF “CAPITAL OUTLETS”

- During the period, the Group was awarded the “2017 Influential Commercial Property Brand in China” by the authoritative media of the Chinese real estate industry, Guandian Property (觀點地產), and the Group ranked 20th on the Top 100 List of Chinese Commercial Property Operators, the highest among the Outlets integrated operators;
- The Group was invited to participate in the seminar of the MAPIC2017, an International retail and commercial property show. The Group also hosted the “Capital Grand Special Exchanges” session and had extensive interaction with about 40 core representatives from international brands, renowned investors as well as leading commercial enterprises, which indicated the determination and capability of the Group’s further connection and consolidation of global business resources;



Huzhou Capital Outlets

MANAGEMENT DISCUSSION AND ANALYSIS

- We took “ACT AS ONE” Capital Outlets Brand Owners Ceremony 2017 as a window to further promote the influence of “Capital Outlets” among brand owners with over 400 representatives of brand owners attended the ceremony;
- Hainan Wanning Capital Outlets won the “Golden Lily Award for Best Outlets Shopping Center” issued by the CCFA;
- Beijing Capital Outlets launched a themed promotion event where the store remained open for 36 consecutive hours and offered gifts valued over RMB1 million in celebration of its anniversary on 1 May. The event attracted more than 1.2 million visitors within and outside Beijing in 3 days, achieving the sales of RMB53 million (a year-on-year increase of 95%); and it also launched a large scale promotion event where the store remained open for 60 consecutive hours in celebration of the National Day from 1 October to 3 October, reaching the total sales of RMB60.21 million, of which the sales on 2 October amounted to RMB22.18 million, achieving a new record in single-day sales since the commencement.

FINANCIAL REVIEW

1. REVENUE AND OPERATING RESULTS

In 2017, the revenue of the Group was approximately RMB511,523,000 (2016: RMB997,931,000), representing a decrease of 49% as compared with that of 2016. The decrease in revenue was mainly attributable to the entry of Xi'an First City project into the stage of the sales of its remaining units, and the decrease in the gross floor area delivered.

In 2017, the Group achieved a gross profit margin of approximately 44%, representing an increase of 23 percentage points from 21% in 2016. The increase in gross profit margin was mainly attributable to the growth in operating revenue of investment properties during the period which yield higher profit margin than sales of development properties.

In 2017, operating profit of the Group was approximately RMB378,766,000 (2016: RMB450,258,000), representing a decrease of 16% as compared to that of 2016. The decrease was mainly attributable to the decline in the fair value gain on investment properties as a result of a moderate growth in real estate market of selected cities in PRC. As the fair value gain on the Group's investment properties were non-cash in nature and the decrease in such gain does not have a direct impact on the cash flow, the decrease does not indicate any major changes in the Group's overall operating position.

In 2017, profit for the period of the Group was approximately RMB113,309,000 (2016: RMB227,837,000), representing a decrease of 50% as compared to that of 2016. The decrease was mainly attributable to the decline in operating profit.

MANAGEMENT DISCUSSION AND ANALYSIS

2. LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remained on a healthy level and financial resources were also reasonably distributed. As at 31 December 2017, the Group's cash and cash equivalents and restricted cash totaled RMB1,851,310,000 (31 December 2016: approximately RMB1,924,616,000), of which approximately RMB1,834,881,000 (31 December 2016: RMB713,925,000), approximately RMB16,429,000 (31 December 2016: approximately RMB996,908,000) and approximately RMB Nil (31 December 2016: RMB213,783,000) were denominated in RMB, Hong Kong dollars ("HK\$") and US dollars ("US\$"), respectively. The majority of the Group's cash and cash equivalents and restricted cash are deposited with creditworthy banks with no recent history of default.

As at 31 December 2017, the Group's current ratio was 1.15 (31 December 2016: 1.82).

As at 31 December 2017, the Group's net gearing ratio was 47% (31 December 2016: 18%), based on the division of net debt by total equity. Net debt includes total bank and other borrowings and guaranteed notes (including the current portion and the non-current portion), less cash and cash equivalents and restricted cash. The change of net gearing ratio was primarily due to increase of borrowing in 2017.

3. CHANGES IN MAJOR SUBSIDIARIES, PRINCIPAL JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Chongqing Shouju Outlets Real Estate Co., Ltd (重慶首鉅奧特萊斯置業有限公司), a subsidiary of the Group, was established in January 2017, and 100% of its net assets was held by the Group.

Kunming Capital Outlets Business Operation Management Limited (昆明首創奧萊商業運營管理有限公司), a subsidiary of the Group, was established in May 2017, and 85% of its net assets was held by the Group.

During the year, as other investors increased their investments in Nanchang Huachuang Xinghong Real Estate Ltd. (南昌華創興洪置業有限公司) ("Nanchang Huachuang"), an original subsidiary of the Group, the net assets of Nanchang Huachuang held by the Group reduced from 100% to 40%. Nanchang Huachuang became an associate of the Group.

4. BORROWINGS AND GUARANTEED NOTES

As at 31 December 2017, the Group's borrowings from banks and related parties were approximately RMB3,205,000,000 (31 December 2016: approximately RMB1,620,000,000). The bank borrowings were secured by the land use rights and the buildings of investment property, and/or guaranteed by the Company or Beijing Capital Land Ltd. ("BCL").

As at 31 December 2017, the amortized cost of the Group's guaranteed notes (the "Notes") was approximately RMB1,326,329,000 (31 December 2016: RMB1,323,957,000), including current portion amounting to RMB1,326,329,000 (31 December 2016: RMB28,438,000), and non-current portion amounting to RMB Nil (31 December 2016: RMB1,295,519,000). The guaranteed notes with a face value of RMB1,300,000,000 due 2018 at the nominal interest rate of 5.25% per annum was listed for trading on the Stock Exchange of Hong Kong Limited on 31 July 2015. The details of the Notes were set out in the announcements dated 20, 24 and 30 July 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

5. SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS

On 14 December 2016, the Company issued 905,951,470 class B CPS to BECL for funding the partial consideration of the acquisition of Beijing Chuangxin Jianye Real Estate Investment Ltd. and Zhejiang Outlets Property Real Estate Co., Ltd..

On 28 December 2016, the Company issued 95,192,308 ordinary shares to Smart Win and to KKR respectively, at the issue price of HK\$2.10 per share. On the same day, BECL exercised its conversion rights and converted an aggregate of 571,153,846 class A CPS in accordance with the terms and conditions of the relevant subscription agreements entered into by the Company and the subscribers.

On 28 December 2016, the Company issued perpetual convertible bond securities (the "PCBS") in the principal amounts of HK\$657,594,260 and HK\$420,096,153 (which are convertible into 313,140,124 and 200,045,787 conversion shares at the initial conversion price of HK\$2.10 per conversion share, subject to customary adjustments) to Smart Win and KKR respectively.

6. FOREIGN EXCHANGE EXPOSURE

Major subsidiaries of the Company operate in the PRC and most of the transactions are denominated in RMB. As certain of the Group's monetary assets and liabilities are denominated in HK\$ and US\$, any significant exchange rate fluctuations of HK\$ and US\$ against RMB may have financial impacts on the Group. Currently, the Group does not use any derivative financial instruments. Nevertheless, the Group will review the risks from time to time and take response measures if necessary.

7. FINANCIAL GUARANTEES

As at 31 December 2017, the Group provided guarantees in respect of mortgage financing granted by certain banks to purchasers of properties, amounting to approximately RMB1,397,714,000 (31 December 2016: RMB1,397,075,000).

8. CAPITAL COMMITMENTS

As at 31 December 2017, the Group had capital commitments relating to the development properties under construction of approximately RMB265,023,000 (as at 31 December 2016: RMB178,535,000), and had capital commitments relating to the investment properties under construction of approximately RMB203,920,000 (as at 31 December 2016: RMB663,646,000).

As at 31 December 2017, the Group had no capital commitments relating to the committed investment to Changsha Capital Outlets Joyous Sky Avenue project (as at 31 December 2016: RMB44,034,000).

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As of 31 December 2017, the Group had 832 employees (as of 31 December 2016: 498). The remuneration policy and package of the Group's employees are structured in accordance to market condition, performance, education background and experience of individual employees as well as statutory requirements where appropriate. In addition, the Group also provides other staff benefits such as pension scheme, medical insurance scheme, unemployment insurance scheme, housing provident fund and share options to motivate and reward employees at all levels to achieve the Group's business performance targets.

FUTURE DEVELOPMENT AND PROSPECTS

Toward the future, the new coordinates are clearly visible. Middle class and the post-80/90s have gradually become the main force of consumption in the new era. They are more inclined to buy personalized and cost-effective products as well as experiential consumption. To win over customers and achieve leaping development in China's increasingly segmented consumer market, outlets operators must gain insights into consumers' preferences and their detailed needs to meet their upgrading needs in efficiency and experience, and establish omni-channel contact points that suit the lifestyles of their target customer groups through O2O integration.

In 2018, the Group will strive to maintain its development strategy of "Precise Expansion and Lean Operation", further expand its strategic coverage over quality project resources in target cities, and at the same time, by leveraging the Group's edges in the scale of chain operation, reinforce its win-win partnerships with brand owners, and ensure the timely opening of new quality projects. Furthermore, the Group will focus on refined management, further leverage its advantage in resources from its strategic shareholders, Sino-Ocean Group and KKR, as well as enhance its access to global business resources and advanced management experience with a view to delivering overall improvement on operation management, information system, brand resources and performance incentives. The Group will continue to implement the concept of online-and-offline Outlets without boundaries to promote the interaction of omni-channel resources, strengthen the building of digital capability, make more accurate consumers portrait, optimize consumers experience by taking the big data operation and innovation as its breakthrough points to build a differentiated competition matrix.

In the future it is expected that there will be an increasingly intense competition in the outlets industry, however, the road might be bumpy but will be definitely increasingly wider. Only by keeping our focus on consumers and the value of brand-owners as our core, can we cut paths through mountains, build bridges across rivers and continuously reform and innovate, which provide us the driving forces for sustainable development. As the only business developer focusing on the outlets mode in China, the Group will continue to build Capital-styled Outlets that meet the needs of urban development and consumers in China, and strive to cultivate and consolidate a triple-win ecosystem for development with consumers and brand owners, so as to form a tension of systematic replication, stimulate the capacity for innovation and foster new impetus for growth, in a bid to rationalize the layout of the business format, improve channel construction, refine the management and control system in the Company. The improvement in quality and efficiency and the consolidation of foundation will continuously maximize the value for our shareholders!

Mr. Feng Yujian

Chief Executive Officer

Hong Kong, 26 February 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The board of directors of the Company is pleased to present its environmental, social and governance report for the year. This report provides latest situation on internal environmental, social and governance performance of the Group for the year ended 31 December 2017. The preparation of this report is in compliance with the relevant requirements under environmental, social and governance reporting guidelines set out in Appendix 27 to the Listing Rules of Hong Kong Stock Exchange. Unless indicated otherwise, the coverage of this report is consistent with that of the 2017 Annual Report of the Company. This report shall be read in conjunction with the 2017 Annual Report of the Company.

1. ENVIRONMENTAL, SOCIAL AND GOVERNANCE FRAMEWORK

1.1 BASIC CONCEPT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Company is committed to fully integrating corporate social and environmental responsibilities into various aspects of the corporate management and development covering the daily management, business development, and products and services development of the Company to achieve sustainable development of the Company. As such, the Company also proactively implements the relevant policies of environmental, social and governance as formulated by BCL, our parent company:

- (1) Complying with the requirements of the relevant laws and regulations on corporate environment, society and governance;
- (2) Continuously promoting the establishment and improvement of relevant management systems and rules in corporate environment, society and governance;
- (3) Proactively integrating the green building concept into the product design and services of the Group, and ensuring that the material selection and construction process are in compliance with, and even surpassing, the applicable environmental laws and rules and standards;
- (4) Encouraging employees to cherish resources, save energy, support and promote measures on energy-saving and emission reduction such as “paperless office”;
- (5) Committing to acquiring green certification for the Group’s projects, such as the China Green Building Label (GBL), and Leadership in Energy and Environmental Design (LEED) in the United States.

In the meantime, the Company will review the above policies and strategies from time to time to ensure that they are appropriate and applicable to relevant business of the Group.

1.2 SPECIAL TEAM IN ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Company has set up a project team for environmental, social and governance to promote the above policies and make the relevant disclosures. The team comprises of the management and the main contact person of each department. It reports to the board of directors or its committees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ENVIRONMENTAL, SOCIAL AND GOVERNANCE FRAMEWORK (CONTINUED)

1.3 STAKEHOLDERS ENGAGEMENT

The Company communicates with stakeholders through various channels to understand the requests of various stakeholders, and commits to facilitating the business and operations of the Group to better satisfy their demands and expectations.

Based on the business scope of the Group, we have identified the main stakeholders, including investors/shareholders, the government and regulatory authorities, employees, suppliers, consumers, residents in community. According to the communications maintained with stakeholders in the year, the concerns raised by various stakeholders in respect of the environmental, social and governance of the Group are as follows:

Stakeholders	Main Channels of Communication and Responses	Main Concerned Aspects
Investors/shareholders	Shareholders' meetings, annual reports and interim reports, results announcements, corporate announcements	Corporate internal governance, compliance with legal and regulatory requirements, products and services quality
Government and regulatory authorities	Paying visits, correspondences, field visits, relevant meetings, information disclosure	Compliance with legal and regulatory requirements, anti-corruption, environmental protection, consumers' interests protection, basic interests protection, and welfare package of employees
Employees	Employee surveys, employee internal communication meetings, corporate internal announcements, employee feedback mechanisms, questionnaires	Equal opportunity and diversity policies in relation to remuneration and employment, recruitment and promotion, basic interests protection, and staff welfare package of employees, employee development and training, employee healthcare and safety
Suppliers	Supplier management system, relevant meetings, strategic cooperation negotiations	Supplier management systems (such as admission and evaluation) and their implementation, fair and transparent mechanisms for supplier management
Consumers	Consumers' satisfaction surveys, consumer feedback activities, daily operations/communications, service complaints and response mechanisms	Products quality and services quality, complaints and handling mechanisms, consumers' interests and consumer privacy protection
Residents in community	Community activities, public welfare activities, social services support projects, daily operations	Resources contributed to community investment and results, environmental protection and use of resources

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ENVIRONMENTAL, SOCIAL AND GOVERNANCE FRAMEWORK (CONTINUED)

1.4 IDENTIFICATION OF MAJOR ISSUES IN RELATION TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Based on the relevant risks, the requests of stakeholders and the business features of the Group in terms of environmental, social and governance, we have identified relatively material aspects in environmental, social and governance, and have established targeted objectives and work direction for relevant issues to guide the future operations of the Group.

Material Issues	Major Stakeholders Involved	Objectives and Work Direction
Products and services responsibility	Investors/shareholders, consumers, government and regulatory authorities, employees, suppliers	<p>Create a safer and superior working and consuming environment for employees and consumers; review the quality control by tenants, and improve consumer experience from time to time;</p> <p>Pay ongoing attention to consumers' privacy, and prevention of consumers' interests;</p>
Employment, labor standards, training and development	Investors/shareholders, employees, government and regulatory authorities	<p>Continuously promote development and growth of employees; continuously provide fair, competitive and highly transparent incentives and recognition;</p> <p>Pay ongoing attention to human rights, diversity and equal opportunity;</p>
Anti-corruption and compliance operations	Investors/shareholders, government and regulatory authorities, employees, suppliers, consumers	<p>Continuously promote professional ethics and moral education of employees; prevention of corruption and bribery, commit to create an integrity and fair internal environment;</p> <p>Promote the extension of integrity and fair culture towards suppliers;</p>
Supply Chain management	Investors/shareholders, employees, suppliers	<p>Continuously establish a fair, transparent and orderly admission, screening and management system of suppliers; promote higher awareness of environmental and social risks among suppliers, encourage suppliers to conduct environmental and social management;</p>
Environmental protection and use of resources	Investors/shareholders, government and regulatory authorities, residents in community, suppliers, consumers	<p>Continuously promote declaration of internal environmental concept; create a green office environment; proactively reduce environmental impacts from operations; enhance the effects of environmental regulation under projects in progress;</p>

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. PRODUCTS AND SERVICES RESPONSIBILITY

We are committed to constantly improving the operations quality of outlets projects, providing safe and quality environment, controlling the quality of tenants in shopping malls in order to provide better services to consumers. The Company strictly complies with relevant laws and regulations in respect of the products and services, advertisements, labelling and privacy involved in the operations of the Group, and continues to keep track of and identify the updates of the relevant laws and regulations.

During 2017, the Company was not aware of any violation of the legal requirements of product responsibility in terms of products and services quality, advertisements, labelling, customer privacy and protection, protection of consumers' interests, etc., and events with material impact on the Company.

2.1 SECURITY AT SHOPPING MALLS

A safe, high-quality shopping environment is the foundation for enhancing customer experience. The Company has taken measures to improve safety and comfort from aspects of architectural design, construction contractor selection and operation management.

Architectural safety design

In the process of project design, we ensure that architectural design meets the relevant requirements of national fire safety, and that there is adequate fire safety equipment. For example, the Phase I of Beijing Capital Outlets, which is now under operation, is equipped with a small fire station with a fire patrol car, two small fire-fighting water pump car, positive pressure breathing apparatus, and other fire safety equipment.

Construction Materials and Construction

When selecting a construction contractor, the contractor's historical project performance is taken into consideration. It is stipulated in the contract with the contractor that all equipment and materials used for construction shall meet the requirement of national standard. All products and materials shall be inspected in accordance with relevant acceptance criteria. During the year, we have revised Beijing Capital Grand Qualification and Criterion Reference Standards – Outlets Commercial and Complex (《首創鉅大資格預審條件參考標準—奧萊商業及綜合體》) to further enhance the contractor qualification review management, including a safety system. In October 2017, we also conducted a third party inspection of the materials for construction through a third party inspection entity of materials, in accordance to the existing national construction models and standards, and requirement on environmental protection, ensuring that the construction process and the materials used meet the requirement of environmental protection and safety.

Operations safety management

We have engaged quality security companies for all projects under operation period. During the year, the Group has strengthened its emphasis on security work and issued Beijing Capital Outlets Commercial (Security and Environment) Services Reference Manual (《首創奧萊自持商業(安保·環境)服務參考手冊》), expressly stipulating the service standards, security assessment regulations, job requirement for key positions and titles, and a checklist for security companies, to improve the security level through assembling a more effective security team.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. PRODUCTS AND SERVICES RESPONSIBILITY (CONTINUED)

2.1 SECURITY AT SHOPPING MALLS (CONTINUED)

Operations safety management (Continued)

The Company's property management department examines the fire control and security loopholes through on-site inspection. During the year, the Company has issued an action plan focusing on inspection and remediation work in respect of fire control and safety loopholes, and has modified the relevant inspection administration regulations to carry out the inspection and remediation work for fire control and safety loopholes in each commercial operations sites. Such inspection and remediation work focused on the inspection of the conditions of fire control system and electricity system of the fire control facilities, the clearness of fire evacuation passage, completeness of duty rosters (such as fire control room, monitor room). Meanwhile, we have additionally made mandatory requirements of fire emergency plans for large-scale events such as commercial promotions.

2.2 ASSURANCE FOR QUALITY GOODS

The Company is committed to enabling consumers to purchase high quality goods in Capital Grand's outlets. As such, we insist on exercising strict screening among cooperative tenants on the basis of fair brand investment.

Currently, we have standardized and revised the reunified text of the commercial contracts. The cooperative tenants shall provide various relevant documented qualification as attachment to the contracts. The qualification documents cover the qualification of operations and products, including business license, tax registration certificates, trademark registration certificates, agent authority certification, commodity inspection certificates, and import qualified certificates of the tenants. When relevant commercial contracts and qualification documents have been received by the project commercial operations department, an electronic file of the tenant will be established in a timely manner to document the important qualification documents. The relevant qualification of the tenant can be inspected through the electronic file on a regular basis.

For the cooperative tenants under catering category, we place great emphasis on food safety and health. All catering cooperative tenants must provide the catering service permit and the health certificate of employees upon signing the contract, and meet the environmental and hygienic standards as stated in the "Operations Management Manual" during its operations.

The project site management staff will also pay attention to the daily performance of shops in the outlets during its daily management. Once any breach of the commercial contract by any shop is identified, necessary measures will be taken to rectify the situation and contact the shop for rectification in a timely manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. PRODUCTS AND SERVICES RESPONSIBILITY (CONTINUED)

2.3 PROVISION OF QUALITY SERVICE

We proactively take various measures to improve our service quality. Currently, we have established a complete complaint and response system to protect consumers' interests, and pay attention to the customer satisfaction of consumers.

Protection of consumers' interests

We protect consumers' interests by managing tenants. We select qualified cooperative tenants, and set up a system for return or exchange of goods in respect of the goods purchased by customers based on the agreement with the cooperative tenants to secure the legitimate interests of our customers.

Complaints and Response System

We have established fundamental standards for customer services, including determination of complaints from tenants and customers, handling requests, handling replies, and settlement rates of complaints. We have explicit requirements in respect of scope of handling complaints, handling regulations, and work procedures as set out in the Operations Management Manual (運營管理工作手冊), Tenant Manual (商戶手冊), and Salesperson Manual (營業員手冊) for projects. During the year, we made rearrangement and revision to it, so as to further improve the complaints and response system. Meanwhile, the Company made public announcement in respect of the channels for receiving and handling customer complaints. To ensure the complaints are received and handled in a proper manner, the project customer service center has documented the record of customer complaints, which covers the process of receiving, handling and responding complaints, in order to access and track the relevant complaints. The operation management center of the Company's headquarters will also inspect the actual condition of settling customer complaints through irregular work inspections.

2.4 CUSTOMER PRIVACY PROTECTION

The Company's customer information is centrally managed under a membership system through the CRM (Customer Relationship Management) member management system for unified membership management. We have signed a confidential agreement with the software development and operations maintenance software development company, which explicitly sets out the obligations to keep customers information confidential. Meanwhile, the confidential provisions are set out in Beijing Capital Grand's Employees' Handbook (《首創鉅大員工手冊》), which requires all employees to keep confidential of information including customer information. During the year, the Company was not aware of any occurrence of leakage of customer privacy.

Indicator	2017
Number of leak of customer privacy	0

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. PRODUCTS AND SERVICES RESPONSIBILITY (CONTINUED)

2.5 ADVERTISING AND LOGOS MANAGEMENT

The Company strictly complies with the relevant laws and regulations on the national advertisement promotion and the use of logos, and has formulated relevant systems, such as *Administrative Measures for the Brand Communication of Commercial Projects of Capital Grand* (首創鉅大有限公司商業專案品牌傳播管理辦法) and the *Management and Control Explanation of the Promotional Image of Commercial Projects of Capital Grand* (首創鉅大有限公司商業專案推廣形象管控說明), which establish a sound management mechanism in respect of advertising, promotion and the use of logos for truthful marketing and to avoid false propaganda. During the year, the Company was not aware of any event related to breach of relevant laws and regulations with a significant impact on the Company in the field of advertising and logos.

2.6 PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

The Company has established a sound management system of intellectual property rights, including the avoidance of infringement of intellectual property rights and the protection of self-owned intellectual property rights. We attach great importance to the avoidance the risks of infringement of intellectual property rights during our daily operations. As such, we avoid the use of unlicensed materials in our promotional materials. Prior to introducing cooperative tenants, the trademark registration certificate or the certification documents to use license of the Group's outlet projects shall be reviewed, so as to ensure that their operation is in compliance with relevant laws and regulations, such as the Trademark Law of the People's Republic of China. During the year, the Company was not aware of any event related to material infringement of intellectual property rights, which had a significant impact on the Company. There was no significant event of the intellectual property infringement in the Company during the year.

In respect of the protection of intellectual property rights, the Company has fully exercised the intellectual property rights to spark the motivation, guidance, protection and evaluation for corporate innovation. Currently, relevant trademark registration certificates of the product brands of "Capital Grand" and "Capital Outlets" have been obtained.

Indicator	2017
Total number of trademark rights	54

3. CARING FOR EMPLOYEES

We are concerned about the development and well-being of our employees, and are committed to creating a good working environment with equal opportunities, diversification, and professional ethics oriented.

3.1 PROTECTION OF EMPLOYEES' INTERESTS

The Company strictly complies with relevant laws and regulations relating to compensation and employment, recruitment and promotion, working hours, leave entitlement, equal opportunity, diversity and anti-discrimination. We keep abreast of and identify the updates of the laws and regulations to protect the legitimate interests of our employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. CARING FOR EMPLOYEES (CONTINUED)

3.1 PROTECTION OF EMPLOYEES' INTERESTS (CONTINUED)

Equal Opportunities

Labor contracts are signed with all formal employees, which explicitly protect the legitimate interests of our employees under relevant laws and regulations thereon. All recruitments of the Company are announced both internally and externally, and are open to all qualified people, ensuring that all the applicants will get a fair, just and open opportunity. The Company has developed a sound performance evaluation and management system to guarantee an open evaluation standard, a just assessment process, and a fair assessment result.

Indicator ¹	2017
Total number of employees	832
Number of employees by gender	Number of male employees 510 Number of female employees 322
Number of employees by age	Number of employees under the age of 30 273 Number of employees aged between 30 and 40 (exclusive) 469 Number of employees aged between 40 and 50 (exclusive) 82 Number of employees over the age of 50 (inclusive) 8
Total number of employees by types of employment	Number of employees under labor contract 832 Number of employees under labor dispatch 0
Total number of employees by region	Number of employees in Eastern China region 370 Number of employees in Southern China region 0 Number of employees in Central China region 101 Number of employees in Northern China region 275 Number of employees in North-western China region 46 Number of employees in South-western China region 40 Number of employees in North-eastern China region 0
Total number of employees by academic qualification	Number of employees below undergraduate level 282 Number of employees at undergraduate level 486 Number of employees above undergraduate level 64
Total number of employees by grading employees	Number of employees at senior management ² 33 Number of employees at mid-level management ³ 92 Number of employees at junior level 707

1. The relevant information on employees covers the headquarters of Capital Grand in Beijing, Beijing (Fang Shan) Company, Huzhou Company, Kunshan Company, Xi'an Company, Nanchang Company, Hangzhou Company, Wuhan Company, Zhengzhou Company, Jinan Company, Hefei Company, Chongqing Company and Kunming Company.

2. Senior management includes general managers, deputy general managers, assistant general managers and directors.

3. Middle management includes core (deputy) general managers and departmental (deputy) general managers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. CARING FOR EMPLOYEES (CONTINUED)

3.1 PROTECTION OF EMPLOYEES' INTERESTS (CONTINUED)

Interests and Benefits

The Company's internal constitution expressly provides the working hours, leave entitlements, labor protection, minimum wage, etc. The basic social security fee and housing provident fund are paid by the Company on behalf of our employees according to the law. It also provides its employees with benefits such as supplemental medical insurance and regular physical body checks. In the meantime, special compliance audit on the human resources turnover within the Group is conducted through both regular and irregular self-inspection and external audit, ensuring that the relevant laws and regulations are strictly complied by the management system of employees of the Group.

Protection of Human Rights

The Company places great emphasis on human rights. During the recruitment process, we verify and confirm the identity of our staff to ensure that no child labor is employed. We also encourage employees to maintain a work-life balance and ensure that there is no force labor within the Company. During the year, the Company was not aware of any child labor employment, forced labor or other occurrences violating human rights of employees.

Work-Life Balance and Internal Communication

The Company attaches great importance to the work-life balance of our employees, internal communication and team building, and is committed to creating a harmonious team atmosphere and corporate culture. During the year, we conducted related activities including:

- Throughout 2017, a welfare activity was carried out in which a "personalized birthday gift" were given to employees on their birthdays
- 8 March 2017, "Reward the Goddess", in which female employees received festive greetings and warm gifts by the trade union
- 1 May 2017, "May 1st Grand Gathering", in which everybody enjoyed delicious refreshments
- 30 May 2017, "Dragon Boat Festival", welfare activity held by the trade union
- 1 June 2017, "Kids' Carnival", in which crystal photo frames with childhood photos were given to each and every employee



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. CARING FOR EMPLOYEES (CONTINUED)**3.1 PROTECTION OF EMPLOYEES' INTERESTS (CONTINUED)***Work-Life Balance and Internal Communication (Continued)*

- 5 July 2017, "Openday: free-talk and free-flow", an activity held at the ideapod office section to enhance the communication for cross-office sections
- 30 September 2017, "Magic Doll – Doraemon" organized by the trade union celebrating both the Mid-Autumn Festival and the National Day
- 25 December 2017, "Santa's Candy Campaign" on the Christmas day

3.2 EMPHASIS ON EMPLOYEES' HEALTH

The Company concerns the well-being of our employees. We strictly comply with the relevant laws and regulations, such as the Labor Law of the People's Republic of China (中華人民共和國勞動法) and the Regulations on Work Related Injury Insurance (工傷保險條例) to support the well-being our employees.

Medical Protection

On top of the basic protection including basic medical, pension, work-related injury and unemployment insurance as required by the PRC, commercial supplemented insurance is covered for employees, which includes serious illness, outpatient service and inpatient service, so as to alleviate the difficulties to reimburse medical expenses by our employees. In addition, in order for workers who suffer injuries at work to receive medical treatment and financial compensation in a timely manner, strengthen the prevention and management for occupational injury and actively carry out occupational rehabilitation measures, the Company has established a mechanism to handle and correspond to work injury. In the event of industrial accidents, we proactively form a team from employees to identify the level of injury, coupled with the certification of injury of the employee, releasing the related benefits to him/her in accordance with relevant requirements and assist him/her to claim the work-injury insurance. If no employment injuries can be identified, we will also provide employees with physical and spiritual compensation to ensure that the employees take their time to recover and restore their health, until they are back to work.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. CARING FOR EMPLOYEES (CONTINUED)

3.2 EMPHASIS ON EMPLOYEES' HEALTH (CONTINUED)

Healthcare

The Company organizes the body check-up for employees every year, and determines the prevalence of sub-health diseases according to the Company's overall medical results, and arrange health talks accordingly. We also actively carry out various physical activities through the trade union, such as ball games, walking for health, and outdoor activities, promoting the concept of healthy lives. During the year, we launched the "Grand RUNNING" campaign to encourage employees to work out within the Company's territory. We reviewed those campaigns in the middle of the year, and rewarded all the participants and called for their continuous attention and participation.

3.3 SAFE WORKING ENVIRONMENT

The Company is committed to creating a safe working environment and minimizing the possibility of our employees suffering from work-related injuries and deaths. Meanwhile, we also attach great importance to the safety management of construction sites for projects under construction.

Project Construction Safety

The Company has established a sound safety management system based on the relevant documents on project safety management issued by BCL, our parent company, as well as a series of internal systems. The Company has implemented the Safe and Civilized Production Management Procedures for Project Engineering (專案工程安全文明生產管理流程) issued by BCL. These procedures provides that the construction unit shall comply the local regulations and requirements on safe and civilized construction plan, and prepare safe and civilized construction plan. The implementation of the plan as well as the safe and civilized construction and inspection are conducted in accordance with three-level of inspections, which are self-examination on the implementation by the construction unit, inspection and supervision by the supervision unit, and inspection by the project department or project management department of the development company.

Evaluation on Construction Safety Management

We regard the evaluation of construction safety management as an important indicator for project assessment, which includes safety indicators, such as the situation of construction safety accidents, the on-site implementation of safe and civilized construction, and the completion rate of annual innovative projects on safe and civilized construction. This is to ensure that safety management is always under control.

Safety Inspection and Control

A safety team has been set up at the headquarters of the Company, and it is mainly comprises of senior and intermediate project managers. The team inspects the projects monthly/quarterly/irregularly, and the scope of which are, including but not limited to, the implementation on safety production accountability, the safe use for the equipment and facilities at construction site, safety on the use of electricity on-site, fire safety, and the installment, inspection and acceptance, filing procedure inspection of dangerous equipment, etc. Once any significant security risk is identified, they will immediately communicate face-to-face with the project construction managers and the construction units, requiring immediate rectification. The teams will also discuss the results of the inspection, as well as negotiate the solutions and improvement plans, with relevant centers including design and marketing center, the property management center and the cost and engineering center at the headquarters of Beijing Capital Grand. During the development and construction stage, the project company will set up development and management department/project department. Such department has professional engineering management staff that are directly responsible for the safety management of the construction unit at the construction stage. It will conduct weekly monitoring, safety inspection on the construction site by relevant construction unit, ensuring that the site is completely safe.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. CARING FOR EMPLOYEES (CONTINUED)

3.3 SAFE WORKING ENVIRONMENT (CONTINUED)

Promotion of Safety Protection

The Company organizes fire safety seminars every year to ensure that our employees understand and familiarize themselves with fire safety and fire rescue knowledge. We also conduct hazard identification for each position. "Security notification card" is posted on the site where dangerous goods can be found, explicitly specifying the source of danger and safety protection measures of each position.

"Month of Safe Production" Event

Every June, the Company, based on the requirement of Beijing Capital Group and BCL, coordinates all subsidiaries to roll out the "Month of Safety Production" event which involve the efforts including the education on the safe use of electricity, the accident diagnosis and resolution, the promotion on the laws of safety production, and emergency drills

Indicators	2017
Number of work-related fatal accidents	0
Number of death of employee caused by work (persons)	0
Rate of work-related fatalities (%)	0
Number of persons injured caused by work (persons) ¹	0
Lost of working hours due to work injury (hrs)	0

1. Injured caused by work means the existing employee at the unit injured during the course of occupational activities or occupational-related activities, which is identified as injury caused by work.

3.4 SUPPORT ON EMPLOYEES' GROWTH

The Company promotes employees' individual growth and career development by the establishment of comprehensive training system, fair performance management and promotion system.

Comprehensive Training System

The Company has set up a sound training platform and a training management system with the support of "Training and Management System of Capital Grand" (首創鉅大培訓管理制度), "Employee Academic Credit Management System of Capital Grand" (首創鉅大員工學分制管理辦法) and "Procedures and Requirements of Curriculum Development of Capital Grand" (首創鉅大課程開發流程及條件要求).

Adhering on the classification of level and category, we continue to promote positional training and professional training for our employees, to fully carry out training on project basis. We roll out corresponding training programs for our employees based on their different positions and levels, including management (鉅擎) training, back-up cadre team (鉅才) training, professional and managerial capabilities (鉅能) training of all employees, and new employees (鉅人) training. We continue to promote various ways of learning both online and offline, helping our employees to better use their time. For example, the realization of Internet and mobile learning through "China Europe International Business School" (中歐商學院) and "Grand learning" (鉅learning), organization of online and offline public courses, internal training by lecturers and seminars from industry authoritative lecturers. In addition, we make every effort to create a good learning atmosphere. We strive to build up a learning-based organization with solidarity by launching various activities including staff reading activities, quality development, sharing seminars and business seminars.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. CARING FOR EMPLOYEES (CONTINUED)

3.4 SUPPORT ON EMPLOYEES' GROWTH (CONTINUED)

Comprehensive Training System (Continued)

Indicators		2017
Number of various types of training programs	Number of various types of training programs	294
Total training expenditure	Total training expenditure (RMB0'000)	82
Total number of persons receiving training	Total number of persons receiving training	783
Total number of employees receiving training by gender	Number of male employees receiving training	498
	Number of female employees receiving training	285
Percentage of employees receiving training by gender	Percentage of male employees receiving training	98%
	Percentage of female employees receiving training	89%
Total number of employees by level of ranking	Number of senior management employees receiving training	32
	Number of middle management employees receiving training	83
	Number of junior employees receiving training	668
Average training hours per employee	Average training hours per employee	29
Total hours of employees receiving training by gender	Total hours of male employees receiving training	14,709
	Total hours of female employees receiving training	9,451
Number of hours of employees receiving training per person by gender	Hours of receiving training per person of male employees	29
	Hours of receiving training per person of female employees	29
Total number of hours employees receiving training by level of ranking	Total hours of training received by senior management employees	430
	Total hours of training received by middle management employees	1,651
	Total hours of training received by junior employees	22,079

Fair Performance Evaluation and Promotion

The Company has developed a scientific performance evaluation management system by following the principle of open criteria of performance, just processes and fair results of evaluation, providing equal opportunities for employees in respect of salaries and promotions to fully motivate and encourage the employees being active and motivated.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. CORPORATE GOVERNANCE

The Company has strictly abided by laws and regulations such as corporate governance, anti-corruption and anti-bribery, and has set up a series of management systems on anti-corruption, bribery risks and internal control based on requirements under relevant laws and regulations, which has explicitly advocated the anti-corruption management organizational structure, has enhanced full performance of duties of incumbent in the business procedures and has optimized the corresponding risk control measures. We have explicit corporate governance rules and clear guidelines towards different positions within the Company, and have also established a detailed whistleblowing policy.

We promoted the institutionalization and standardization of anti-corruption work within the Company by issuance of management rules such as the "Provisions of Explicit Prohibition of Capital Grand" (首創鉅大明令禁止條例), seriously commencing the party discipline education and reinforcing warning education. The Company has requested its subsidiaries signed the "Anti-commercial Bribery Agreement" (反商業賄賂協議) with all suppliers to avoid commercial bribes. In the meantime, we issued the "Guidelines for the Internal Audit of Capital Grand" (首創鉅大內部審核工作指引), which clearly stipulated the procedures of discipline review and whistleblowing, and announced the mailbox of whistleblowing to encourage the employees and third parties which have relationships with the Company to express concerns about any related misconduct, fraud and non-compliance event in corporate affairs under strict confidentiality.

During the year, the Company has found no significant risks related to corruption and any events in connection with the recognized corruption of the Group or any public legal proceedings about corruption against the Group or its employees. As the business develops, we will further improve our anti-corruption systems, increase our supervision and provide a strong safeguard for sustainable development.

Indicator	2017
The number of convicted corruption complaints ¹	0
The number of convicted corruption complaints related to the Company	0
The number of convicted corruption complaints related to the employees	0

1. The number of convicted corruption complaints related to the Company or its employees during the reporting period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. SUPPLIER MANAGEMENT

In addition to the environmental and social responsibilities to be fulfilled by the Company, we also proactively encourage suppliers to consider the environmental and social responsibilities. Based on the current business development of the Group, our major suppliers are construction-related suppliers. We have incorporated elements relating to environmental and social responsibilities into systems of screening and access, contracting, construction process and post-regulation to improve the performance of suppliers in relevant aspects.

SCREENING AND ACCESS

The Company has included the qualification and certification of our suppliers in respect of environmental and social responsibility into the review criteria, which involves ISO quality certification, ISO Environmental certification, ISO occupational health and safety certification, production safety conditions while screening suppliers. In the meantime, we carry out on-site inspection on project implemented by the suppliers and on production plants and check the authenticity of the information submitted for the review of qualification while we also assess the on-site management capacity of suppliers. We will evaluate them accordingly as unqualified if we identify any fraudulent information, major potential risks for on-site security and failure to adopt measures that meet national standard for handling significant pollution to the environment resulted from production equipment. During the year, we have amended the criteria of suppliers' prequalification conditions to further standardize them.

CONSTRUCTION MANAGEMENT

We have set out provisions in relation to the assurance for safety environment and prevention from social risks in the contract, requiring the construction suppliers should take all appropriate measures to protect the environment both inside and outside the construction site and limit the harms and effects to the public and property arising from the pollution, noise and other consequences caused by the construction work, ensure its gas emissions, surface drainage and pollution incurred from its activities do not exceed the limit stipulated in the relevant laws, regulations and standards. We comply with the requirements of laws and regulations to establish on-site safety management system, set up safety inspection personnel to ensure on-site construction safety. We satisfy the requirements of the Labor Law in the employment and provide employees with various social security and benefits in accordance with the laws. We require the contractors to use the equipment and materials that meet the requirements of the national standards, and inspect various types of products and materials according to the relevant criteria of acceptance. Products and materials that fail to meet the criteria are not allowed to be used in the project.

In addition, we have employed third-party inspection and testing unit to conduct supervision and inspection on the construction process according to the prevailing national construction specifications and standards, and the requirements of environmental protection, with an aim to ensure the construction process comply with environmental protection requirement and eliminate any possibility that could cause harm to society.

POST-ASSESSMENT

The Company conducts regular and post-performance assessment on the suppliers. The assessment system also includes the assessment criteria of the environmental and social risks. In the event that the suppliers fail to fulfill the contractual requirements on environment and risks, we will deduct the score of the supplier for the corresponding projects.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. ENVIRONMENTAL RESPONSIBILITIES

The Company strictly abides by the relevant laws and regulations of environmental protection, and regularly keeps abreast with the latest national and regional environmental laws and regulations to ensure that the relevant policies and measures of the Company meet the compliance requirements. On this basis, the Company also takes various measures to promote the culture of sustainability in the Company and is committed to achieving better performance in environmental protection that covers daily offices activities and specific businesses. For the year ended 31 December 2017, the Company has not been subject to any fines or related litigation in relation to environmental pollution.

Due to the characteristics of the Group's business, we have limited impact on the environment and natural resources, the impact of which is mainly greenhouse gas emissions and resource use incurred from our office and the construction and operation of our Outlets project. Therefore, we adopt green office and take measures as far as practicable to reduce the impact on the environment and natural resources in the process of design, construction and operation of the Outlets projects.

6.1 GREEN OFFICE

In order to create a green low-carbon office environment, the Company has comprehensively promoted the concept of 5S (Seiri, Seiton, Seiso, Seiketsu, Shitsuke) management and formulated 5S management program which is applicable for the office of various companies since 2013, so as to advocate conservation and reduce consumption.

Sources of our gas emissions are mainly the official vehicles. Therefore, we are committed to strengthening the management of official vehicles, improving the efficiency of our vehicles and reducing emissions. We unify the purchase of fuel cards, implement the "one car one card" system, quantitative and regular refueling, and unify the management; establish the registration system of dispatching the vehicles, strictly implement approval procedures for the use of vehicles and coordinate the distribution of vehicles, thus the usage of official vehicles is enhanced. Currently, the headquarter and subsidiaries only have few official vehicles.

At the same time, we have adopted a series of resources and energy saving programs to promote carbon emission reduction and office waste reduction as our greenhouse gas emissions is mainly from the use of energy, while office waste is mainly from the consumption of office consumables:

Green Business Trip

We introduce video and teleconferencing systems to reduce the number of staff traveling for business trip and the carbon emissions caused by traffic arising therefrom. During the year, video conference was used for more than 500 times. If employees must go out for work, we also encourage employees to make full use of the public transport to reduce the use of official vehicles alone.

Office Electricity Conservation Program

In the office, we avoid adjusting the air-conditioner to an extremely low temperature during summer, shut the windows while using air-conditioner and turn off all air-conditioners timely after using. We reduce standby time of office electronic equipment and appliances, which are set to power-off if they have not been used for a long time. We turn off lights, prevent long operation time of lights, turn off lights for non-working hours, make full use of the natural light and reduce energy consumption of the lighting equipment. We purchase certified energy-saving products. Some subsidiaries can only purchase energy-consuming equipment with energy-efficiency labeling 2 or above or those with energy-saving product certification mark. By adopting the relevant measures, the average electricity consumption per capita has been effectively reduced. In 2017, the average electricity consumption per capita of the Company's headquarter decreased by 2.43% as compared with 2016.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. ENVIRONMENTAL RESPONSIBILITIES (CONTINUED)

6.1 GREEN OFFICE (CONTINUED)

Paper Conservation Program

We promote “paperless office”, use double-sided printing or secondary paper printing. We encourage employees to use paper in double-sided, except for official documents, use double-sided printing or secondary paper printing for internal circulation of the files. We try to use multimedia form of presentation in the meetings to reduce the use of paper; try to use e-mail instead of fax paper, or scan faxes to electronic version to save paper. In 2017, the usage of printing paper of the headquarters decreased by 28% as compared with 2016.

Water Conservation Program

We focus on water quality to ensure that the water supply of the Company meet the national quality standards. Regarding water conservation, we encourage the employees to bring their own drinking cups to reduce the use of bottle water and reduce waste and loss. In 2017, the usage of bottle water of the Company decreased by 3% as compared with 2016.

Reduce Consumables Programs

We reuse the office supplies. We focus on reusing the office supplies, such as recycling the foldback clips and the paper clips from departments that have accumulated used supplies for redistribution by office supplies department. In 2017, the value of office supplies of the Company decreased by 5.2% as compared with 2016.

6.2 GREEN DESIGN

The Company actively incorporates the concept of environmental protection and sustainability into the design of its Outlet project and devotes itself to enabling the buildings of its Outlets Project to maximize resource conservation, environmental protection and pollution reduction throughout its entire life cycle, and create a healthy, suitable and efficient use of space for people. Table below illustrates the Green Building Certification obtained by the Outlets projects of the Company for the year ended 31 December 2017:

Serial Number	Project Name	Green Building Star Ranking
1	Nanchang Capital Outlets Project	One star
2	Jinan Capital Outlets Project	One star
3	Beijing Capital Outlets Project Phase 2	One star
4	Zhengzhou Capital Outlets Project	One star
5	Wuhan Capital Outlets Project	One star
6	Hefei Capital Outlets Project	Two star

Whether it obtains Green Building Certification or not, we are committed to gradually improving its energy efficiency through a variety of measures for each Outlet Project of the Company. Taking Beijing Capital Outlets Projects Phase 2 as an example, from its practical experience, adopting viable environment protection elements such as colored glass or double-layer low-emissivity glass, energy-efficient building equipment and devices and advanced smart control system in development projects can not only enhance the overall environmental performance of the projects, but also improve the comfort of the environment of projects. Meanwhile, we are also committed to continuously upholding the principle of integrating sustainability concept into project design in the future business development to construct environmental-friendly buildings.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. ENVIRONMENTAL RESPONSIBILITIES (CONTINUED)

6.3 GREEN CONSTRUCTION

The Company attaches great importance to the environmental protection and use of resources in all of its construction sites. We require and supervise contractors to implement various environmental protection management measures including waste, dust and sewage discharge management measures, and to monitor and mitigate the related environmental impact in the course of the construction projects.

Emissions Management

We are committed to minimizing the air and water pollution during the construction. Therefore, we require contractors to implement environmental management measures, waste management measures and dust and sewage management measures in construction projects and to monitor and mitigate the impacts in order to achieve the goal.

Noise Reduction: We will continue to work on reducing construction noises and strictly require the contractors to control the construction time to ensure that the noises caused by the construction are in compliance with the requirements of relevant national standards.

Dust Control: We require contractors to maintain road hardening rate of 100% in the construction site, 100% coverage of on-site earthworks, and to arrange designated person on-site to sprinkle towards the dust every day to reduce dust emissions in the construction site.

Sewage Management: We require contractors to set the car wash basin and sedimentation tank in the construction site, and to set grease traps in the kitchen to ensure oil separation and the sewage after sedimentation can be discharged into the municipal sewage pipe network.

Waste Discharge Management: We require contractors to separate recyclable and non-recyclable wastes on-site, and the recyclable wastes should be recycled and the non-recyclable wastes should be cleared, delivered and discharged to the government-designated places.

Use of Resources

Energy Consumption: We require contractors to use water-saving taps and energy-saving lamps such as LED light bulbs etc., to post water-saving and electricity-saving label and to arrange specified person for on-site inspection to prevent long operation time of lights and non-stop water flow.

Use and Consumption of Materials: We require contractors to control the use of materials on-site in accordance with the construction budget, and to consider more commonality when they are planning the model print and recycle for repeated use, and set a recovery mechanisms to avoid waste.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. ENVIRONMENTAL RESPONSIBILITIES (CONTINUED)

6.4 GREEN OPERATIONS

During the process of project operation, we encourage our subsidiaries to set targets for energy conservation, emission reduction and waste disposal management. We will gradually achieve our goals through various measures, including: routinely sort project garbage and achieve the goal of day-production, day-clean, and cooperate with cleanup companies who has relevant qualities to sort and clean the dry, wet garbage generated by projects; gradually promote the use of energy-saving technology products, phase out high energy-consuming facilities and equipment, focus on promoting the appliance of new energy and renewable energy; purchase garbage bags made of renewable materials and other daily necessities, and use hand dryer in the bathroom to reduce the consumption of paper towels by way of written proposal.

Through these measures, the environmental performance of each project has gradually improved. Taking Beijing Capital Outlets Project as an example, in 2017, it saved about RMB1.35 million (public area) throughout the year and reduced the carbon emission effectively by measures such as turning on air-conditioners and lighting depending on weather conditions, gradually transforming public lighting into LED energy saving type, and reducing the number of freight elevators. In the case of ensuring service quality, we saved annual cost of water about RMB380,000 and control the waste of resources effectively by measures such increasing adjustment valve through cooling tower, adjusting the toilet flushing valve in the bathroom, and controlling the frequency of greening water.

6.5 GREEN COOPERATION

The Company also actively seeks partners with the same social responsibility and sustainable development philosophy, through commencing green cooperation, facilitating the promotion of sustainable development concept. In April 2017, the Company, Carmina Campus and Global Stores launched the Green Design Declaration of "Green and Fashionable".

6.6 ENVIRONMENT PERFORMANCE

Unless otherwise stated, the relevant data and performance in this section are as of 31 December 2017, covering the Capital Grand Headquarter in Beijing of the Group and four projects under operation, namely Beijing Company, Huzhou Company, Kunshan Company, Hangzhou Company. Projects in process are temporarily not included in the scope of disclosure since they are outsourced. As the data in this part is disclosed for the first time, there is no data for 2016. Given the characteristics of the Group's business, we have separately calculated the statistics of relevant office area and shopping public area.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. ENVIRONMENTAL RESPONSIBILITIES (CONTINUED)

6.6 ENVIRONMENT PERFORMANCE (CONTINUED)

The office environment performance of Capital Grand Headquarter in Beijing and Beijing Company, Huzhou Company, Kunshan Company and Hangzhou Company is as follows:

Emissions

Indicators	2017
Sulfur dioxide (kilogram) ¹	1.84
Nitrogen oxides (kilogram) ¹	5.30
Total greenhouse gas emissions (Category I and Category II) (Ton) ²	452.45
Direct discharge (Category I) (Ton)	63.12
Official car fuel consumption	63.12
Indirect discharge (Category II) (Ton)	389.33
Purchased electricity	389.33
Annual greenhouse gas emissions per square meter of building area (Ton/Square meter)	0.074
Non-hazardous waste (Ton) ³	43.80
General waste	31.80
Kitchen waste	12.00
Annual non-hazardous waste per square meter of building area (Ton/Square meter)	0.0072
Non-hazardous waste generated per employee (Ton/Person)	0.089
Hazardous waste (Ton) ⁴	0.10
Toner cartridge	0.05
Ink cartridge	0.03
Fluorescent tube	0.02
Annual hazardous waste per square meter of building area (Ton/Square meter)	0.00002
Hazardous waste generated per employee (Ton/Person)	0.0002

1 Sulfur dioxide and nitrogen oxide emissions mainly come from official car fuel consumption. The scope of disclosure includes no other direct energy use such as natural gas and diesel oil. The energy consumption of self-owned canteens is electricity consumption. The information on emission of sulfur dioxide and nitrogen oxides is accounted according to the "Technical Guide for Air Pollutant Emission Inventory for Road Vehicles (Trial)" published by the Ministry of Environmental Protection of China.

2 The greenhouse gas inventory includes carbon dioxide, methane and nitrous oxide, which are mainly from purchased electricity and fuels. Greenhouse gas accounting is presented based on carbon dioxide equivalence and is based on the "2015 Baseline Emission Factors for Regional Power Grids in China" published by the National Development and Reform Commission of China and the "2006 Guidelines for National GHG Inventory" published by the Intergovernmental Panel on Climate Change.

3 Non-hazardous wastes are given to recyclers for disposal, mainly including domestic wastes produced in the office area and kitchen wastes produced in its own canteen.

4 Hazardous wastes are disposed by third parties or suppliers, including waste toner cartridge, ink cartridge and fluorescent tube.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. ENVIRONMENTAL RESPONSIBILITIES (CONTINUED)

6.6 ENVIRONMENT PERFORMANCE (CONTINUED)

Energy and resource consumption

Indicators	2017
Total energy consumption (MWh) ¹	783.21
Direct energy consumption (MWh)	256.68
Gasoline (MWh)	256.68
Indirect energy consumption (MWh)	526.53
Electricity (MWh)	526.53
Annual energy consumption per square meter of building area (MWh/sqm) ²	0.13
Tap water (ton)	5,423.00
Annual water supply per square meter of building area (ton/sqm)	0.89
Print paper usage (ton)	9.39

1 There is no diesel, coal or other direct energy use in the scope of disclosure. Energy consumption data is converted by factors documented in the general principles of the comprehensive energy consumption calculation (GB/T 2589-2008), which was formulated by the state administration of quality supervision and quarantine of the People's Republic of China and China national standardization management committee.

2 Energy Consumption per square meter of gross floor area refers to the amount of energy consumed per square meter of gross floor area.

3 Package data is not applicable to the Group.

The environment performance of public area under Capital Grand's Outlets project in Beijing, Huzhou, Kunshan, Hangzhou is as follows:

Emissions and resource consumption

Indicators ¹	Beijing	Kunshan	Hangzhou	Huzhou
Total greenhouse gas emissions (ton) ²	2,884.70	764.00	264.81	2,774.82
Annual greenhouse gas emissions per square meter of building area (ton/sqm)	0.027	0.015	— ⁵	0.029
Hazardous waste (ton) ³	0.066	0	0	0.015
Total energy consumption (MWh) ⁴	3,795.83	1,087.30	376.74	3,947.68
Annual energy consumption per square meter of building area (MWh/sqm)	0.036	0.022	— ⁵	0.041
Tap water (ton)	100,099	63,100	14,505	73,982
Annual water consumption per square meter of building area (ton/sqm)	0.94	1.26	— ⁵	0.76

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. ENVIRONMENTAL RESPONSIBILITIES (CONTINUED)

6.6 ENVIRONMENT PERFORMANCE (CONTINUED)

Emissions and resource consumption (Continued)

- 1 The data in this section covers only the public areas of shopping malls (i.e. energy consumed and emissions generated by merchants are not included.)
- 2 The greenhouse gas inventory includes carbon dioxide, methane and nitrous oxide, which are mainly from purchased electricity with no direct fuel consumption in the public areas of the shopping mall. Greenhouse gas accounting is presented on carbon dioxide equivalence and is based on the "2015 Baseline Emission Factors for Regional Power Grids in China" published by the National Development and Reform Commission of China and the "2006 Guidelines for National GHG Inventory" published by the Intergovernmental Panel on Climate Change. Differences in data among Beijing (Fang Shan), Kunshan and Huzhou projects are mainly because of differences in scale. Hangzhou project officially commenced operation in November, so its greenhouse gas emission is less.
- 3 Hazardous wastes are disposed by third parties or suppliers, mainly fluorescent tube wastes, of which the entire public area under Kunshan project has installed LED tubes, therefore no waste fluorescent tube was produced; Hangzhou project was delivered by contractor at the end of December and there was no fluorescent tube replacement.
- 4 Total energy consumption was mainly from the purchased electricity, with no direct fuel consumption in the public areas of the shopping mall. Hangzhou project officially commenced operation in November 2017, so its energy consumption is less.
- 5 As Hangzhou project officially commenced operation in November 2017, its annual energy consumption and resource consumption per unit of building area is not included in the calculation for the time being.

7. COMMUNITY INVESTMENT

The Group has committed to social responsibilities and community and stakeholders communication and has undertaken related community activities according to their needs, which conveys the corporate's value of the pursuit of good humanistic environment to the public. In 2017, Beijing headquarters organized activities such as the condolences to Beijing Fangshan Children's Welfare Institution, the Xi'an office to care for the left-behind children, Hainan Wanning office's compulsory relief, Huzhou office's condolence Children's Welfare Institution, Beijing office's love donation, the Hangzhou company's condolences to Fuyang Children's Welfare Institution and Low-carbon energy cycling.

At the same time, since the public is demanding for a healthy lifestyle now, in 2017, the Company continued to sponsor "Capital Outlets, Run for Fun", the national road running competition of Olympic Sports Center, which was jointly held by Chinese Athletics Association, a subordinate unit of the State General Administration of Sports, and the National Olympic Sports Center, so as to encourage the public to exercise proactively and deliver the concept of healthy and comfortable life to the public. The Company also delivers the theme of "Happy Run, Healthy Living" across borders to demonstrate the social responsibility of promoting fitness for all through action.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhong Beichen (鍾北辰), aged 43, was elected as the chairman of the board of director and the chairman of the Nomination Committee of the Company in January 2017. He is also a director of certain subsidiaries of the Company. He was appointed as the vice-president of BCL in January 2017. Mr. Zhong joined BCL in June 2000 and served as an architect of Beijing Sunshine Real Estate Comprehensive Development Company (北京陽光房地產綜合開發公司) from June 2000 to December 2002 and the deputy general manager of Beijing Anhua Shiji Real Estate Development Co., Ltd. (北京安華世紀房地產開發有限公司) and Beijing Sunshine City Real Estate Development Co., Ltd. (北京陽光城房地產有限公司) from January 2003 to December 2007. Mr. Zhong served as the general manager of the Product R&D Centre of BCL from January 2008 to August 2011 and the vice-president of Outlet Investment Management Co., Ltd. (奧特萊斯投資管理有限公司), from June 2010 to August 2011. Mr. Zhong served as general manager of the Commercial Property Development Department of BCL from September 2011 to December 2013, an assistant president of BCL from September 2011 to February 2012, the vice-president of BCL from March 2012 to December 2013, and executive director and chief executive officer of the Company from December 2013 to January 2017. Mr. Zhong served as an architect of the Planning and Design Institute of the Department of Light Industry of the PRC (中國輕工業部規劃設計院) from July 1996 to May 2000. Mr. Zhong obtained his bachelor's degree in Architecture from Xiamen University in 1996.

Mr. Feng Yujian (馮瑜堅), aged 44, was appointed as an executive Director, chief executive officer of the Company in January 2017 and was appointed as the Chairman of the Strategic Investment Committee of the Company on 9 February 2018. He is also a director in certain subsidiaries of the Company. He was the vice-president of the Company from March 2015 to January 2017. He joined BCL and served as securities business manager in Business Development Department in March 2003, as deputy general manager of Strategic Development Centre from April 2008 to January 2010, as general manager of Capital Management Centre from January 2010 to July 2014, as general manager and investment relationship director of BCL Hong Kong Office from August 2012 to April 2017. Prior to joining BCL, Mr. Feng served as a senior analyst in Foshan Securities Co., Ltd., as an analyst in Beijing Xinminsheng Financial Advisory Co., Ltd. and as a securities trader in Zhejiang Jinma Property Development Co., Ltd. Mr. Feng obtained a bachelor's degree in Economics from Renmin University of China in July 1994 and a master's degree in Business management from Beijing International MBA (BiMBA) in February 2003.

NON-EXECUTIVE DIRECTORS

Mr. Sun Shaolin (孫少林), aged 59, was appointed as a non-executive Director and a member of the Remuneration Committee of the Company in December 2016. He is an engineer. Mr. Sun has been a non-executive director of BCL since September 2016. He joined Beijing Capital Group Co., Ltd. (北京首都創業集團有限公司) ("Capital Group") in January 2005 and had served as the deputy general manager of the Strategic Planning Department, the deputy director of the Corporate Structure Adjustment Office, the general manager of the Strategic Planning Department and the general manager of the Strategic Management Department, and has served as the Strategic Management Director (戰略管理總監) of Capital Group since August 2014. Prior to joining Capital Group, Mr. Sun served as a teacher at the Department of Educational Technology of Shaanxi Normal University from January 1982 to September 1985; a principal staff member of Policies and Regulations Division of the Ministry of Aviation and Aerospace Industry, and a principal staff member and the deputy director of the Press Office of China Aerospace Corporation from July 1988 to October 1996; the assistant consultant of the Department of General Affairs of Special Zone Office of the State Council and the deputy director and consultant of Special Regions Department as well as the consultant and director of Industry System Division of the Economic System Reform Office of the State Council from October 1996 to August 2003. He served as the director of the Second Special Reform Branch of the Economic System Comprehensive Reform Division of the National Development and Reform Commission from August 2003 to January 2005. Mr. Sun graduated from the Department of Radio Engineering of Dalian Engineering Institute in January 1982, and obtained a master's degree in engineering from Harbin Institute of Technology in October 1988.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. Su Jian (蘇健), aged 44, was appointed as a non-executive Director and a member of the Strategic Investment Committee of the Company in December 2016. He is an engineer. Mr. Su has been a non-executive Director of BCL since September 2016. He joined Capital Group since May 2004, and had served as an assistant to the general manager of Beijing Ark garden Real Estate Development Company Limited, the senior manager of the Real Estate Operations Management Department, deputy general manager of the Operations Management Department, and deputy general manager of the Real Estate Department of Capital Group, and has been the general manager of the Real Estate Department of Capital Group since June 2014. Prior to joining Capital Group, Mr. Su served as the Person-in-Charge of Infrastructure Department of the Sanlian Group in Jinan, Shandong from August 1995 to March 1999, the Person-in-Charge of infrastructure projects of Sanlian Commercial Co. Ltd. in Jinan, Shandong from March 1999 to December 2001, the real estate project manager of Sanlian Urban Construction Co., Ltd. in Jinan, Shandong from December 2001 to May 2002. Mr. Su graduated from the Department of Industrial and Civil Architecture at Yantai University in July 1995, and received Master of Business Administration degree from the School of Economics and Management of Tsinghua University in July 2004.

Mr. Wang Honghui (王洪輝), aged 38, was appointed as a non-executive Director, a member of the Nomination Committee and Strategic Investment Committee of the Company in December 2016. He has been the general manager of Capital Operational Department of Sino-Ocean Group (Stock Code: 3377.HK), since November 2016. He served various positions in Sino-Ocean Group, including the general manager of the CEO Management Centre from February 2015 to October 2016, the general manager of the Investment Department from March 2014 to January 2015, the deputy general manager and subsequently the general manager of the Secretarial and Administration Department from August 2010 to February 2014, and the senior manager (investment development) and later the assistant to the general manager of the Development Department from July 2005 to July 2010. Mr. Wang was a management officer of Beijing Municipal Commission of Construction from July 2004 to July 2005. He obtained a bachelor's degree in Real Estate Management from Renmin University of China in July 2002 and a master's degree in regional economics from Chinese Academy of Social Sciences in July 2004. Mr. Wang is a senior economist and a real estate appraiser.

Mr. Yang, Paul Chunyao, aged 49, was appointed as a non-executive Director, a member of the Remuneration Committee and Strategic Investment Committee of the Company in February 2018. He joined KKR as a Member and Head of Greater China in 2017. Prior to joining KKR, Mr. Yang was the President and CEO of the China Development Financial Corp. ("CDFC", a company listed on Taiwan Stock Exchange, stock code: 2883.TW). Prior to CDFC, he was managing director and head of private equity and Mezzanine Finance at DBS Bank in Hong Kong. He has held positions at ICG Asia, Goldman Sachs, General Atlantic and Boston Consulting Group in the U.S. and Asia. He is currently a director of CDFC. He received his M.S. and B.S. in Mechanical Engineering at MIT and his M.B.A. at Harvard.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. NGAI Wai Fung (魏偉峰), aged 56, was appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company in December 2013. He is the chief executive officer of SW Corporate Services Group Limited, a specialty company secretarial, corporate governance and compliance services provider to companies in pre-IPO and post-IPO stages. Prior to that, he was the director and head of listing services of an independent integrated corporate services provider. He has over 20 years of senior management experience including acting as the executive director, chief financial officer and company secretary, most of which are in the areas of finance, accounting, internal control and regulatory compliance, corporate governance and secretarial work for listed issuers including major red chips companies. Dr. Ngai had led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities. He was the President of Hong Kong Institute of Chartered Secretaries (2014-2015). He was appointed by the Chief Executive of the Hong Kong Special Administrative Region as an unofficial member of the Working Group on Professional Services under the Economic Development Commission since 2013 and reappointed for further 2 years in 2017. He is a member of the Qualification and Examinations Board of the Hong Kong Institute of Certified Public Accountants, a member of the General Committee of the Chamber of Hong Kong Listed Companies and has been appointed as a Finance Expert Consultant by the Ministry of Finance of the PRC since 2016. Dr. Ngai is currently the independent non-executive director of BaWang International (Group) Holding Limited (Stock Code: 1338.HK), Powerlong Real Estate Holdings Limited (Stock Code: 1238.HK), Health and Happiness (H&H) International Holdings Limited (formerly known as Biostime International Holdings Limited) (Stock Code: 1112.HK), Bosideng International Holdings Limited (Stock Code: 3998.HK), SITC International Holdings Company Limited (Stock Code: 1308.HK), Yangtze Optical Fibre and Cable Joint Stock Limited Company (Stock Code: 6869.HK), BBMG Corporation (Stock Code: 2009.HK), China HKBridge Holdings Limited (formerly known as Topsearch International (Holdings) Limited) (Stock Code: 2323.HK), TravelSky Technology Limited (Stock Code: 696.HK) and China Communications Construction Company Limited (Stock Code: 1800.HK) and also the independent director of LDK Solar Co., Ltd. and SPI Energy Co., Ltd. Apart from LDK Solar Co., Ltd. and SPI Energy Co., Ltd., which are now listed on the OTC Pink Limited Information and Nasdaq respectively, all of which are companies listed on the Hong Kong Stock Exchange and/or the Shanghai Stock Exchange. Dr. Ngai was the independent non-executive director of China Railway Construction Corporation Limited (Stock Code: 1186.HK) from November 2007 to October 2014, Sany Heavy Equipment International Holdings Company Limited (Stock Code: 631.HK) from November 2009 to December 2015, China Coal Energy Company Limited (Stock Code: 1898.HK) from December 2010 to June 2017 and China Railway Group Limited (Stock Code: 390.HK) from June 2014 to June 2017. Dr. Ngai is a fellow of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators, a fellow of the Hong Kong Institute of Chartered Secretaries, a fellow of Hong Kong Institute of Directors and a member of the Hong Kong Securities and Investment Institute. Dr. Ngai received a doctoral degree in Finance from Shanghai University of Finance and Economics in 2011, a master's degree in Corporate Finance from the Hong Kong Polytechnic University in 2002, a bachelor honor degree in Laws from University of Wolverhampton in the United Kingdom in 1994 and a master's degree in Business Administration from Andrews University of Michigan in the United States in 1992.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhao Yuhong (趙宇紅), aged 49, was appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee of the Company in December 2013. Ms. Zhao has worked as an Associate Professor of Faculty of Law, The Chinese University of Hong Kong ("CUHK") since August 2008 to present. Ms. Zhao was the Assistant Dean (UG Student Affairs) and Associate Dean (Undergraduate Studies) of Faculty of Law at CUHK from September 2008 to August 2010 and from September 2010 to July 2013, respectively. Ms. Zhao was a Lecturer and then Assistant Professor of School of Law at City University of Hong Kong from January 1996 to June 2002 and from July 2002 to August 2006, respectively. From September 2006 to July 2008, Ms. Zhao served as an Assistant Professor of School of Law at CUHK. Ms. Zhao obtained her Bachelor of Arts degree in English Language and Literature and Bachelor of Laws degree from Peking University (北京大學) in July 1991. Ms. Zhao obtained her Master of Studies in Law degree with Magna Cum Laude from Vermont Law School, USA in February 1993 and PhD degree in Law from City University of Hong Kong in November 2000.

Mr. He Xiaofeng (何小鋒), aged 62, was appointed as an independent non-executive Director and a member of each of the Audit Committee and Strategic Investment Committee of the Company in December 2013 and was appointed as a member of the Remuneration Committee and Nomination Committee of the Company in December 2016. Mr. He obtained a bachelor's degree and a master's degree in Economics in 1982 and 1984 from Peking University, respectively. He is currently the professor of the Department of Finance, School of Economics of Peking University (北京大學經濟學院金融學系) since August 2000 and has been a doctoral supervisor since August 2001 and a director of the Research Center of Financial and Industrial Development of Peking University (北京大學金融與產業發展研究中心) since August 2005. He has taught in the School of Economics of Peking University (北京大學經濟學院) since 1984. Mr. He has also served as a council member of China Enterprises Investment Association (中國企業投資協會) and deputy director of Financial Enterprises Investment Committee (金融企業投資委員會) from 2006 to present, vice chairman of Beijing Private Equity Association (北京股權投資基金協會) from 2008 to present, has served as an independent director of E Fund Management Co., Ltd. (易方達基金管理有限公司) from 2010 to May 2016 and served as a director of Beijing Qingchang Power Technology Co., Ltd. (北京清暢電力技術股份有限公司) (SZSE Stock Code: 430057) from February 2012 to February 2015, and has served as a director of Beijing Fof Capital Co., Ltd. from 2015 to present and an independent non-executive director of Hanergy Thin Film Power Group Limited (Stock Code: 566.HK) from September 2017 to present.

SENIOR MANAGEMENT

Ms. Lu Yi (陸屹), aged 52, was appointed as the vice president of the Company in August 2016. She joined the Company in July 2015. From July 2010 to June 2015, Ms. Lu served as the Person-in-Charge of Retail Business at Fu Wah International Group and the general manager of Beijing Jinbao Place Co., Ltd. (北京金寶匯購物中心有限公司). From February 2009 to July 2010, she served as the general manager of Beijing North Star King Power Co., Ltd (北京北辰嘉權時代名門商業有限公司), a joint venture company by Hong Kong King Power Group and Beijing North Star Industrial Group. From November 2006 to February 2009, she served as the deputy director of Retail Business of Beijing Yintai Property Co., Ltd. (北京銀泰置業有限公司) under the Yintai Group. From July 2004 to November 2006, she served as the deputy general manager of Hangzhou Hubin International Boutique Compound (Euro-street) under the Narada Group. From August 2003 to July 2004, she served as the store manager of the Cartier Boutique at Peninsula Beijing. From September 1999 to July 2003, she served as a manager of Watches of Switzerland in Sydney. From July 1987 to August 1998, she served as a manager of Beijing Yanshan Hotel. Ms. Lu obtained a bachelor's degree in Tourism Economics from Zhejiang University in July 1987.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. Jiang Ronghu (蔣榮虎), aged 42, was appointed as the vice president of the Company in August 2016. Mr. Jiang is a senior engineer and economist. From May 2007 to May 2010, he served as the deputy general manager of Beijing Capital Chaoyang Real Estate Development Co., Ltd. (首創朝陽房地產發展有限公司); from June 2010 to August 2011, he served as the deputy general manager of Outlet Investment Management Co., Ltd. (奧特萊斯投資管理有限公司); from September 2011 to March 2014, he served as the general manager of BCL (Huzhou Real Estate Development) (首創置業湖州開發公司); from March 2014 to March 2015, he served as the general manager of BCL (Shanghai) (首創置業上海公司). Prior to joining BCL, Mr. Jiang served as a deputy general manager in engineering of Landgent Group Co., Ltd. (Beijing) (樂成集團有限公司(北京)), a manager of Beijing Chengtong Real Estate Development Co., Ltd. (北京城通房地產開發有限公司) and a project manager of Beijing Xisanqi Building Material City Management and Development Co., Ltd. (北京西三旗高新建材城經營開發有限公司). Mr. Jiang obtained a higher diploma in Architectural Engineering Management from Nanjing Architectural and Civil Engineering Institute (南京建築工程學院) in July 1995 and a bachelor's degree in Architectural Structures from Tsinghua University in July 2001.

Ms. Liu Jing (劉靜), aged 41, was appointed as the vice president of the Company in December 2017. She serves as an assistant president of the Company from March 2015 to December 2017, an assistant general manager of the Commercial Property Development Department of BCL from August 2012 to March 2015, the deputy general manager of the Human Capital Centre of BCL from January to August 2012, an assistant general manager of the Human Capital Centre of BCL from January 2010 to December 2011, a senior professional manager in charge of remuneration management of the Human Capital Centre of BCL from August 2007 to December 2009, the human resources manager of Canon Information Technology (Beijing) Co., Ltd. (佳能資訊技術(北京)有限公司) from April 2005 to July 2007 and the remuneration and benefits manager of Legend Holdings Limited from September 1998 to March 2005. Ms. Liu Jing obtained a master's degree in Business Administration from Zhongnan University of Economics and Law in December 2012 and a bachelor's degree in Insurance from Central University of Finance and Economics in June 1998.

Mr. Chi Chao (遲超), aged 38, was appointed as a chief financial officer of the Company in October 2017. He was the general manager of the group financial department in Yang Guang Xin Ye Real Estate Co., Ltd.* (陽光新業地產股份有限公司) (SHE: 000608) from August 2014 to October 2017. He successively served as the financial director and deputy general manager in BCL-Qingdao office from March 2012 to August 2014, the senior financial manager in Beijing Chaoyang Jindu Company* (北京朝陽金都公司) from March 2011 to March 2012, and the senior manager of financial management center in BCL from September 2007 to March 2011, and ever served as cashier, finance staff of planning and accounting Department, customer manager, deputy manager of customer management department in China Construction Bank (sales department of Anhui branch, Beijing) from July 2001 to September 2007. Mr. Chi obtained a bachelor degree in accounting from North China Electric Power University in June 2001.

COMPANY SECRETARY

Mr. Lee Sze Wai (李斯維), aged 35, was appointed as the company secretary of the Company in October 2015. Mr. Lee is also the company secretary of BCL. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. He is a charterholder of Chartered Financial Analyst. From February 2010 to August 2011, he served as financial controller and company secretary of Greenfield Chemical Holdings Limited (Stock Code: 582). From August 2011 to November 2014, he worked with Allied Group Limited (Stock Code: 373) as an assistant company secretary. He was the company secretary of Allied Overseas Limited (Stock Code: 593) from March 2012 to January 2014. Mr. Lee obtained a bachelor's degree in Economics and Finance from the University of Hong Kong in 2004.

REPORT OF THE DIRECTORS

The board of directors (the “Board” or the “Directors”) of Beijing Capital Grand Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) hereby present its report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Company are integrated operation of commercial property, development of outlets-backed integrated property and investment holding. The activities of its principal subsidiaries are set out in Note 17 to the financial statements. The Group’s business review required by Schedule 5 to the Hong Kong Companies Ordinance is set out in the “Management Discussion and Analysis” of this Annual Report.

KEY RISK FACTORS

The following lists the key risks and uncertainties faced by the Group. As it is a non-exhaustive list, save as disclosed below, there may be other risks and uncertainties. Besides, this Annual Report does not constitute any recommendation or advice for anyone to invest in the securities of the Company. Investors are advised to make their own judgement or consult professionals before making any investment in the securities of the Company.

There are strategic risks, operation risks, financial risks, legal risks and market risks, etc. during the development process of the Company, of which:

- (1) Strategic risks are mainly attributable to the overall trend of domestic and overseas macro-economies and industrial structures and the level of the scientific and sustainable standards of strategies the Company commensurates with such trend;
- (2) Operation risks are mainly attributable to the supervision and control procedures of each business segments involved in the daily operation and management process of the Company; financial risks are mainly attributable to the supervision and control procedures of financial systems including overall fund raising activities, investment management and revenue accounting of the Company;
- (3) Legal risks are mainly attributable to the ever-growing changes in domestic and overseas policies and regulations and the internal contract management capability of the Company and the occurrence of related legal litigations, etc.;
- (4) Market risks are mainly attributable to the business processes including marketing management, market demand and supply and business partnership of the Company.

RESULTS AND DIVIDENDS

The Group’s results for the year ended 31 December 2017, prepared in accordance with Hong Kong Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, are set out in the Consolidated Statement of Profit or Loss on page 73 of this Annual Report.

The Directors do not recommend the payment of dividend for the year ended 31 December 2017.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for each of the last five financial years is set out in the Five Year Financial Summary on page 155 of this Annual Report. This summary does not form part of the audited financial statements. The published results may not be compared with the statement of assets and liabilities.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the review period are set out in Note 15 to the Consolidated Financial Statements on page 119 of this Annual Report.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the review period are set out in Note 16 to the Consolidated Financial Statements on page 121 of this Annual Report.

ISSUED SHARES

Details of the movements in the Company's share capital during the review period are set out in Note 29 to the Consolidated Financial Statements on page 142 of this Annual Report.

ISSUE OF THE PERPETUAL CONVERTIBLE BONDS

Details of the Perpetual Convertible Bonds of the Company during the review period are set out in Note 31 to the Consolidated Financial Statements on page 144 of this Annual Report.

DEBT SECURITIES

Details of movements in the debt securities of the Company are set out in Note 24 to the Consolidated Financial Statements on page 135 of this Annual Report.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the year ended 31 December 2017.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 37(a) to the Consolidated Financial Statements on page 154 of this Annual Report and in the Consolidated Statement of Changes in Equity on page 77 of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, sales to the Group's largest customer and five largest customers accounted for approximately 2% and 6%, respectively, of the total sales of the Group for the review period. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 7% and 26%, respectively, of the Group's total purchases for the year. None of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the five largest customers or five largest suppliers at any time during the year.

BANK BORROWINGS

Details of the bank borrowings of the Group as at 31 December 2017 are set out in Note 23 to the Consolidated Financial Statements on page 133 of this Annual Report.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

EXECUTIVE DIRECTORS:

Mr. Zhong Beichen (Chairman)
Mr. Feng Yujian (appointed on 24 January 2017)
Mr. Tang Jun (resigned on 24 January 2017)

NON-EXECUTIVE DIRECTORS:

Mr. Sun Shaolin
Mr. Su Jian
Mr. Wang Honghui
Mr. Yang, Paul Chunyao (appointed on 9 February 2018)
Mr. Yan Han Hsiang (resigned on 9 February 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Ngai Wai Fung
Ms. Zhao Yuhong
Mr. He Xiaofeng

In accordance with Articles 84(1) of the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being (or, if such number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement at least once every three years at the annual general meeting. Accordingly, Mr. Zhong Beichen, Mr. Wang Honghui and Mr. He Xiaofeng will be subject to re-election at the annual general meeting to be held.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors of the Company are set out on pages 45 to 49 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS AND REMUNERATION

During the year, no Director has entered into a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Directors' remuneration policy and portfolio shall be determined by the Board with the recommendation of the Remuneration Committee of the Company with reference to the market level and, individual's qualifications, contribution and commitments to the Company. The details of Directors' remuneration are set out in the Note 10 to the Consolidated Financial Statements on page 112 of this Annual Report.

DIRECTORS' INTERESTS IN MATERIAL CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, so far as is known to the Directors, none of the Directors and the chief executives of the Company and their associates had any interests and short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO")) which were 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 they were 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 for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code"), to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this Annual Report, the following Directors are also directors and/or officers of Beijing Capital Land Ltd. ("BCL", a controlling shareholder of the Company).

Name of the Director	Position held in BCL
Zhong Beichen	Vice President
Sun Shaolin	non-executive Director
Su Jian	non-executive Director

BCL is a controlling shareholder of the Company, and also one of the leading integrated real estate operators in the PRC. It is committed to becoming the most valuable integrated real estate operator in the PRC. With focusing on six core cities: Beijing, Shanghai, Shenzhen, Tianjin, Chongqing and Chengdu, BCL is committed to its strategy of "achieving quality growth" and focuses on products for homeowners looking to upgrade as well as high turnover and home-buyer oriented products.

On 28 June 2016, the Company entered into the Amended Non-Competition Deed with BCL to delineate the business of the Company and BCL by cities and businesses, the details of which are set out in the circular of the Company dated 30 June 2016.

BCL has issued a letter to the Company in relation to the bid to state that it has won the bid for the land use right for a project in Xincheng, Linping, Hangzhou (the "Hangzhou Project"). It was stipulated that such land was for residential use. The land is currently vacant without undergoing any construction or development. BCL stated that it will stay open for future development model of the land, which can be developed by the Company or jointly developed by BCL and the Company or other parties. As for the Hangzhou Project, BCL has not executed any cooperation, joint venture or capital increase agreement at present. Hangzhou is one of the target cities which falls within the coverage of the Company's development.

The board of the directors of the Company (including the independent Directors) has reviewed the information of the Hangzhou Project and considered several factors, such as the Company's strategic position, the development plan in Hangzhou, and the overall capital requirement. After several times of discussion, the business considerations are concluded as follows:

- the development strategy of the Company focuses on the Outlets Projects and there has been an Outlets Project in Hangzhou;
- the advantage and experience of the Company have always been development, operation and management of Outlets;
- the geographic location of the land in Hangzhou is lack of the advantage which development of Outlets needs;
- as it was stipulated that the land was for residential use and the land cost is high, the Company is afraid that economies of scales cannot be achieved if the land use changes to an Outlets Project;
- the Company has other priorities on the use of capital.

In light of the above, the Board is of the view that the development target and direction of Hangzhou Project are not in line with those of the Company, and the Hangzhou Project does not compete with the operation of the Outlets in Hangzhou of the Company in terms of business or geographic location. Therefore, all members of the Board (except those who are also the director of BCL or the Capital Group or the relevant management) unanimously decided the Company shall not develop or participate in the development of the Hangzhou Project, and concurred that this project should be developed by BCL or jointly developed by BCL and other parties.

In addition, BCL has confirmed that during 2017, it has complied with the non-competition undertaking under the Amended Non-Competition Deed. Therefore, no directors or their respective associates have interests in business that competes or likely competes with the business of the Group.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, so far as is known to the Directors, the following entities, not being a Director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in shares and underlying shares of the Company

Name of shareholder	Capacity	Number of shares	Approximate percentage of the issued share capital (%)	Number of ordinary shares can be converted from Class A Convertible Preference Shares, Class B Convertible Preference Shares and PCBS at initial conversion price of HK\$2.10 per share	Total interests	Percentage of total interests to total issued shares (%)
BECL	Beneficial owner	701,353,846	72.9%	1,072,928,106 (Note 5)	1,774,281,952	184.53%
BCL	Interest of controlled corporation (Note 1)	701,353,846	72.9%	1,072,928,106 (Note 5)	1,774,281,952	184.53%
BCG Chinastar International Limited	Beneficial owner	19,800,000	2.1%	–	–	2.06%
Capital Group	Interest of controlled corporation (Note 2)	721,153,846	75%	1,072,928,106 (Note 5)	1,794,081,952	186.58%
Smart Win Group Limited	Beneficial owner	95,192,308	9.9%	313,140,124	408,332,432	42.47%
Sino-Ocean Land (Hong Kong) Limited	Interest of controlled corporation (Note 3)	95,192,308	9.9%	313,140,124	408,332,432	42.47%
Faith Ocean International Limited	Interest of controlled corporation (Note 3)	95,192,308	9.9%	313,140,124	408,332,432	42.47%
Shine Wind Development Limited	Interest of controlled corporation (Note 3)	95,192,308	9.9%	313,140,124	408,332,432	42.47%
Sino-Ocean Group Holding Limited	Interest of controlled corporation (Note 3)	95,192,308	9.9%	313,140,124	408,332,432	42.47%

REPORT OF THE DIRECTORS

Name of shareholder	Capacity	Number of shares	Approximate percentage of the issued share capital (%)	Number of ordinary shares can be converted from Class A Convertible Preference Shares, Class B Convertible Preference Shares and PCBS at initial conversion price of HK\$2.10 per share	Total interests	Percentage of total interests to total issued shares (%)
KKR CG Judo Outlets	Beneficial owner	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR CG Judo	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR China Growth Fund L.P.	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR Associates China Growth L.P.	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR China Growth Limited	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR Fund Holdings L.P.	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR Fund Holdings GP Limited	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR Group Holdings L.P.	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR Group Limited	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR & Co. L.P.	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR Management LLC	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%
Henry Robert Kravis	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%
Roberts George R.	Interest of controlled corporation (Note 4)	95,192,308	9.9%	200,045,787	295,238,095	30.70%

REPORT OF THE DIRECTORS

Notes:

1. Total interests in 1,774,281,952 shares were deemed to be the corporation interest under the SFO
2. Total interests in 1,794,081,952 shares were deemed to be the corporation interest under the SFO
3. Total interests in 408,332,432 shares were deemed to be the corporation interest under the SFO
4. Total interests in 295,238,095 shares were deemed to be the corporation interest under the SFO
5. On 19 December 2016, the Company issued 905,951,470 Class B Convertible Preference Shares to BECL pursuant to the Class B Convertible Preference Share Subscription Agreement. On 28 December 2016, BECL converted 571,153,846 Class A Convertible Preference Shares into ordinary shares.

Save as disclosed above, as at 31 December 2017, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company adopted the Scheme (the "Scheme") on 14 March 2012 (the "Adoption Date") which will remain in force for a period of 10 years commencing from the Adoption Date to give recognition for the contribution made by the eligible employees of the Group and to encourage them to continue to serve for the continuing operation and development of the Group.

Under the Scheme, the Directors may at their discretion grant options to (i) any employee of any member of the Group or any entity in which any member of the Group holds equity interest (the "Invested Entity"); (ii) any executive and non-executive Directors of any member of the Group or any Invested Entity; (iii) any supplier and customer of any member of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; or (iv) any adviser or consultant of any member of the Group or any Invested Entity to subscribe for the shares of the Company.

The number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company on the date of adopting the Scheme. The limit may be refreshed at any time provided that the new limit must not in aggregate exceed 10% of the issued share capital of the Company as at the date of obtaining shareholders' approval at a general meeting. However, the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme of the Company must not in aggregate exceed 30% of the shares in issue from time to time. The maximum number of shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the shares in issue on the last day of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules. A nominal consideration of HK\$1 is payable by the grantee on acceptance of the grant of an option.

REPORT OF THE DIRECTORS

Options may be exercised at any time from the date of grant of the option to the 10th anniversary of the date of grant as may be determined by the Directors. The exercise price is determined by the Directors, and will not be less than the highest of (i) the closing price per share as stated in the Stock Exchange's daily quotation sheets on the date of the grant of the options; (ii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant of the options; or (iii) the nominal value of the Shares.

During the year ended 31 December 2017, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Scheme.

MANAGEMENT CONTRACTS

Other than the contracts in relation to continuing connected transactions as mentioned in this Report, no contracts concerning the management or administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the year.

EQUITY-LINKED AGREEMENTS

Other than the Class A Convertible Preference Share Subscription Agreement dated 15 August 2014, the Class B Convertible Preference Share Subscription Agreement dated 8 June 2016, the Subscription Agreement dated 25 November 2016 and the share option scheme of the Company, no equity-linked agreements that will or may result in the Company issuing shares or requiring the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company or subsisting during the year ended 31 December 2017.

CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions are set out in Note 36 to these consolidated financial statements.

A) CONTINUING CONNECTED TRANSACTIONS

1. *Leasing of the Premises*

As stated in the announcement of the Company dated 14 December 2016, Beijing Hengsheng Huaxing Investment Management Co., Ltd. ("Hengsheng Huaxing", a wholly-owned subsidiary of the Company) entered into the Lease with Beijing Shangbodi Investment Consultant Co., Ltd. ("Shangbodi", a connected person of the Company) and GoldenNet Yicheng Asset Management (Beijing) Co., Ltd. ("GoldenNet", an independent third party of the Group) in relation to the leasing of the Premises which will serve as offices of the Group. The Lease is for a term of 2 years, Hengsheng Huaxing is required to pay a rent of RMB7,971,600 per annum to Shangbodi. This arrangement constitutes a continuing connected transaction of the Company and the Lease Contract was executed on 14 December 2016.

2. *Strategic Purchases*

As stated in the announcement of the Company dated 27 June 2017, the Company entered into the Master Sourcing Agreement with Juyuan Xincheng (Tianjin) Commerce & Trading Co., Ltd. (聚源信誠(天津)商貿有限公司) ("Juyuan Xincheng", a connected person of the Company) to procure building equipment and construction materials for the construction of property projects. The Agreement is for a term less than 3 years, and for each of the three financial years ended 31 December 2017, 2018 and 2019, the total transaction amount under the Master Sourcing Agreement shall not exceed RMB49,800,000. This arrangement constitutes a continuing connected transaction of the Company and the Master Sourcing Agreement was executed on 27 June 2017.

REPORT OF THE DIRECTORS

B) ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The Independent Non-executive Directors have reviewed the above Continuing Connected Transactions and confirmed that such transactions (a) were in the ordinary and usual course of business of the Group; (b) were on normal commercial terms or better terms; and that (c) the Transaction Agreements were entered into in a fair and reasonable manner and in the interests of the shareholders of the Company as a whole and such transactions have been carried out in accordance with the agreements governing the transactions.

Pursuant to Rule 14A.56 of the Listing Rules, the Board of Directors has engaged the auditors of the Company to conduct an audit of the above Continuing Connected Transactions. The auditors have issued a letter containing their conclusions in respect of the Continuing Connected Transactions of the Group disclosed above and their findings that there is no non-compliance with the Rule 14A.56 of the Listing Rules. The Board hereby adds that the auditors of the Company confirm that the Continuing Connected Transactions (i) were approved by the Board; (ii) were conducted pursuant to the relevant agreements for such transactions; and (iii) did not exceed caps.

The Company confirms that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of the transactions set out above.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules during the year and up to the date of this report.

CORPORATE GOVERNANCE

Details of the Company's corporate governance are set out in the Corporate Governance Report on pages 60 to 68 of this Annual Report.

INDEPENDENT AUDITOR

The financial statements for the year were audited by PricewaterhouseCoopers, who will retire at the forthcoming annual general meeting. The Company will submit a resolution at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers as the Company's auditor for the coming year.

On 28 April 2016, the term of office of the auditor of the Company, Ernst & Young, has expired and PricewaterhouseCoopers was appointed as the auditor of the Company on the same day.

Save as disclosed above, there has been no change in the auditors of the Company during the past three years.

It is the auditors' responsibility to form an independent opinion, based on their audit, on these financial statements and to report their opinion solely to the Company and for no other purpose. They do not assume responsibility towards or accept legal liability to any other person for the contents of the independent auditor's report. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 69 to 72.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their offices, provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty. During the year, the Company has arranged appropriate insurance for its directors and senior management to cover their responsibilities in relation to corporate activities arising from the legal actions against the directors and senior management.

On behalf of the Board

Zhong Beichen

Chairman

Hong Kong, 26 February 2018

CORPORATE GOVERNANCE REPORT

The Group is committed to the establishment of good governance practices and procedures. For the year ended 31 December 2017, the Company has complied with the requirements under the code provisions of the recommended best practices set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 14 to the Listing Rules and the continuing obligations requirements of a listed issuer pursuant to the Listing Rules.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. Following specific enquiry by the Company, all Directors have confirmed that they fully complied with the requirements under the Model Code during the year ended 31 December 2017.

BOARD OF DIRECTORS

As at the date of the Report, the Board currently has nine directors, including two executive Directors, four non-executive Directors and three independent non-executive Directors. The Directors’ biographical details are set out from page 45 to 49 under the section headed “Biographical Details of Directors and Senior Management” of this report.

EXECUTIVE DIRECTORS:

Mr. Zhong Beichen (Chairman)
Mr. Feng Yujian (Chief Executive Officer)

NON-EXECUTIVE DIRECTORS:

Mr. Sun Shaolin
Mr. Su Jian
Mr. Wang Honghui
Mr. Yang, Paul Chunyao

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Ngai Wai Fung
Ms. Zhao Yuhong
Mr. He Xiaofeng

There is no financial, business, family or other material/relevant relationship among members of the Board. The latest list of Directors setting out their roles and responsibilities is available and accessible at the websites of the Company (www.bcgrand.com) and the Stock Exchange (www.hkexnews.hk).

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (CONTINUED)

The Board meets at least four times a year to determine overall strategic direction and objectives, approve interim and annual results, and discuss other significant matters on the businesses and operations of the Group. During the year ended 31 December 2017, a total of 4 board meetings were held. The respective directors' attendance at the Board meetings, the Board Committee meetings and General meetings are set out below:

DIRECTORS'/COMMITTEE MEMBERS' ATTENDANCE AT MEETINGS

	The Board	The Audit Committee	The Remuneration Committee	The Nomination Committee	General Meeting
Executive Directors					
Mr. Zhong Beichen	4/4	–	–	1/1	1/2
Mr. Feng Yujian	4/4	–	–	–	1/2
Mr. Tang Jun (resigned on 24 January 2017)	0/4	–	–	0/1	0/2
Non-executive Directors					
Mr. Sun Shaolin	4/4	–	1/1	–	0/2
Mr. Su Jian	4/4	–	–	–	0/2
Mr. Wang Honghui	4/4	–	–	1/1	0/2
Mr. Yang Han Hsiang (resigned on 9 February 2018)	4/4	–	1/1	–	0/2
Independent non-executive Directors					
Dr. Ngai Wai Fung	4/4	2/2	1/1	1/1	1/2
Ms. Zhao Yuhong	4/4	2/2	1/1	1/1	0/2
Mr. He Xiaofeng	4/4	2/2	1/1	1/1	0/2

The Board is responsible to the shareholders for providing effective corporate leadership, and ensuring transparency and accountability of the Group's operations. It sets the Company's values and aims at enhancing shareholders' value. It formulates the Group's overall strategy and policies and sets corporate and management targets, key operational initiatives, policies on risk management pursuant to the Group's strategic objectives, and ensures the establishment of an effective risk management and internal control system.

The Board delegates the day-to-day management, administration and operations of the Group's business to the management of the relevant segments and divisions. The management is responsible for the implementation and adoption of the Company's strategies and policies. The delegated functions and tasks are periodically reviewed by the Board.

The Company has arranged insurance cover on liabilities for all Directors in respect of legal actions against them from performing corporate activities.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (CONTINUED)

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Zhong Beichen is the Chairman of the Board and Mr. Feng Yujian is the Chief Executive Officer of the Company. The Chairman of the Board is responsible for the management of the Board of Directors and takes the lead in the Board of Directors to formulate the overall strategic and business development direction of the Group and to ensure the full, complete and reliable information is provided to all Directors. The Chief Executive Officer, on the other hand, is responsible for the day-to-day operations and overall management of the Group and the implementation of the business policies and objectives determined and adopted by the Board of Directors, and is accountable to the Board for the Group's overall operations.

NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors and independent non-executive Directors holds a term of office of three years with the Company since the date of appointment subject to the provision of retirement and rotation of directors under the Articles of Association of the Company.

The Company currently has three independent non-executive Directors, representing one third of the members of the Board, of which at least one possesses the appropriate professional qualifications or accounting or relevant financial management expertise. The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and considers them to be independent.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

For the year ended 31 December 2017, all Directors have participated in continuous professional development, including attending the seminars given by external legal advisors under the arrangement of the Company in respect of corporate governance practices, relevant regulations of Hong Kong and the responsibilities of Directors, which develops and refreshes their knowledge and skills, in order to ensure that their continuous contribution to the Board is made under a well-informed and relevant manner and they receive the latest information in relation to relevant laws and regulations and the overall development of the Group. The Company also encourages Directors to participate in other continuing professional development programs exclusively designed for Directors.

In addition, the Company will provide a Group Profile to each newly appointed Director to ensure that they have sufficient knowledge of the Group's business and operations.

COMPANY SECRETARY

The Company Secretary assists the Chairman in preparing the agenda of the Board meetings and ensures all relevant rules and regulations of the procedures of such meeting are complied with. The Company Secretary files for and maintains the detailed minutes of each Board meeting, and makes such minutes available and accessible for all Directors.

According to Rule 3.29 of the Listing Rules, the Company Secretary of the Company has taken not less than 15 hours of relevant professional training for the year ended 31 December 2017.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (CONTINUED)

BOARD COMMITTEES

(a) *Audit Committee ("AC")*

The AC was established on 14 March 2012 with written terms of reference in compliance with the CG Code. It consists of three members with all independent non-executive Directors, namely, Dr. Ngai Wai Fung (as chairman), Ms. Zhao Yuhong and Mr. He Xiaofeng with effect from 21 December 2013. Dr. Ngai Wai Fung is a fellow of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants and with appropriate professional qualification as required under Rule 3.10(2) of the Listing Rules.

The primary duties of the AC are to make recommendation to the Board on the appointment and removal of external auditor; review the financial statements and express material advice in respect of financial reporting; and oversee financial reporting system and internal control procedures of the Company. The terms of reference of the AC are available and accessible at the websites of the Company (www.bcgrand.com) and the Stock Exchange (www.hkexnews.hk).

For the year ended 31 December 2017, the AC held 2 meetings. Details of each committee member's attendance at the AC meetings are set out under "Directors'/Committee Members' Attendance at Meetings" above.

The summary of the work of the AC for the 12 months ended 31 December 2017 is as below:

- reviewed the announcement of annual results and annual report of the Group as of 31 December 2016 before submission to the Board for adoption and publication;
- reviewed the announcement of interim results and interim report of the Group as of 30 June 2017 before submission to the Board for adoption and publication;
- met with the auditors to discuss the accounting and audit issues of the Group and reviewed their findings, recommendations and representations; and
- reviewed the Group's financial control, internal control and risk management systems.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(b) *Remuneration Committee ("RC")*

The RC was established on 14 March 2012 with written terms of reference in compliance with the CG Code. As at the date of this report, the Remuneration Committee consists of five members, namely three independent non-executive Directors Ms. Zhao Yu Hong (as chairman), Dr. Ngai Wai Fung and Mr. He Xiaofeng, and two non-executive Directors Mr. Sun Shaolin and Mr. Yang, Paul Chunyao.

The primary duties of the RC are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review remuneration proposals of the management with reference to the Board's corporate goals and objectives; and ensure none of the Directors or any of their associates determine their own remuneration. The terms of reference of RC are available and accessible at the websites of the Company (www.bcgrand.com) and the Stock Exchange (www.hkexnews.hk).

For the year ended 31 December 2017, the RC held 1 meeting. Details of each committee member's attendance at the RC meetings are set out under "Directors'/Committee Members' Attendance at Meetings" above.

The summary of the work of the RC for the year ended 31 December 2017 is as below:

- reviewed the 2016 remuneration package and structure of Directors and senior management;
- proposed the 2017 remuneration scheme of Directors and senior management;
- proposed the remuneration structure for newly appointed directors;
- established and proposed to adopt the position incentive system for staff.

(c) *Nomination Committee ("NC")*

The NC was established on 14 March 2012 with written terms of reference in compliance with the CG Code. As at the date of this report, the NC consists of five members with one executive Director, namely Mr. Zhong Beichen (as chairman), one non-executive Director, namely Mr. Wang Honghui, and three independent non-executive Directors, namely, Dr. Ngai Wai Fung, Ms. Zhao Yuhong and Mr. He Xiaofeng.

The primary duties of the NC are to review the structure, size and composition of the Board and make recommendations to the Board regarding candidates to fill vacancies on the Board. The terms of reference of NC are available and accessible at the websites of the Company (www.bcgrand.com) and the Stock Exchange (www.hkexnews.hk).

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(c) *Nomination Committee ("NC") (Continued)*

The Board adopted a board diversity policy which sets out the approach to achieve diversity on the Board in June 2013. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having due regard to the Company's own business model and specific needs from time to time. With the existing Board members coming from a variety of business and professional background and one out of the nine Board members being woman, the Company considers that the Board possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the Company's business. Profiles of the Directors are set out on pages 45 to 49 and have been published at the website of the Company (www.bcgrand.com).

For the year ended 31 December 2017, the NC held 1 meeting. Details of each committee member's attendance at the NC meetings are set out under "Directors'/Committee Members' Attendance at Meetings" above.

The summary of the work of the NC for the year ended 31 December 2017 is as below:

- made recommendations to the Board on the re-election of Directors at the annual general meeting of the Company in 2016;
- reviewed the structure, size and composition of the Board; and
- made recommendations to the Board on the candidates of Directors and Board Committees, and proposed the Directors' function.

(d) *Strategic Investment Committee ("SIC")*

The SIC was established on 21 December 2013 with obligations under the written terms of reference, and its primary duty is to advise on the long-term development strategies and major investment decisions of the Company. As at the date of this report, the SIC consists of five members, namely one executive Director Mr. Feng Yujian (as Chairman), three non-executive Directors Mr. Su Jian, Mr. Wang Honghui and Mr. Yang, Paul Chunyao and one independent non-executive Director Mr. He Xiaofeng.

For the year ended 31 December 2017, no meeting was held by the SIC while a number of resolutions was passed by way of written resolutions.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties and has adopted the CG Code as its corporate governance code of practices during the year ended 31 December 2017.

The Board has, among other things, reviewed the training and continuous professional development of Directors, the Company's compliance with the respective code provisions of the CG Code for the year ended 31 December 2017 and made disclosures in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (CONTINUED)

ACCOUNTABILITY

The Board is accountable to the Shareholders while the management is accountable to the Board. The Board endeavors to ensure that the announcements of annual and interim results and the annual and interim reports of the Group present a balanced and understandable assessment of the Group's position and prospects. The Board embraces openness and transparency in the conduct of the Company's affairs, whilst preserving the commercial interests of the Company. Financial and other information are disseminated to Shareholders through announcements via the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.bcgrand.com).

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk management and internal controls are important parts among the operation and management of the Group. The Board and the management of the Company take high priority on the organization and implementation of each process in respect of risk management and internal controls, and have gradually established a comprehensive risk management system in the Company based on risk identification, measures, internal review and assessment, and continuous improvement, which finally creates an internal control mechanism consisting of three tiers, the Board(the AC), the Risk Management and Control Department and the management (each business department):

The Board is responsible for setting up the risk management and internal control mechanism for the Group to ensure the core values, strategic planning and working guidelines of the Company, and convey the above to each department of the Group through various channels, including platforms such as the enterprise information system, meetings, training and intranet. This would incorporate risk control into the operation flow and the AC would identify the operation risk of the internal control system on a regular basis so as to review the effectiveness of risk management and control;

1. the Risk Management and Control Department is responsible for the regular review on Company as the enterprise information system, meetings, training and intranet. This would incorporate guidelines for risk management and internal controls in response to the internal and external changes as well as changes in regulations in order to realize a progressive, institutionalized and systematic risk management and internal controls system. Meanwhile, assessment would be independently conducted by the Risk Management and Control Department on an ongoing basis, and such assessment covers all material aspects, including legal risks, compliance controls, operation monitoring as well as the workflow and risk assessment of each department of the Group. The Risk Management and Control Department is directly responsible to the AC and reports the effectiveness of the risk management and internal controls;
2. the management and each of the business departments would effectively monitor and approve the workflow of each department at the business level based on different functions and divisions through various business systems, so as to enhance the efficiency of risk management, realize the closed loop management model for risk management led by self-supervision at the business level.

In 2017, the Group has complied with the three-year development plan for comprehensive risk management system and continued to facilitate the implementation of focus of risk control, complementing and optimizing the Internal Control Manual and promoting quantifiable risk surveillance index based on the standardization of risk control system, workflows and accountability in order to achieve a further combination between the operation and management of the Company with risk control. Thus a sound and proper internal control system would be realized with effective operation through the establishment of a mature risk control model, so as to facilitate the strategic development of the Company.

As at the date of this report, the Risk Management and Control Department has conducted an assessment in respect of the risk management and internal controls of the Company. The result unanimously reflects that no significant weakness was found in the internal control of the Company, and an internal control report with unqualified opinion was issued to the AC, stating that the risk management and internal control system of the Company were well-functioning.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (CONTINUED)

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

With the assistance of the financial management department, the Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2017 and confirm that the financial statements contained herein give a true and fair view of the results and state of affairs of the Group for the period under review. The Directors consider that the financial statements have been prepared in conformity with the statutory requirements and the applicable accounting standards.

AUDITORS' REMUNERATION

The financial statements for the year ended 31 December 2017 were audited by PricewaterhouseCoopers of which the term of office will expire upon the forthcoming annual general meeting. The AC has recommended to the Board that PricewaterhouseCoopers will continue to be appointed as the auditors of the Company for the year 2018 at the forthcoming annual general meeting.

The independent auditor's remuneration in respect of its audit services for the year ended 31 December 2017 amounted to RMB1,745,000, with no audit related and non-audit services provided during the year.

SHAREHOLDERS' RIGHTS

The Company recognizes the importance, and takes high priority, on communication with its Shareholders. Certain key information on Shareholders' rights is provided below:

1. *Communication with Shareholders*

The Board deeply understands the importance of maintaining good communication with the Shareholders and makes great efforts to enhance the communication with the Shareholders. The Shareholders can visit the website of the Company (www.bcgrand.com) for updated information of the Group, including its interim results, interim reports and annual reports, announcements and circulars. Press releases are posted on our website in a timely manner.

The general meetings provide a channel for communication between the Board and the Shareholders. During the year, the Company held the 2016 annual general meeting on 6 April 2017, and the Chairman of the Board Mr. Zhong Beichen was available to answer questions at the annual general meeting.

2. *Procedures to convene an extraordinary general meeting*

Shareholders may request the Company to convene a general meeting according to the provisions as set out in the Company's Articles of Association and the Companies Law of the Cayman Islands. A copy of the Company's Articles of Association can be found on the Company's website. The procedures for Shareholders to nominate a person for election as a Director of the Company are available on the Company's website with title "Procedures for Shareholder(s) to Propose a Person for Election as a Director".

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (CONTINUED)

SHAREHOLDERS' RIGHTS (CONTINUED)

3. Procedures for Shareholders to propose a person for election as a Director of the Company

The Company also adopted a set of procedures for putting forward proposals by the Shareholders at general meetings.

Subject to the provisions of the Company's Articles of Association, the Company may elect any person to be a Director either to fill a casual vacancy or as an additional Director by passing ordinary resolutions at a general meeting from time to time.

If a Shareholder wishes to propose a person other than a Director of the Company for election as a Director at a general meeting, such Shareholder can deposit a written notice at the principal place of business of the Company in Hong Kong for the attention of the Board and Company Secretary within the 7-day period commencing from the day after the dispatch of the notice of the meeting.

In order for the Company to inform other Shareholders of that proposal, the written notice must state the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the Shareholder concerned and that person indicating his/her willingness to be elected.

In order to allow the Shareholders have sufficient time to receive and consider the proposal of election of the proposed person as a Director of the Company, Shareholders are encouraged to submit and lodge the written notice as early as practicable.

4. Procedures to send enquiries to the Board

Shareholders may send their enquiries and concerns to the Board of the Company by addressing them to the principal place of business of the Company in Hong Kong at Suites 2906-08, AIA Central, 1 Connaught Road Central, Hong Kong by post for the attention of the Company Secretary.

5. Amendments to the constitutional documents of the Company

Changes were made to the Memorandum and Articles of Association of the Company during the year. Such changes are available and accessible at the websites of the Company (www.bcgrand.com) and the Hong Kong Stock Exchange (www.hkexnews.hk).

INVESTORS' RELATIONS

The Company's website (www.bcgrand.com & www.bjcapitaloutlet.com) provides comprehensive and accessible news and information of the Company to the Shareholders, other stakeholders and investors. The Company will also update the website information from time to time to inform the Shareholders and investors of the latest development of the Company.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Beijing Capital Grand Limited

(incorporated in the Cayman Islands with limited liability)

OPINION

WHAT WE HAVE AUDITED

The consolidated financial statements of Beijing Capital Grand Limited (the "Company") and its subsidiaries (the "Group") set out on pages 73 to 154, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the 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 ("HKSA") 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

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.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Key audit matter identified in our audit is related to valuation of investment properties:

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Valuation of investment properties</p> <p>Refer to Note 16 to the consolidated financial statements. The Group adopts the fair value model for subsequent measurement of investment properties. As at 31 December 2017, investment properties measured at fair value amounted to RMB7,047,200,000 and fair value gains on investment properties for the year then ended were RMB222,394,000. The fair value was determined based on the valuation performed by an independent professional valuer (the "valuer") as a third party engaged by the Group.</p> <p>The valuations of investment properties' fair value involved critical accounting estimates and judgements, which mainly included the determination of valuation techniques and the selection of inputs accordingly. The valuation techniques usually include income capitalisation approach and residual approach based on the construction status of each property. The inputs adopted in income capitalisation approach and residual approach usually include market rental prices and their growth rates and discount rates; Furthermore, residual approach also involves inputs of estimated profit margin rates and development costs to complete.</p> <p>Considering the above mentioned critical accounting estimates and judgements, and the significant impact on the consolidated financial statements, we paid specific attention to this matter in our audit.</p>	<p>We assessed the competence, professional capability and objectivity of the valuer.</p> <p>We communicated with the management about the valuation techniques adopted for each investment property, obtained and read the valuation reports for all the investment properties measured at fair value delivered by the valuer, and assessed the relevance and reasonableness of valuation techniques used by the valuer in consideration of the actual construction or operation status.</p> <p>We selected some of the investment properties measured at fair value by sampling and performed the following procedures:</p> <p>We assessed the reasonableness of key inputs used to determine the value after completion under income capitalisation approach and residual approach, such as market rental prices and their growth rates and discount rates, by comparing the market rental prices and their growth rates with comparative cases in active markets and the information of the rental prices in management's records, and by comparing the discount rates with the average discount rates in the industry.</p> <p>We assessed the reasonableness of key inputs used under residual approach, such as estimated profit margin rates and development costs to complete, by comparing the estimated profit margin rates with the average profit margin rates in the industry and by comparing the development costs to complete with management's budgets.</p> <p>Based on the above, we obtained supportive evidence for critical accounting estimates and judgements made by management on the valuation techniques and key inputs used in the valuation of investment properties.</p>

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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 DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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 judgment 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.

INDEPENDENT AUDITOR'S REPORT

- 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.

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 Peter Man Kam Tsang.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 February 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year Ended 31 December 2017

	Notes	Year ended 31 December	
		2017	2016
		RMB'000	RMB'000
Revenue	6,7	511,523	997,931
Cost of sales	8	(286,369)	(783,723)
Gross profit		225,154	214,208
Fair value gains on investment properties	7	222,394	431,581
Other gains – net	7	48,295	17,214
Other income	7	142,888	12,011
Selling and marketing expenses	8	(99,675)	(102,235)
Administrative expenses	8	(160,290)	(122,521)
Operating profit		378,766	450,258
Finance costs	9	(111,676)	(95,518)
Share of losses of investments accounted for using the equity method	18	(694)	–
Profit before income tax		266,396	354,740
Income tax expense	12	(153,087)	(126,903)
Profit for the year		113,309	227,837
Attributable to:			
– Owners of the Company		113,159	227,273
– Non-controlling interests		150	564
Earnings per share attributable to owners of the Company during the year	14		
Basic earnings per share (RMB)		0.04	0.23
Diluted earnings per share (RMB)		0.04	0.23

Details of the dividend proposed for the year are disclosed in Note 13.

The notes on pages 81 to 154 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2017

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit for the year	113,309	227,837
Other comprehensive income for the year	-	-
Total comprehensive income for the year	113,309	227,837
Attributable to:		
- Owners of the Company	113,159	227,273
- Non-controlling interests	150	564

The notes on pages 81 to 154 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	As at	
		31 December 2017 RMB'000	31 December 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	107,690	84,377
Investment properties	16	7,951,890	5,525,804
Investments accounted for using the equity method	18	108,015	40,000
Intangible assets		2,767	3,750
Deferred income tax assets	27	17,829	45,208
Prepayments	21	–	394,808
Total non-current assets		8,188,191	6,093,947
Current assets			
Inventories	19	2,300,719	2,212,768
Trade and other receivables and prepayments	21	555,291	364,999
Restricted cash	22	58,110	14,029
Cash and cash equivalents	22	1,793,200	1,910,587
Total current assets		4,707,320	4,502,383
Total assets		12,895,511	10,596,330
LIABILITIES			
Non-current liabilities			
Borrowings	23	2,545,000	765,000
Guaranteed notes	24	–	1,295,519
Deferred income tax liabilities	27	570,771	488,103
Total non-current liabilities		3,115,771	2,548,622
Current liabilities			
Trade payables	25	984,360	1,008,826
Other payables and accruals	26	1,110,895	572,505
Borrowings	23	660,000	855,000
Current income tax liabilities		34,352	34,318
Guaranteed notes	24	1,298,265	–
Total current liabilities		4,087,872	2,470,649
Total liabilities		7,203,643	5,019,271

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

		As at	
		31 December 2017	31 December 2016
	Notes	RMB'000	RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	29	16,732	16,732
Perpetual convertible bond securities	31	945,289	945,197
Reserves		3,232,215	3,232,215
Retained earnings		1,493,338	1,380,271
		5,687,574	5,574,415
Non-controlling interests		4,294	2,644
Total equity		5,691,868	5,577,059
Total equity and liabilities		12,895,511	10,596,330

The financial statements on pages 73 to 80 were approved by the Board of Directors on 26 February 2018 and were signed on its behalf.

Mr. Zhong Beichen
Director

Mr. Feng Yujian
Director

The notes on pages 81 to 154 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2017

	Attributable to owners of the Company										
	Note	Issued capital			Perpetual convertible bond securities	Share premium account	Other reserves	Retained earnings	Subtotal	Non-controlling interests	Total
		Ordinary shares	Class A convertible preference shares	Class B convertible preference shares							
		RMB'000	RMB'000	RMB'000							
At 1 January 2017		7,828	1,329	7,575	945,197	3,169,418	62,797	1,380,271	5,574,415	2,644	5,577,059
Profit for the year		-	-	-	-	-	-	113,159	113,159	150	113,309
Total comprehensive income		-	-	-	-	-	-	113,159	113,159	150	113,309
Transactions with owners											
Capital injection from non-controlling interests		-	-	-	-	-	-	-	-	1,500	1,500
Dividends payable to perpetual convertible bond securities holders	31	-	-	-	92	-	-	(92)	-	-	-
Total transactions with owners		-	-	-	92	-	-	(92)	-	1,500	1,500
At 31 December 2017		7,828	1,329	7,575	945,289	3,169,418	62,797	1,493,338	5,687,574	4,294	5,691,868

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2017

	Attributable to owners of the Company										
	Notes	Issued capital			Perpetual convertible bond securities	Share premium account	Other reserves	Retained earnings	Subtotal	Non-controlling interests	Total
		RMB'000	Class A convertible preference shares RMB'000	Class B convertible preference shares RMB'000							
At 1 January 2016		1,572	5,875	-	-	1,912,662	62,797	1,152,998	3,135,904	-	3,135,904
Profit for the year		-	-	-	-	-	-	227,273	227,273	564	227,837
Total comprehensive income		-	-	-	-	-	-	227,273	227,273	564	227,837
Transactions with owners											
Issue of class B convertible preference shares	30	-	-	7,575	-	2,098,232	-	-	2,105,807	-	2,105,807
Issue of ordinary shares		1,710	-	-	-	348,944	-	-	350,654	-	350,654
Issue of perpetual convertible securities	31	-	-	-	945,197	-	-	-	945,197	-	945,197
Conversion of class A convertible preference shares to ordinary shares		4,546	(4,546)	-	-	-	-	-	-	-	-
Business combination under common control		-	-	-	-	(1,174,531)	-	-	(1,174,531)	-	(1,174,531)
Purchase of 1% equity interests in Beijing Capital Outlets Property Investment Fang Shan Ltd. ("Fang Shan")		-	-	-	-	(15,889)	-	-	(15,889)	-	(15,889)
Capital injection from non-controlling interests		-	-	-	-	-	-	-	-	2,080	2,080
Total transactions with owners		6,256	(4,546)	7,575	945,197	1,256,756	-	-	2,211,238	2,080	2,213,318
At 31 December 2016		7,828	1,329	7,575	945,197	3,169,418	62,797	1,380,271	5,574,415	2,644	5,577,059

The notes on pages 81 to 154 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2017

	Notes	Year ended 31 December	
		2017	2016
		RMB'000	RMB'000
Cash flows from operating activities			
Profit before income tax		266,396	354,740
Adjustments for:			
Finance costs	9	111,676	95,518
Interest income		(12,735)	(5,643)
Depreciation and amortisation		32,722	33,651
Share of losses of investments accounted for using the equity method	18	694	–
Fair value gains on investment properties	7	(222,394)	(431,581)
Gains from disposal of a subsidiary	7	(13,123)	–
Gains from government repurchase of land use rights	7	(69,661)	–
Service fee for keepwell deed	8	3,900	3,900
Effect of foreign exchange rate changes, net	7	30,759	(16,366)
(Increase)/decrease in inventories		(250,723)	322,735
Increase in trade and other receivables and prepayments		(232,047)	(65,795)
(Increase)/decrease in restricted cash		(57,679)	25,693
Increase/(decrease) in trade payables, other payables and accruals		498,048	(602,462)
Cash generated from/(used in) operations		85,833	(285,610)
Income tax paid		(74,409)	(129,539)
Net cash flows generated from/(used in) operating activities		11,424	(415,149)
Cash flows from investing activities			
Interests received from deposits		4,252	5,643
Purchases of property, plant and equipment	15	(55,055)	(30,299)
Additions of investment properties		(1,656,728)	(952,868)
Amounts received from related parties		–	70,860
Investment in an associate	18	(33,300)	(40,000)
Investment in a joint venture	18	(4,000)	–
Amounts repaid from related parties		119,928	–
Repayments of deposit of investment		(42,700)	–
Disposal of a subsidiary	28(c)	(98,035)	–
Amounts received from Beijing Yulong Hengxin Commercial Management Company Ltd. (“Yulong Hengxin”)		103,948	–
Payment for 1% equity interests of Fang Shan	36(i)	(15,167)	–
Amounts received from government repurchase of land use rights	7(i)	34,425	–
Net cash flows used in investing activities		(1,642,432)	(946,664)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2017

	Notes	Year ended 31 December	
		2017	2016
		RMB'000	RMB'000
Cash flows from financing activities			
Proceeds from issue of class B convertible preference shares	30	–	2,105,807
Proceeds from issue of new shares		–	359,119
Proceeds from issue of perpetual convertible bond securities	31	–	968,014
Payments for equity interests acquired from business combination under common control		–	(1,174,531)
New bank borrowings		2,440,000	200,000
Repayments of bank borrowings		(225,000)	(490,000)
Interests paid to bank borrowings		(73,915)	(73,581)
Amounts received from related parties		164,380	266,536
Amounts paid to related parties		–	(1,203,295)
Loans received from related parties		–	662,000
Repayments of loans from related parties		(630,000)	(32,000)
Interests paid to related parties		(31,051)	(117)
Service fee for keepwell deed		(3,900)	(5,525)
Interests paid for guaranteed notes	32	(68,623)	(68,250)
Professional fees paid for issuance of new shares and perpetual convertible bond securities		(29,011)	(2,272)
Capital injection from non-controlling interests		1,500	2,080
Dividends paid		–	(56,473)
Net cash flows generated from financing activities		1,544,380	1,457,512
Net (decrease)/increase in cash and cash equivalents		(86,628)	95,699
Cash and cash equivalents at beginning of the year		1,910,587	1,798,522
Exchange (losses)/gains on cash and cash equivalents		(30,759)	16,366
Cash and cash equivalents at end of the year		1,793,200	1,910,587

An analysis of net debt and the movements in net debt for each of the years presented is disclosed in Note 32.

The notes on pages 81 to 154 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

1 GENERAL INFORMATION

Beijing Capital Grand Limited (formerly known as “Beijing Capital Juda Limited” before 7 June 2017) (the “Company”) is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively referred to as the “Group”) are engaged in outlets-backed integrated property, commercial property development and operation in the People’s Republic of China (the “PRC” or “Mainland China”).

As announced on 25 June 2015, Get Thrive Limited (“GTL”), an indirectly wholly-owned subsidiary of Beijing Capital Land Ltd. (“BCL”, a joint stock company incorporated in the PRC with limited liability whose H shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited) has transferred (the “Transfer”) its entire shareholding of ordinary shares of the Company of 130,200,000 shares (representing approximately 65.1% of the Company’s total issued share capital as at the date of the announcement) and its entire shareholding of convertible preference shares of the Company (the “CPS”) of 738,130,482 CPS (representing 100% of the total CPS in issue as at the date of the announcement, classified as class A CPS) to BECL Investment Holding Limited (“BECL”), a directly wholly-owned subsidiary of BCL incorporated in Hong Kong, on 19 June 2015. Upon the completion of the Transfer, the parent of the Company changed from GTL to BECL.

On 14 December 2016, the Company issued 905,951,470 CPS, which is classified as class B CPS, to BECL at the issue price of Hong Kong dollar (“HK\$”) 2.78 per share.

On 28 December 2016, the Company issued 95,192,308 ordinary shares to Smart Win Group Limited (“Smart Win”) and to KKR CG Judo Outlets (“KKR”) respectively (the “Issuance”), at the issue price of HK\$2.10 per share. Meanwhile, the Company issued perpetual convertible bonds securities (the “PCBS”) in the principal amounts of HK\$657,594,260 to Smart Win and in the principal amounts of HK\$420,096,153 to KKR respectively, which are convertible at the initial conversion price of HK\$2.10 per conversion share.

On 28 December 2016, BECL exercised its conversion rights and converted an aggregate of 571,153,846 class A CPS in accordance with the terms and conditions of the relevant subscription agreement entered into by the Company (the “Conversion”).

Upon the completion of the Issuance and the Conversion, BECL held 72.94% of the Company’s total issued share capital.

In the opinion of the directors of the Company, the immediate holding company of the Company is BECL. The intermediate holding company of the Company is BCL. The ultimate holding company of the Company is Beijing Capital Group Ltd. (“Capital Group”), a state-owned enterprise registered in the PRC.

The consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been approved and authorised for issue by the Board of Directors on 26 February 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

2 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) *New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2017:

Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual improvement	Annual improvement to HKFRS standards 2014-2016 cycle
Amendments to HKAS 7	Disclosure initiative

The adoption of amendments to HKAS 12 and annual improvement to HKFRS statements 2014-2016 cycle did not have any impact on the current period or any prior period and is not likely to affect future periods. Amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 32.

(b) *Standards and amendments which are not yet effective*

The following are new/revised standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods, but have not been early adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(b) Standards and amendments which are not yet effective (Continued)

HKFRS 9	Financial instruments ⁱ
HKFRS 15	Revenue from contracts with customers ⁱ
Amendments to HKAS 40	Transfers of investment property ⁱ
HKFRS16	Leases ⁱⁱ

⁽ⁱ⁾ Effective for annual periods beginning on or after 1 January 2018

⁽ⁱⁱ⁾ Effective for annual periods beginning on or after 1 January 2019

- HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Financial assets held by the Group mainly include trade and other receivables measured at amortised cost. The Group does not expect the new guidance to significantly affect the classification and measurement of these financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, contract assets under HKFRS 15 Revenue from Contracts with Customers, and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material impact on the loss allowance for trade debtors and in relation to debt investments held at amortised cost.

- HKFRS 15 is a new standard for the recognition of revenue. This will replace HKAS 18, which covers contracts for goods and services and HKAS 11, which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(b) Standards and amendments which are not yet effective (Continued)

Management has reassessed its business model and contract terms to assess the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Revenue from some pre-sale properties under development may be recognised over time in accordance with the input method for measurement instead of a point of time, if the Group has an enforceable right to payment from the customers for the performance completed to date.
- The Group currently offers different payment schemes to customers. The transaction price and the amount of revenue for the sale of properties will be adjusted when significant financial component exists in that contract.
- The costs related directly to obtaining contracts with customers that would not have been incurred if the contracts had not been obtained, such as commission and stamp duty, will be eligible for capitalisation under HKFRS 15 and will be amortised on a systematic basis consistent with the pattern of the transfer of the properties to which the assets related.

The Group intends to adopt the standard using the full retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2017 with the comparative figures presented in the 2018 financial statements restated.

- HKFRS 16 will result in almost all leases being recognised on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB11,094,000 (31 December 2016: RMB18,683,000) (Note 35).

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective and would be expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SUBSIDIARIES

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 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:

- (i) the contractual arrangement with the other vote holders of the investee;
- (ii) rights arising from other contractual arrangements; and
- (iii) 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.

(a) *Business combination*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SUBSIDIARIES (CONTINUED)

(a) *Business combination (Continued)*

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(b) *Merger accounting under common control*

The acquisitions of subsidiaries under common control have been accounted for using the merger method of accounting. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirees' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The consolidated statement of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SUBSIDIARIES (CONTINUED)

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 in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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.

3.3 JOINT ARRANGEMENTS

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 ASSOCIATES

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of (loss)/profit of investments accounted for using equity method' in the statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the statement of profit or loss.

3.5 FOREIGN CURRENCY TRANSLATION

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in statement of profit or loss within 'other gains – net'.

3.6 PROPERTY, PLANT AND EQUIPMENT

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 the statement of 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 assets 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	20-40 years
Leasehold improvements	3-5 years
Furniture, fixtures & equipment	3-8 years
Motor vehicles	3-5 years

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.

Any gain or loss on disposal or retirement recognised in the statement of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 INVESTMENT PROPERTIES

Investment properties, including land use rights and buildings that are held for the purpose of leasing and buildings that is being constructed or developed for the purpose of leasing in future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their cost can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the year in which they are incurred.

The Group adopts the fair value model for subsequent measurement of investment properties. Investment properties are measured at fair value model when the following conditions are met:

- (a) There is an active property market where the investment property locates.
- (b) The Group can obtain the market price or the relevant information regarding the same type of or similar property market, so as to reasonably estimate the fair value of the investment property.

Investment properties will be valued as at the date of the consolidated statement of financial position and its carrying amount will be adjusted accordingly. The difference between the fair value and the carrying amount will be charged to the current profit or loss account of the Group.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is completed, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any differences resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated statement of profit or loss.

Where fair value of investment properties under construction is not reliably measurable but is expected to be reliably obtained after the construction is completed (including those investment properties under construction acquired initially by the Group), the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required, 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of 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 the statement of profit or loss in the period in which it arises.

3.9 FINANCIAL ASSETS

(a) *Initial recognition and measurement*

Financial assets are classified in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group's financial assets mainly comprised of trade and other receivables. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 FINANCIAL ASSETS (CONTINUED)

(b) *Subsequent measurement*

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

Trade and other 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 in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

(c) *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 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.

3.10 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 financing 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

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 assets 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.

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 assets is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Trade and other 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 the statement of profit or loss.

3.11 FINANCIAL LIABILITIES

(a) *Initial recognition and measurement*

The Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings (including guaranteed notes).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 FINANCIAL LIABILITIES (CONTINUED)

(b) *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 the statement of 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 expenses in the statement of profit or loss.

(c) *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 the statement of profit or loss.

(d) *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.

3.12 INVENTORIES

(a) *Properties under development*

Properties under development are intended to be held for sale after completion. Properties under development are stated at the lower of cost and net realisable value. Cost comprises land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period. Net realisable value is determined by reference to management estimates based on the estimated selling price in the ordinary course of business, less the estimated costs to completion, and estimated costs to be incurred in selling the property.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 INVENTORIES (CONTINUED)

(b) *Completed properties held for sale*

Completed properties held for sale are stated at the lower of cost and net realisable value.

Cost is determined by an apportionment of total land and building costs attributable to the unsold properties. Net realisable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

(c) *Merchandise inventories*

Merchandise inventories are finished goods purchased from external for retail, which are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods is purchase costs agreed in purchasing contracts. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.13 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.

3.14 SHARE CAPITAL

Ordinary shares, class A and class B CPS are classified as equity (Note 29). Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.15 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 CURRENT AND DEFERRED 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.

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, associates and joint ventures, 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, associates and joint ventures, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 CURRENT AND DEFERRED INCOME TAX (CONTINUED)

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.

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.

3.17 EMPLOYEE BENEFITS

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for these employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of 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 operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

3.18 PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

3.19 FINANCIAL GUARANTEE

The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers as financial guarantee contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 FINANCIAL GUARANTEE (CONTINUED)

Financial guarantee liabilities are recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial guarantee liabilities. After initial recognition, such contracts are measured at the higher of the present value of the best estimate of the expenditure required to settle the present obligation and the amount initially recognised less cumulative amortisation. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement.

Financial guarantee liabilities are derecognised from the statement of financial position when, and only when, the obligation specified in the contract is discharged or cancelled or expired.

3.20 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) *Revenue from sale of completed properties*

Revenue from sale of completed properties is recognised when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction of the relevant properties has been completed and the properties have been delivered to the buyer, and the collectability of related receivables is reasonably assured.

(b) *Rental income*

The Group has two types of rental income in investment property operation business.

For lease agreements with no fixed rental amount, the Group recognises income monthly based on certain percentage of the total income of the cooperative lessee.

For lease agreement with fixed rental amount, the Group recognises income monthly on a straight-line basis over the lease period. On the condition that the Group provides rent free period for certain lessee, the Group recognise income by allocating the total rent roll throughout the whole rent period according to straight-line method.

(c) *Interest income*

Interest income is recognised 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 or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(d) *Retail income*

The Group sells products to individual customers through its retail outlets. Sales of goods are recognised in the accounting period in which the retail outlet sells a product to the customer. Retail sales are usually settled in cash or by credit card.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 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.

3.22 OPERATING LEASE

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 the statement of 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 assets cost or the statement of profit or loss on the straight-line basis over the lease terms.

3.23 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors in the Board of Directors that makes strategic decisions.

3.24 GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

(a) FAIR VALUE OF INVESTMENT PROPERTIES

The Group adopts fair value model for subsequent measurement of investment properties and obtains independent valuations for its investment properties at least annually from an independent professional valuer as a third party. The fair value is determined in accordance with the methods below:

- Current prices (open market quotations) in an active market for the same or similar investment properties;
- When such information above is not available, then use recent trading prices in an active market of the same or similar investment property, and take the factors of situations, dates and locations of transactions, etc. into consideration;
- The Group adopts income capitalisation approach and residual method to determine fair value, based on estimated rental income and development cost to occur in the future and present value of the related cash flows, with considering a properly estimated profit rate to determine fair value. The key estimations are disclosed in Note 16.

Where fair value of investment properties under construction is not reliably measurable but is expected to be reliably obtained after the construction is completed (including those investment properties under construction acquired initially by the Group), the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable.

The valuation of investment properties involves significant judgements and estimates, mainly including determination of valuation techniques and election of different inputs in the models.

The management assessed the reasonableness of key inputs which were used to determine the gross development value under residual approach and under income capitalisation approach, including market rental prices and their growth rates, discount rates, etc., by comparing the market rental prices and their growth rates with comparative cases in active markets and management's records, and by comparing the discount rates with the average discount rates in the industry. The management assessed the reasonableness of other key inputs including estimated developers' profit margin rates and development costs to complete, etc. under residual approach, by comparing the estimated developers' profit margin rates with the average developers' profit margin rates in the industry and by comparing the development costs to complete with management's budgets.

(b) DEFERRED INCOME TAX

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

5 FINANCIAL RISK MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, guaranteed notes, cash and cash equivalents. 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 foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on minimising potential adverse effects of these risks, with material impact, on the Group's financial performance. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Foreign exchange risk

The Group mainly operates in Mainland China and Hong Kong with most of the Group's monetary assets, liabilities and transactions principally denominated in HK\$, United States dollars ("US\$") and RMB. The Group has not used any derivative to hedge its exposure to foreign currency risk. The Group is exposed to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities which are not denominated in the Group's functional currency.

As at 31 December 2017, if RMB had weakened/strengthened by 5% against HK\$ and US\$ with all other variable held constant, profit before tax for the year of the Group would have been RMB821,000 higher/lower (2016: RMB59,083,000 higher/lower) mainly due to changes in the fair value of cash and cash equivalents.

(b) Interest rate risk

The Group's interest rate risk arises from interest-bearing borrowings and guaranteed notes. Borrowings obtained at variable interest rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings and guaranteed notes obtained at fixed rates expose the Group to fair value interest rate risk. The management continuously monitors the interest rate position and makes decisions with reference to the latest market condition.

At 31 December 2017, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB7,556,000 (2016: RMB3,335,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) *Credit risk*

Credit risk is managed on group basis. It mainly arises from cash and cash equivalents, trade and other receivables, etc.

The Group expects that there is no significant credit risk associated with cash and cash equivalent since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable and other receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account its financial position, past experience and other factors. The credit history of the customers is regularly monitored by the Group. Sales to retail customers are settled in cash or using major credit cards.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

(d) *Liquidity risk*

The Group's policies are to maintain sufficient cash and cash equivalents and to have available funding through bank borrowings to meet its working capital requirements.

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:

	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2017				
Trade payables	984,360	–	–	984,360
Other payables and accruals	220,195	–	–	220,195
Borrowings	817,026	2,875,595	–	3,692,621
Guarantee notes	1,368,250	–	–	1,368,250
	3,389,831	2,875,595	–	6,265,426
At 31 December 2016				
Trade payables	1,008,826	–	–	1,008,826
Other payables and accruals	144,583	–	–	144,583
Borrowings	916,468	842,186	–	1,758,654
Guarantee notes	68,250	1,368,250	–	1,436,500
	2,138,127	2,210,436	–	4,348,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) *Liquidity risk (Continued)*

The amounts have not included financial guarantee contracts:

- which the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee for loans procured by the purchasers of the Group's properties (Note 34). Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within an average period of one to two years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties;

Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable by providing above guarantees.

(e) *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 characteristic 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.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity. Net debt includes interest bearing bank and other borrowings and guaranteed notes (including the current portion and the non-current portion), less cash and cash equivalents and restricted cash. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Total borrowings (Note 23)	3,205,000	1,620,000
Guaranteed notes (including accrued interests payable) (Note 24)	1,326,329	1,323,957
Total	4,531,329	2,943,957
Less: Cash and cash equivalents	(1,793,200)	(1,910,587)
Restricted cash	(58,110)	(14,029)
Net debt	2,680,019	1,019,341
Total equity	5,691,868	5,577,059
Gearing ratio	47%	18%

The increase of gearing ratio is mainly due to the increase of total borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 FAIR VALUE ESTIMATION

The table below analyses the Group's assets carried at fair value as at 31 December 2017 and 2016, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following tables present the Group's investment properties that are measured at fair value as at 31 December 2017 and 31 December 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
As at 31 December 2017				
Investment properties	–	–	7,047,200	7,047,200
Assets				
As at 31 December 2016				
Investment properties	–	–	4,913,910	4,913,910

There were no transfers among level 1, 2 and 3 during the year.

The Group obtains independent valuations for its investment properties from an independent professional valuer as a third party. The valuations were based on income capitalisation approach which mainly used unobservable inputs such as market rent, discount rate and based on residual method which mainly used unobservable inputs such as profit rate, and interest rate and so on.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTISED COST

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	
	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000
Financial liabilities				
Interest-bearing bank borrowings	1,190,000	200,000	1,217,595	191,735

Management has assessed that the fair values of cash and cash equivalents, trade payables, financial assets included in trade and other receivables, 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 policies and procedures for the fair value measurements of financial instruments are determined by the Group's finance department and are regularly reviewed by senior management.

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 values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of the guaranteed notes is estimated by discounting the expected future cash flows using an equivalent market interest rate for similar guaranteed notes with consideration of the Group's own non-performance risk, the carrying amounts of the guaranteed notes approximate to its fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

6 OPERATING SEGMENT INFORMATION

The member of the Board of Directors (“Directors”) is the Group’s chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Directors for the purposes of allocating resources and assessing performance.

The Directors considers the business from a product perspective. Management separately considers the performance of property development, investment property development and operation. The segment of property development derive their revenue primarily from sale of completed properties. The segment of investment property development and operation derive their revenue primarily from rental income.

All other segments primarily relate to sale of merchandise inventories and others. These operations are excluded from the reportable operating segments, as these operations are not the key concern of the Directors. The results of these operations are included in the “All other segments”.

The Directors assesses the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of non-recurring expenditure from the operating segments. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Other information provided to the Directors, except as noted below, is measured in a manner consistent with that in the financial statements.

Total segment assets exclude amounts due from related parties, cash and cash equivalents, restricted cash and deferred income tax assets, all of which are managed on a central basis. Total segment liabilities exclude amounts due to related parties, borrowings, guaranteed notes and deferred income tax liabilities, all of which are managed on a central basis as well. These are part of the reconciliation to total assets and liabilities of the consolidated statement of financial position.

Transactions between segments are carried out at arm’s length. The revenue from external parties reported to the Directors is measured in a manner consistent with that in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

6 OPERATING SEGMENT INFORMATION (CONTINUED)

	Property development RMB'000	Investment property development and operation RMB'000	All other segments RMB'000	Total RMB'000	Inter- company elimination RMB'000	Total RMB'000
Year ended 31 December 2017						
Total revenue	236,339	224,368	51,149	511,856	–	511,856
Inter-segment revenue	–	(333)	–	(333)	–	(333)
Revenue (from external customers)	236,339	224,035	51,149	511,523	–	511,523
Segment operating profit/(loss)	63,487	397,281	(98,040)	362,728	(170)	362,558
Depreciation and amortisation (Note 8)	(82)	–	(14,962)	(15,044)	–	(15,044)
Income tax expense (Note 12)	(23,272)	(129,815)	–	(153,087)	–	(153,087)
Year ended 31 December 2016						
Total revenue	799,751	194,536	3,644	997,931	–	997,931
Inter-segment revenue	–	–	–	–	–	–
Revenue (from external customers)	799,751	194,536	3,644	997,931	–	997,931
Segment operating profit/(loss)	67,657	443,944	(69,991)	441,610	–	441,610
Depreciation and amortisation (Note 8)	(54)	(22,495)	(11,102)	(33,651)	–	(33,651)
Income tax expense (Note 12)	(22,784)	(103,869)	(250)	(126,903)	–	(126,903)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

6 OPERATING SEGMENT INFORMATION (CONTINUED)

	Property development RMB'000	Investment property development and operation RMB'000	All other segments RMB'000	Total RMB'000	Inter- company elimination RMB'000	Total RMB'000
As at 31 December 2017						
Total segment assets	2,347,467	8,168,124	470,213	10,985,804	(21,198)	10,964,606
Additions to non-current assets (other than financial instruments and deferred income tax assets)	49	1,931,559	89,245	2,020,853	-	2,020,853
Total segment liabilities	(636,134)	(1,279,634)	(39,801)	(1,955,569)	21,198	(1,934,371)
As at 31 December 2016						
Total segment assets	2,353,057	6,147,901	125,548	8,626,506	-	8,626,506
Additions to non-current assets (other than financial instruments and deferred income tax assets)	153	1,265,063	49,243	1,314,459	-	1,314,459
Total segment liabilities	(823,322)	(659,972)	(103,901)	(1,587,195)	-	(1,587,195)

A reconciliation of segment operating profit to profit before income tax is provided as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Segment operating profit	362,558	441,610
Share of losses of investments accounted for using equity method (Note 18)	(694)	-
Interest income (Note 7)	16,208	8,648
Finance costs (Note 9)	(111,676)	(95,518)
Profit before income tax	266,396	354,740

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

6 OPERATING SEGMENT INFORMATION (CONTINUED)

Segments' assets and liabilities are reconciled to total assets and liabilities as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Total segment assets	10,964,606	8,626,506
Cash and cash equivalents (Note 22)	1,793,200	1,910,587
Restricted cash (Note 22)	58,110	14,029
Deferred income tax assets (Note 27)	17,829	45,208
Amounts due from related parties (Note 36(g))	61,766	–
Total assets per consolidated statement of financial position	12,895,511	10,596,330
Total segment liabilities	(1,934,371)	(1,587,195)
Borrowings (Note 23)	(3,205,000)	(1,620,000)
Guaranteed notes (Note 24)	(1,326,329)	(1,323,957)
Amounts due to related parties (Note 36(f)(h))	(167,172)	(16)
Deferred income tax liabilities (Note 27)	(570,771)	(488,103)
Total liabilities per consolidated statement of financial position	(7,203,643)	(5,019,271)

The Company is incorporated in Cayman Islands, with most of its major subsidiaries domiciled in the PRC. Revenues from external customers of the Group are mainly derived in the PRC for the years ended 31 December 2017 and 2016.

As at 31 December 2017, total non-current assets other than deferred income tax assets located in the PRC is RMB8,170,352,000 (2016: RMB6,048,720,000), the total of these non-current assets located in Hong Kong is RMB10,000 (2016: RMB19,000).

For the years ended 31 December 2017 and 2016, the Group does not have any single customer with the transaction value over 10% of the total external sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

7 REVENUE, OTHER GAINS AND OTHER INCOME

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Revenue		
Sale of properties	236,339	799,751
Rental revenue of investment properties	224,035	194,536
Sale of goods	51,149	3,644
	511,523	997,931
Other gains – net		
Fair value gains on investment properties (Note 16(b))	222,394	431,581
Gains from government repurchase of land use rights (i)	69,661	–
Net foreign exchange (losses)/gains	(30,759)	16,366
Gains from disposal of a subsidiary (Note 28 (b))	13,123	–
Others	(3,730)	848
	270,689	448,795
Other income		
Government grants (ii)	121,516	2,222
Bank interest income	7,725	8,648
Interests income from Yulong Hengxin	8,483	–
Others	5,164	1,141
	142,888	12,011

(i) In 2017, Zhejiang Outlets Property Real Estate Co., Ltd. (“Zhejiang Outlets”, a wholly-owned subsidiary of the Company) entered into an agreement with Huzhou Taihu Tourism Resort Management Committee (the “Management Committee”, 湖州太湖旅遊度假區管委會), a local governmental organisation, pursuant to which the Management Committee agreed to repurchase a piece of land, which was previously granted to Zhejiang Outlets, with a cash consideration of RMB112,940,000. The difference between the consideration and the cost of the land is recognised in other gains.

(ii) In 2016, Jiangxi Capital Outlets Limited (“Jiangxi Capital”, a wholly-owned subsidiary of the Company) received government grants amounting to RMB121,516,000 to compensate the cost of opening. In 2017, the outlets project held by Jiangxi Capital came into operation and the government grants were thereby qualified to be fully recognised in the consolidated statement of profit or loss as other income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

8 EXPENSES BY NATURE

Expenses by nature from comprised cost of sales, selling and distribution expenses and administrative expenses as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Cost of properties sold	160,608	672,595
Cost of goods sold	38,644	2,518
Operating leases expense	10,806	10,163
Depreciation and amortisation	15,044	33,651
Employee benefit expense	98,503	59,543
– Wages, salaries and staff welfare	81,589	50,237
– Pension scheme contributions	6,440	3,528
– Other allowance and benefits	10,474	5,778
Office and traveling expenses	26,825	20,453
Property management fee	58,723	51,256
Consultancy fee	20,871	22,857
Advertising and marketing	77,236	62,513
Service fee for keepwell deed (Note 36(b))	3,900	3,900
Business taxes and other surcharges	29,656	60,327
Audit services expenses	1,745	1,560
Audit related and non-audit services expenses	–	1,990
Others	3,773	5,153
	546,334	1,008,479

9 FINANCE COSTS

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Interest expense on bank borrowings	73,915	66,895
Interest expense on related parties borrowings	22,704	10,231
Interest expense on guaranteed notes	70,995	70,850
Less: interests capitalised	(55,938)	(52,458)
	111,676	95,518

For the year ended 31 December 2017, the capitalisation rate is 5.35% (year ended 31 December 2016: 5.42%), and the finance costs are mainly capitalised into investment properties and inventories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

10 DIRECTORS' EMOLUMENTS

Directors' remuneration for the year is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Fees	798	711
Other emoluments:		
Salaries, allowances and benefits in kind	4,322	2,383
Performance related bonuses	1,050	–
Pension scheme contributions	182	81
	5,554	2,464
	6,352	3,175

(a) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Dr. Ngai Wai Fung	266	237
Ms. Zhao Yuhong	266	237
Mr. He Xiaofeng	266	237
	798	711

There were no other emoluments payable to the independent non-executive directors during the year (year ended 31 December 2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

10 DIRECTORS' EMOLUMENTS (CONTINUED)

(b) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017						
<i>Executive directors:</i>						
Mr. Zhong Beichen (i)	-	2,239	-	-	91	2,330
Mr. Feng Yujian (i)	-	2,083	1,050	-	91	3,224
	-	4,322	1,050	-	182	5,554
2017						
<i>Non-executive directors:</i>						
Mr. Sun Shaolin	-	-	-	-	-	-
Mr. Su Jian	-	-	-	-	-	-
Mr. Wang Honghui	-	-	-	-	-	-
Mr. Yang Han Hsiang (ii)	-	-	-	-	-	-
Mr. Yang, Paul Chunyao (ii)	-	-	-	-	-	-
	-	4,322	1,050	-	182	5,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

10 DIRECTORS' EMOLUMENTS (CONTINUED)

(b) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS (CONTINUED)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016						
<i>Executive directors:</i>						
Mr. Tang Jun (i)	-	-	-	-	-	-
Mr. Zhong Beichen (i)	-	2,383	-	-	81	2,464
	-	2,383	-	-	81	2,464
2016						
<i>Non-executive directors:</i>						
Mr. Sun Shaolin	-	-	-	-	-	-
Mr. Su Jian	-	-	-	-	-	-
Mr. Wang Honghui	-	-	-	-	-	-
Mr. Yang Han Hsiang	-	-	-	-	-	-
	-	2,383	-	-	81	2,464

(i) On 24 January 2017, Mr. Tang Jun resigned as chairman and executive director, Mr. Zhong Beichen was designated as chairman and Mr. Feng Yujian was designated as executive director.

(ii) On 9 February 2018, Mr. Yang Han Hsiang resigned as non-executive director, and Mr. Yang, Paul Chunyao was appointed as non-executive director.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (year ended 31 December 2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

10 DIRECTORS' EMOLUMENTS (CONTINUED)

(b) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS (CONTINUED)

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the company or its subsidiary undertaking		Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the company or its subsidiary undertaking		Total	
2017	2016	2017	2016	2017	2016
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
798	711	5,554	2,464	6,352	3,175

11 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (year ended 31 December 2016: one), details of whose remuneration are set out in Note 10 above. Details of the remuneration for the year of the three (year ended 31 December 2016: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	6,657	4,749
Performance related bonuses	1,620	1,480
Pension scheme contributions	189	287
	8,466	6,516

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

	Year ended 31 December	
	2017	2016
HK\$1,500,000 (equivalent to RMB1,295,225) to HK\$2,000,000 (equivalent to RMB1,726,967)	–	2
HK\$2,000,000 (equivalent to RMB1,726,967) to HK\$2,500,000 (equivalent to RMB2,158,708)	1	2
HK\$2,500,000 (equivalent to RMB2,158,708) to HK\$3,000,000 (equivalent to RMB2,590,450)	1	–
HK\$4,500,000 (equivalent to RMB3,885,675) to HK\$5,000,000 (equivalent to RMB4,317,416)	1	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

12 INCOME TAX EXPENSE

Hong Kong corporate are mainly subject to Hong Kong profits tax rate of 16.5%. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profit arising in Hong Kong during the year (year ended 31 December 2016: Nil).

PRC corporate income tax has been provided at the rate of 25% (year ended 31 December 2016: 25%) on the taxable profits of the Group's PRC subsidiaries during the period.

The implementation and settlement of PRC land appreciation tax ("LAT") varies among various tax jurisdictions in cities of the PRC. LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land use rights, development and construction expenditure and other related expenditures.

The amount of income tax expense charged to the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current income tax:		
– PRC corporate income tax	34,441	40,650
– PRC land appreciation tax	9,170	6,274
Deferred income tax	109,476	79,979
Total tax charge for the year	153,087	126,903

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

12 INCOME TAX EXPENSE (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	266,396	354,740
Tax calculated at domestic tax rates applicable to profits in the respective countries	75,808	94,700
Income not subject to tax	(3,775)	(2,213)
Expenses not deductible for tax	18,186	14,586
Tax losses for which no deferred income tax asset was recognised	35,309	15,125
Land appreciation tax	9,170	6,274
Income tax effect of land appreciation tax	(2,293)	(1,569)
Write-off of previously recognised deferred income tax assets	20,682	–
Income tax expense for the year	153,087	126,903

The weighted average applicable tax rate was 57.5% for the year ended 31 December 2017 (year ended 31 December 2016: 35.8%).

13 DIVIDENDS

No dividend has been paid or declared by the Company during the year (year ended 31 December 2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

14 EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic and diluted earnings per share amount for the year ended 31 December 2017 is based on the profit for the year attributable to owners of the Company of RMB113,159,000 (year ended 31 December 2016: RMB227,273,000), the weighted average number of ordinary shares of 961,538,462 (year ended 31 December 2016: 206,259,220), the weighted average number of CPS of 1,072,928,106 (year ended 31 December 2016: 775,631,067) and the weighted average number of shares of 513,185,911 (31 December 2016: 4,217,966) into which the PCBS may be converted, in issue during the year.

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	113,159	227,273
	Shares	Shares
Weighted average number of ordinary shares	961,538,462	206,259,220
Weighted average number of CPS	1,072,928,106	775,631,067
Weighted average number of shares into which the PCBS may be converted	513,185,911	4,217,966
Weighted average number of shares for basic and diluted earnings per share	2,547,652,479	986,108,253

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

15 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>RMB'000</i>	Buildings <i>RMB'000</i>	Furniture fixtures and equipment <i>RMB'000</i>	Motor vehicles and others <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended					
31 December 2017					
At 31 December 2016 and at 1 January 2017					
Cost	112,205	10,092	21,543	15,743	159,583
Accumulated depreciation	(54,967)	(631)	(12,286)	(7,322)	(75,206)
Net carrying amount	57,238	9,461	9,257	8,421	84,377
At 1 January 2017, net of accumulated depreciation					
	57,238	9,461	9,257	8,421	84,377
Additions	33,825	–	11,219	10,011	55,055
Depreciation provided during the year	(17,844)	(210)	(5,625)	(8,063)	(31,742)
At 31 December 2017, net of accumulated depreciation					
	73,219	9,251	14,851	10,369	107,690
At 31 December 2017					
Cost	146,030	10,092	32,762	25,754	214,638
Accumulated depreciation	(72,811)	(841)	(17,911)	(15,385)	(106,948)
Net carrying amount	73,219	9,251	14,851	10,369	107,690

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold improvements RMB'000	Buildings RMB'000	Furniture fixtures and equipment RMB'000	Motor vehicles and others RMB'000	Total RMB'000
For the year ended					
31 December 2016					
At 31 December 2015 and at 1 January 2016					
Cost	91,302	7,950	17,644	12,388	129,284
Accumulated depreciation	(32,472)	(451)	(7,047)	(1,773)	(41,743)
Net carrying amount	58,830	7,499	10,597	10,615	87,541
At 1 January 2016, net of accumulated depreciation					
	58,830	7,499	10,597	10,615	87,541
Additions	20,903	2,142	3,899	3,355	30,299
Depreciation provided during the year	(22,495)	(180)	(5,239)	(5,549)	(33,463)
At 31 December 2016, net of accumulated depreciation					
	57,238	9,461	9,257	8,421	84,377
At 31 December 2016					
Cost	112,205	10,092	21,543	15,743	159,583
Accumulated depreciation	(54,967)	(631)	(12,286)	(7,322)	(75,206)
Net carrying amount	57,238	9,461	9,257	8,421	84,377

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

16 INVESTMENT PROPERTIES

(a) INVESTMENT PROPERTIES UNDER CONSTRUCTION

	Cost RMB'000	Fair Value RMB'000	Total RMB'000
At 1 January 2016	840,871	313,000	1,153,871
Additions	838,230	11,122	849,352
Transfer to investment properties in operation	(394,560)	–	(394,560)
Transfer to investment properties under construction at fair value	(672,647)	–	(672,647)
Transfer from investment properties under construction at cost	–	672,647	672,647
Net gains from fair value adjustment	–	121,231	121,231
At 31 December 2016	611,894	1,118,000	1,729,894
Additions	1,282,953	1,001,426	2,284,379
Transfer to investment properties in operation	(715,728)	(695,906)	(1,411,634)
Transfer to investment properties under construction at fair value	(185,579)	–	(185,579)
Transfer from investment properties under construction at cost	–	185,579	185,579
Disposal	(88,850)	–	(88,850)
Net gains from fair value adjustment	–	93,901	93,901
At 31 December 2017	904,690	1,703,000	2,607,690

(b) INVESTMENT PROPERTIES IN OPERATION

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
At 1 January	3,795,910	3,091,000
Additions	8,163	–
Transfer from investment properties under construction	1,411,634	394,560
Net gains from fair value adjustment	128,493	310,350
Closing balance at 31 December	5,344,200	3,795,910
Net gains from fair value adjustment	222,394	431,581
Rental income	224,035	194,536
Direct operating expenses from properties that generated rental income	(3,069)	(1,985)
Direct operating expenses from properties that did not generate rental income	(402)	(41)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

16 INVESTMENT PROPERTIES (CONTINUED)

Profit or loss recognised in the statement of profit or loss arose from fair value changes, rental income and operating expenses, etc.

The Group's finance department is in charge of assets' valuation and employs the independent valuer to evaluate the fair value of investment properties. The finance department verifies all valuation results, takes charge of relative accounting treatments and prepares disclosure information of fair values according to verified valuation results.

Information about fair value measurements using significant unobservable inputs:

Investment Properties	Fair value as at 31 December 2017 RMB'000	Valuation techniques	Unobservable inputs		
			Title	Range	Relationship of unobservable inputs to fair value
Central region	3,589,240	Income capitalisation approach	Discount rate	6.5% to 7.5%	The higher discount rate is, the lower fair value
			Market rental price	RMB37 to RMB130 per square meter per month	The higher market rental price is, the higher fair value
			Market rental price growth rate	0%-1%	The higher market rental price growth rate is, the higher fair value
	801,000	Residual method	Interest rate	4.35%-4.75%	The higher interest rate is, the lower fair value
			Profit margin rate	15% to 25%	The higher profit margin rate is, the lower fair value
North region	1,754,960	Income capitalisation approach	Discount rate	7.5% to 8%	The higher discount rate is, the lower fair value
			Market rental price	RMB74 to RMB165 per square meter per month	The higher market rental price is, the higher fair value
			Market rental price growth rate	0%	The higher market rental price growth rate is, the higher fair value
	902,000	Residual method	Interest rate	4.35%	The higher interest rate is, the lower fair value
			Profit margin rate	15%-20%	The higher profit margin rate is, the lower fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

16 INVESTMENT PROPERTIES (CONTINUED)

Information about fair value measurements using significant unobservable inputs (Continued):

Investment Properties	Fair value as at 31 December 2016 RMB'000	Valuation techniques	Title	Unobservable inputs	
				Range	Relationship of unobservable inputs to fair value
Central region	2,074,950	Income capitalisation approach	Discount rate	6.5% to 7.5%	The higher discount rate is, the lower fair value
			Market rental price	RMB38 to RMB105 per square meter per month	The higher market rental price is, the higher fair value
			Market rental price growth rate	0%-2%	The higher market rental price growth rate is, the higher fair value
	750,000	Residual method	Interest rate	4.35% to 4.9%	The higher interest rate is, the lower fair value
			Profit margin rate	8% to 20%	The higher profit margin rate is, the lower fair value
North region	1,720,960	Income capitalisation approach	Discount rate	7.5% to 8%	The higher discount rate is, the lower fair value
			Market rental price	RMB74 to RMB165 per square meter per month	The higher market rental price is, the higher fair value
			Market rental price growth rate	0%	The higher market rental price growth rate is, the higher fair value
	368,000	Residual method	Interest rate	4.35% to 4.9%	The higher interest rate is, the lower fair value
			Profit margin rate	10% to 20%	The higher profit margin rate is, the lower fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

17 SUBSIDIARIES

Name	Place of incorporation/ registration and business	Issued ordinary share/ registered share capital	Percentage of equity attributable to the Company		Percentage of equity attributable to non-controlling interests	Principal activities
			Direct %	Direct %		
Rosy Capital Global Limited ("Rosy")	British Virgin Islands	US\$1	100	–	N/A	Investment holding
Beijing Chuangxin Jianye Real Estate investment Ltd. ("Chuangxin Jianye") (北京創新建業地產投資有限公司)	Mainland China	RMB50,000,000	–	100	N/A	Investment holding
Shanghai Juque Investment Management Co., Ltd. (上海鉅譽投資管理有限公司)	Mainland China	RMB180,000,000	–	100	N/A	Investment holding
Jiangxi Capital Outlets Development Company Limited (江西首創奧特萊斯置業有限公司)	Mainland China	RMB313,500,000	–	100	N/A	Property investment
Hangzhou Capital Outlets Property Limited (杭州首創奧特萊斯置業有限公司)	Mainland China	RMB335,000,000	–	100	N/A	Property investment
Wuhan Capital Juda Outlets Business Management Limited (武漢首創鉅大奧萊商業管理有限公司)	Mainland China	RMB208,000,000	–	99	1	Property investment
Jinan Shouju Real Estate Ltd. (濟南首鉅置業有限公司)	Mainland China	RMB210,000,000	–	100	N/A	Property investment and development
Zhengzhou Juxin Outlets Industrial Co., Ltd. (鄭州鉅信奧萊實業有限公司)	Mainland China	RMB200,000,000	–	100	N/A	Property investment
Xian Shouju Commercial Development and Management Co., Ltd. (西安首鉅商業開發管理有限公司)	Mainland China	RMB335,000,000	–	100	N/A	Property investment
Hefei Chuangju Outlets (合肥創鉅奧萊商業管理有限公司)	Mainland China	RMB280,000,000	–	100	N/A	Property investment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

17 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and business	Issued ordinary share/ registered share capital	Percentage of equity attributable to the Company		Percentage of equity attributable to non-controlling interests	Principal activities
			Direct %	Direct %		
Capital Outlets (Kunshan) Business Development Co., Ltd. (首創奧特萊斯(昆山)商業開發有限公司)	Mainland China	RMB100,000,000	–	100	N/A	Property investment
Capital Dongxing (Kunshan) Business Development Co., Ltd. (首創東興(昆山)商業開發有限公司)	Mainland China	RMB100,000,000	–	100	N/A	Property investment
Beijing Capital Outlets Property Investment Fang Shan Ltd. (北京首創奧特萊斯房山置業有限公司)	Mainland China	US\$127,000,000	–	100	N/A	Property investment
Zhejiang Outlets Property Real Estate Co., Ltd (浙江奧特萊斯置業有限公司)	Mainland China	US\$40,000,000	–	100	N/A	Property investment
Xi'an Capital Xin Kai Real Estate Ltd. ("Xin Kai") (西安首創新開置業有限公司)	Mainland China	US\$165,000,000	–	100	N/A	Property development
Kunming Shouchuang Outlet Commercial Management Co., Ltd (昆明首鉅奧特萊商業運營管理有限公司)	Mainland China	RMB10,000,000	–	85	15	Property investment
Chongqing Shouju Outlet Real Estate Co., Ltd (重慶首鉅奧特萊斯置業有限公司)	Mainland China	RMB200,000,000	–	100	N/A	Property investment

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

18.1 INVESTMENT IN JOINT VENTURE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	–	–
Capital injection	4,000	–
Share of losses	(110)	–
At 31 December	3,890	–

(a) Following are the details of the joint venture held by the Group as at 31 December 2017, which is unlisted:

Name	Place of incorporation/ registration and business	registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	

(1) Shanghai Zanchuang Sports Venues Management Co., Ltd (上海贊創體育場館管理有限公司) ("Shanghai Zanchuang") (i)	Shanghai/China	RMB10,000,000	–	40%	Sports venues management
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(i) According to the articles of association, the Group commits to contribute 40% of equity interests of Shanghai Zanchuang. As at 31 December 2017, the Group has completed capital injection of RMB4,000,000, representing 40% of the paid-in capital of Shanghai Zanchuang. The Group and another shareholder jointly control Shanghai Zanchuang, therefore it is recognised as a joint venture.

18.2 INVESTMENTS IN ASSOCIATES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	40,000	–
Capital injection	33,300	40,000
Transfer-in from subsidiary (Note 28(b))	31,409	–
Share of losses	(584)	–
At 31 December	104,125	40,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

18.2 INVESTMENTS IN ASSOCIATES (CONTINUED)

(a) Following are the details of the associates held by the Group as at 31 December 2017, which is unlisted:

Name	Place of incorporation/ registration and business	Registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
(1) Changsha Joy City Investment Co., Ltd. (長沙歡樂天街投資有限公司) ("Changsha Joy City") (i)	Changsha/China	RMB280,020,000	–	30%	Real estate investment
(2) Nanchang Huachuang Xinghong Real Estate Co., Ltd. (南昌華創興洪置業有限公司) ("Nanchang Huachuang") (ii)	Nanchang/China	RMB50,000,000	–	40%	Real estate investment

- (i) According to the articles of association, the Group commits to contribute 30% of equity interests of Changsha Joy City. As at 31 December 2017, the Group has injected capital of RMB73,300,000, representing 27.22% of the paid-in capital of Changsha Joy City.

According to the articles of association, the Group has significant influence on the business operation of Changsha Joy City, therefore it is classified as an associate.

- (ii) On 16 August 2017, upon completion of capital injection to Nanchang Huachuang (a previously wholly-owned subsidiary of Jiangxi Capital) from Yulong Hengxin, an independent third-party, the equity interests of Nanchang Huachuang was held at 40% and 60% by Jiangxi Capital and Yulong Hengxin respectively. According to the revised articles of association, the Group has significant influence on the business operation of Nanchang Huachuang, therefore it is classified as an associate. More information of above-mentioned transaction is disclosed in Note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

18.2 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Summarised financial information for the associates which is accounted for using the equity method:

Set out below is the summarised financial information of the associates:

Summarised statement of financial position

	Changsha Joy City		Nanchang Huachuang	
	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000
Current				
Cash	10,641	38,986	24,303	N/A
Other current assets (excluding cash)	3,394	–	236,304	N/A
Total current assets	14,035	38,986	260,607	N/A
Financial liabilities (excluding trade payables)	71,912	21,910	155,663	N/A
Other current liabilities (including trade payables)	483	41,108	92,973	N/A
Total current liabilities	72,395	63,018	248,636	N/A
Non-current				
Assets	327,538	260,046	76,142	N/A
Other liabilities	–	–	10,949	N/A
	327,538	260,046	65,193	N/A
Net assets	269,178	236,014	77,164	N/A

The information above reflects the amounts presented in the financial statements of the associate, adjusted for differences in accounting policies between the Group and the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

18.2 INVESTMENTS IN ASSOCIATES (CONTINUED)

(c) Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interests in the associates.

	Changsha Joy City		Nanchang Huachuang	
	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000
Opening net assets	236,014	–	–	N/A
Net assets before investment	–	196,014	–	N/A
Net assets upon transfer-in from subsidiary (Note 28(b))	–	–	78,522	N/A
Capital injection	33,300	40,000	–	N/A
Loss for the year	(136)	–	(1,358)	N/A
Closing net assets	269,178	236,014	77,164	N/A
Carrying value	73,259	40,000	30,866	N/A

19 INVENTORIES

	31 December 2017 RMB'000	31 December 2016 RMB'000
Properties under development	822,422	1,266,025
Completed properties held for sale	1,388,120	918,256
Merchandise inventories	90,177	28,487
	2,300,719	2,212,768

Properties under development expected to be completed:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Within one year	174,198	469,190
More than one year	648,224	796,835
	822,422	1,266,025

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

20 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:

	Loans and receivables	
	31 December 2017 RMB'000	31 December 2016 RMB'000

Assets as per consolidated statement of financial position

Trade and other receivables and prepayments (excluding prepayments and prepaid taxes)	257,706	105,512
Restricted cash (Note 22)	58,110	14,029
Cash and cash equivalents (Note 22)	1,793,200	1,910,587
	2,109,016	2,030,128

	Financial liabilities at amortised cost	
	31 December 2017 RMB'000	31 December 2016 RMB'000

Liabilities as per consolidated statement of financial position

Borrowings (Note 23)	3,205,000	1,620,000
Amounts and interest due to related parties (Note 26)	168,840	27,096
Trade payables (Note 25)	984,360	1,008,826
Financial liabilities included in other payables and accruals (excluding other tax payable, advances from customers, etc.)	53,122	127,601
Guarantee notes (Note 24)	1,326,329	1,323,957
	5,737,651	4,107,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

21 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Trade receivables	17,234	3,014
Prepayments for land use rights and construction costs of investment properties	–	394,808
Prepayments for land use rights and construction costs of development properties	–	80,596
Prepayments to related parties (Note 36(d))	2,275	2,275
Prepayments of merchandise inventories	35,832	–
Other prepayments	12,601	75,846
Prepaid income tax and land appreciation tax	88,072	64,125
Prepaid other taxes	158,805	36,645
Deposits for land use rights	–	30,930
Other deposits	31,918	29,020
Amounts due from related parties (Note 36(g))	61,766	–
Receivables from government repurchase of land use rights (Note 7(i))	78,515	–
Other receivables	68,273	42,548
	555,291	759,807
less: non-current portion		
– prepayments for land use rights and construction costs of investment properties	–	(394,808)
Current portion	555,291	364,999

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

21 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

An aging analysis of the Group's trade receivables as at the end of the reporting period is as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Up to 3 months	16,034	3,014
3 to 6 months	–	–
Over 6 months	1,200	–
	17,234	3,014

Included in the trade receivables are trade receivables of RMB5,879,000 (31 December 2016: RMB1,200,000) due from related parties which are receivable within 1 year and represented credit terms similar to those offered to other major customers (Note 36(d)).

22 CASH AND CASH EQUIVALENTS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Cash and bank balances	1,673,287	1,022,876
Time deposits	178,023	901,740
Less:		
Restricted cash	(58,110)	(14,029)
Cash and cash equivalents	1,793,200	1,910,587

At the end of the reporting period, the cash and bank balances of the Group denominated in HK\$ were equivalent to RMB16,429,000 (31 December 2016: equivalent to RMB996,908,000) and those denominated in US\$ were nil (31 December 2016: equivalent to RMB213,783,000).

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits as at 31 December 2017 were made for less than one month depending on the immediate cash requirements of the Group, and earned interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

23 BORROWINGS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Non-current		
Bank borrowings	2,545,000	765,000
Current		
Related parties borrowings	–	630,000
Current portion of long-term bank borrowings	400,000	225,000
Short-term bank borrowings	260,000	–
	660,000	855,000
	3,205,000	1,620,000

- (a) As at 31 December 2017, bank borrowings amounting to RMB1,120,000,000 (31 December 2016: RMB450,000,000) were secured by the land use rights and the buildings of investment properties with carrying amount of RMB2,765,960,000 (31 December 2016: RMB2,088,960,000).

As at 31 December 2017, bank borrowings amounting to RMB100,000,000 (31 December 2016: Nil) were secured by the land use rights and the buildings of investment properties with carrying amount of RMB102,838,000 (31 December 2016: Nil) and guaranteed by the Company.

As at 31 December 2017, bank borrowings amounting to RMB100,000,000 (31 December 2016: Nil) were secured by the land use rights of investment properties with carrying amount of RMB260,076,000 (31 December 2016: Nil) and guaranteed by the Company.

As at 31 December 2017, bank borrowings amounting to RMB215,000,000 (31 December 2016: RMB340,000,000) were secured by the land use rights and the buildings of investment properties with carrying amount of RMB611,000,000 (31 December 2016: RMB1,544,950,000) and guaranteed by BCL.

As at 31 December 2017, bank borrowings amounting to RMB670,000,000 (31 December 2016: RMB200,000,000) were secured by the land use rights of investment properties with carrying amount of RMB662,682,000 (31 December 2016: RMB330,012,000) and guaranteed by BCL.

As at 31 December 2017, bank borrowings amounting to RMB 1,000,000,000 (31 December 2016: Nil) were guaranteed by BCL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

23 BORROWINGS (CONTINUED)

- (b) The maturities of the Group's total borrowings at respective dates of the consolidated statement of financial position are set out as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Total borrowings		
– Within 1 year	660,000	855,000
– Between 1 and 2 years	240,000	180,000
– Between 2 and 5 years	2,165,000	585,000
– Over 5 years	140,000	–
	3,205,000	1,620,000

- (c) All the Group's borrowings are denominated in RMB.
- (d) The weighted average effective interest rates at the respective dates of the consolidated statement of financial position are set out as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Related party borrowings	4.35%	4.35%
Bank borrowings	4.82%	6.11%

- (e) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Within 6 months	100,000	–
Between 6 and 12 months	1,915,000	1,420,000
Between 1 and 5 years	1,190,000	200,000
	3,205,000	1,620,000

Except for the borrowing listed in Note 5.3, the carrying amounts of borrowings approximate their respective fair values, as the borrowings bore floating interest rates, the impact of discounting is not significant. The fair values are based on cash flows discounted using market rate and are within level 2 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

24 GUARANTEED NOTES

On 23 July 2015, Rosy, a wholly-owned subsidiary of the Company, the Company and Capital Group entered into the subscription agreement with the Hong Kong and Shanghai Banking Corporation Limited, DBS Bank Ltd., ABCI Capital Limited, Bank of China (Hong Kong) Limited and China Construction Bank Corporation, Singapore Branch in connection with the proposed international offering of RMB1,300,000,000 guaranteed notes due in July 2018 proposed to be issued by Rosy (the "Notes"). The Notes carry interest at rate of 5.25% per annum, which is payable half-yearly in January and July. The issuance of the Notes has been completed on 30 July 2015 and the Notes have been listed for trading on the Stock Exchange of Hong Kong on 31 July 2015.

As at 31 December 2017, the Notes is classified as current liabilities as it will be due within 1 year (31 December 2016: classified as non-current liabilities).

	31 December 2017 <i>RMB'000</i>	31 December 2016 <i>RMB'000</i>
Nominal value of guaranteed notes	1,300,000	1,300,000
Direct transaction costs	(8,060)	(8,060)
Interest expense	171,262	100,267
Interest paid	(136,873)	(68,250)
	1,326,329	1,323,957
Accrued interests for guaranteed notes, classified as other payables under current liabilities	(28,064)	(28,438)
	1,298,265	1,295,519

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

25 TRADE PAYABLES

An aging analysis of the Group's trade payables as at the end of the reporting period, is as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Within 1 year	984,323	1,008,826
1 to 2 years	37	–
Over 2 years	–	–
	984,360	1,008,826

Included in the trade payables are trade payables of RMB637,000 (31 December 2016: RMB4,497,000) due to related parties which are repayable within 1 year and represented credit terms similar to those offered by the related party to other major customers (Note 36(d)).

The trade payables are non-interest-bearing and repayable within the normal operating cycle or on demand.

26 OTHER PAYABLES AND ACCRUALS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Tax payables	12,302	12,048
Employee benefit payment	19,464	18,157
Advances from customers	823,103	237,649
Amounts due to related parties	167,073	16,982
Accrued interests for guaranteed notes	28,064	28,438
Interests payable to related parties	1,767	10,114
Guarantee deposits	44,284	81,774
Amounts received as government grants	6,000	121,516
Professional fee related to the issuance of new shares and PCBS	–	29,011
Others	8,838	16,816
	1,110,895	572,505

The financial liabilities included in the above balance are non-interest-bearing and normally settled on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

27 DEFERRED INCOME TAX

The analysis of deferred income tax assets and liabilities are as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	36,755	38,246
– to be recovered after more than 12 months	33,915	82,433
	70,670	120,679
Deferred income tax liabilities:		
– to be settled after more than 12 months	(623,612)	(563,574)
Offsetting	52,841	75,471
Deferred income tax assets after offset	17,829	45,208
Deferred income tax liabilities after offset	(570,771)	(488,103)
Deferred income tax liabilities (net)	(552,942)	(442,895)

The gross movement on the deferred income tax account is as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
At beginning of the year	(442,895)	(392,024)
Disposal of a subsidiary	(571)	–
Government grants not recognised in the statement of profit or loss	–	29,108
Recognised in the statement of profit or loss (Note 12)	(109,476)	(79,979)
At end of the year	(552,942)	(442,895)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

27 DEFERRED INCOME TAX (CONTINUED)

The movement in deferred income tax assets and liabilities during the years ended 31 December 2017 and 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Deferred income tax assets			
At 1 January 2016	65,454	–	65,454
Credited to the statement of profit or loss	26,117	–	26,117
Government grants not recognised in the statement of profit or loss	–	29,108	29,108
At 31 December 2016	91,571	29,108	120,679
Charged to the statement of profit or loss	(19,362)	(29,108)	(48,470)
Disposal of a subsidiary	(1,539)	–	(1,539)
At 31 December 2017	70,670	–	70,670

	Fair value adjustments arising from acquisition of subsidiaries <i>RMB'000</i>	Appreciation of investment properties at fair value <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Deferred income tax liabilities				
At 1 January 2016	132,742	311,362	13,374	457,478
(Credited)/Charged to the statement of profit or loss	(15,830)	107,895	14,031	106,096
At 31 December 2016	116,912	419,257	27,405	563,574
(Credited)/Charged to the statement of profit or loss	(4,851)	55,599	10,258	61,006
Transfer-out from unrealised losses arising from the intra-group transactions	–	–	(968)	(968)
At 31 December 2017	112,061	474,856	36,695	623,612

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

27 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future profits is probable. These tax losses are going to expire within five years.

As at 31 December 2017, deferred tax assets have not been recognised in respect of unused tax losses of RMB269,230,000 (31 December 2016: RMB127,994,000), as they have arisen in the Company and other holding companies, which executing administrative functions and to which employee benefit expense, office and management expense etc. are charged, these companies have been loss-making for some time, and it is not probable that taxable profits will be available against which such tax losses can be utilised.

Deferred income tax liabilities of RMB38,661,000 at 31 December 2017 (31 December 2016: RMB33,544,000) have not been recognised for the withholding tax and other taxes that would be payable on the undistributed earnings of certain subsidiaries. Undistributed earnings totalling RMB386,609,000 at 31 December 2017 (31 December 2016: RMB335,435,000) would be reinvested.

28 DEEMED DISPOSAL OF A SUBSIDIARY

On 26 July 2017, Jiangxi Capital (a wholly-owned subsidiary of the Company), Yulong Hengxin and Nanchang Huachuang entered into a capital injection agreement, pursuant to which Yulong Hengxin agreed to (i) subscribe RMB30,000,000 of the registered capital of Nanchang Huachuang with a consideration of RMB30,300,000; and (ii) repay the shareholder's loan due by Nanchang Huachuang to Jiangxi Capital.

On 16 August 2017, upon completion of above-mentioned transaction, 60% of equity interests of Nanchang Huachuang was held by Yulong Hengxin and accordingly Jiangxi Capital re-measured the fair value of its remaining 40% equity interests in Nanchang Huachuang, amounting to RMB31,409,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

28 DEEMED DISPOSAL OF A SUBSIDIARY (CONTINUED)

(a) FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION OF NANCHANG HUACHUANG:

	Period from 1 January 2017 to 16 August 2017 RMB'000	Year ended 31 December 2016 RMB'000
Selling and marketing expenses	(4,572)	(1,597)
Finance costs	(4)	(3)
Finance income	7	13
Loss before income tax	(4,569)	(1,587)
Income tax expense	1,142	397
Loss for the period/year	(3,427)	(1,190)
Net cash outflow from operating activities	(40,704)	(116,665)
Net cash outflow from investing activities	(8,591)	(33,041)
Net cash inflow from financing activities	175,265	152,071
Net increase in cash and cash equivalents	125,970	2,365

(b) DETAILS OF THE DISPOSAL WERE AS FOLLOWS:

	RMB'000
Fair value of net assets of Nanchang Huachuang upon injection by Yulong Hengxin	78,522
Remaining equity interests in Nanchang Huachuang held by Jiangxi Capital	40%
Fair value of net assets of Nanchang Huachuang held by Jiangxi Capital	31,409
Less:	
Net assets of Nanchang Huachuang held by Jiangxi Capital	(15,382)
Adjustment of realisation of intra-group transactions in previous years	(2,904)
Gain on disposal	13,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

28 DEEMED DISPOSAL OF A SUBSIDIARY (CONTINUED)

(c) THE CARRYING AMOUNTS OF ASSETS AND LIABILITIES AS AT THE DATE OF DISPOSAL WERE:

	At 16 August 2017 RMB'000
Investment properties	45,571
Property, plant and equipment	3
Deferred income tax assets	1,539
Cash and cash equivalent	98,035
Trade and other receivables and prepayments	4,339
Inventories	158,904
Total assets	308,391
Trade payables	(17,022)
Other payables and accruals	(275,987)
Total liabilities	(293,009)
Net assets	15,382
Outflow of cash upon disposal of a subsidiary, net of cash disposed	
Proceeds received in cash	-
Cash in subsidiary disposed of	(98,035)
Net cash outflow on disposal	(98,035)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

29 SHARE CAPITAL

	31 December 2017 RMB'000	31 December 2016 RMB'000
Authorised:		
Ordinary shares 20,000,000,000 (31 December 2016: 20,000,000,000) ordinary shares of HK\$0.01 each	160,009	160,009
Class A CPS 738,130,482 (31 December 2016: 738,130,482) CPS of HK\$0.01 each	5,875	5,875
Class B CPS 905,951,470 (31 December 2016: 905,951,470) CPS of HK\$0.01 each	7,575	7,575
	173,459	173,459
Issued and fully paid:		
Ordinary shares 961,538,462 (31 December 2016: 961,538,462) ordinary shares of HK\$0.01 each	7,828	7,828
Class A CPS 166,976,636 (31 December 2016: 166,976,636) CPS of HK\$0.01 each	1,329	1,329
Class B CPS 905,951,470 (31 December 2016: 905,951,470) CPS of HK\$0.01 each	7,575	7,575
	16,732	16,732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

30 CPS

CLASS A CPS

The class A CPS with a par value HK\$0.01 each were created as a new class of shares in the share capital of the Company on 22 January 2015. Upon the completion date of the business combination of Xin Kai on 22 January 2015, the Company issued 738,130,482 class A CPS (which are convertible into 738,130,482 ordinary shares of HK\$0.01 each in the share capital of the Company at HK\$2.66 each to be allotted and issued credited as fully paid by the Company upon the exercise of the conversion rights attaching to the class A CPS), resulting in credits to share capital of approximately RMB5,875,000 (equivalent to approximately HK\$7,381,000) with par value of HK\$0.01 each and share premium of RMB1,556,817,000 (equivalent to approximately HK\$1,956,046,000) respectively.

CLASS B CPS

The class B CPS with a par value HK\$0.01 each were created as a new class of shares in the share capital of the Company on 14 December 2016. Upon the completion date of the business combination of Chuangxin Jianye and Zhejiang Outlets on 14 December 2016, the Company issued 905,951,470 class B CPS (which are convertible into 905,951,470 ordinary shares of HK\$0.01 each in the share capital of the Company at HK\$2.78 each to be allotted and issued credited as fully paid by the Company upon the exercise of the conversion rights attaching to the class B CPS), resulting in credits to share capital of approximately RMB7,575,000 (equivalent to approximately HK\$9,060,000) with par value of HK\$0.01 each and share premium of RMB2,098,232,000 (equivalent to approximately HK\$2,509,485,000) respectively.

The above mentioned CPS shall be convertible at the option of its holder, without the payment of any additional consideration therefor, into such number of fully-paid ordinary shares at the conversion ratio of one CPS for one ordinary share. Holders of the CPS will have the right to convert all or such number of CPS into the new ordinary shares at any time after the issuance of the CPS, provided that they may not exercise the conversion rights as to such number of CPS the conversion of which would result in the Company not meeting the minimum public float requirement under Rule 8.08 of the Listing Rules. The CPS shall be non-redeemable by the Company or their holders.

Each class B CPS shall confer on its holder the right to receive a preferred distribution ("Preferred Distribution") from the date of the issue of class B CPS at a rate of 0.01% per annum on the issue price, payable annually in arrears. Each Preferred Distribution is non-cumulative, and the Company may, in its sole discretion, elect to defer or not to pay the Preferred Distribution.

Besides, each class A and class B CPS shall confer on the holder thereof the right to receive any dividend *pari passu* with holders of ordinary shares on the basis of the number of ordinary share(s) into which each CPS may be converted on an as converted basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

31 PCBS

On 28 December 2016, the Company issued PCBS in the principal amounts of HK\$657,594,260 to Smart Win and in the principal amounts of HK\$420,096,153 to KKR respectively, resulting in credits to PCBS of RMB945,197,000 after deducting the direct professional fee of RMB22,817,000.

The PCBS has no fixed maturity, and can be redeemed by the Company at any time after 30 years from the issuance date, in its sole and absolute discretion. The PCBS shall be convertible at the option of its holders, at the initial conversion price of HK\$2.10 per share, into a maximum of 513,185,911 new ordinary shares, provided that the holders of PCBS may not exercise the conversion rights whenever the conversion would result in the Company not meeting the minimum public float requirement under Rule 8.08 of the Listing Rules.

The holder(s) of the PCBS are entitled to a simple interest on the outstanding principal amount of the PCBS at a rate equal to 0.01% per annum on a non-cumulative basis, of which the Company shall have the right, exercisable in its sole discretion, to elect to defer the payment, with no interest accrued thereon. The Company shall not pay any dividends, distributions or make any other payment on the ordinary shares, class A CPS and class B CPS or other share capital of the Company unless at the same time it pays to the holders of the PCBS any deferred or unpaid interest payment. In the event that any dividend or distribution is paid on the ordinary shares, CPS (save and except for Preferred Distributions to be paid on the class B CPS at a rate which shall not exceed the rate of interest hereunder) or other share capital of the Company, the Company shall pay additional variable interest on the PCBS representing such dividend or distribution so paid in an aggregate amount equal to (a) the amount of such dividend or distribution per share multiplied by (b) the aggregate number of ordinary shares into which the PCBS then outstanding may be converted, in the same form and on the same date.

As at 31 December 2017, the Group has accrued interest amounting to RMB92,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

32 CASH FLOW INFORMATION

NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Net Debt		
Cash and cash equivalents (Note 22)	1,793,200	1,910,587
Borrowings due within 1 year (Note 23)	(660,000)	(855,000)
Borrowings due after 1 year (Note 23)	(2,545,000)	(765,000)
Guaranteed notes, due within 1 year (Note 24)	(1,326,329)	(28,438)
Guaranteed notes, due after 1 year (Note 24)	–	(1,295,519)
Net debt	(2,738,129)	(1,033,370)

Cash and cash equivalents	1,793,200	1,910,587
Gross debt – fixed interest rates	(2,516,329)	(1,523,957)
Gross debt – variable interest rates	(2,015,000)	(1,420,000)
Net debt	(2,738,129)	(1,033,370)

	Other assets		Liabilities from financing activities			Total RMB'000
	Cash and cash equivalents RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Guaranteed notes, due within 1 year RMB'000	Guaranteed notes, due after 1 year RMB'000	
Net debt as at 1 January 2016	1,798,522	(160,000)	(1,120,000)	(28,438)	(1,292,919)	(802,835)
Cash flows	95,699	(480,000)	140,000	(68,250)	–	(312,551)
Effect of foreign exchange rate changes	16,366	–	–	–	–	16,366
Other non-cash movements	–	(215,000)	215,000	68,250	(2,600)	65,650
Net debt as at 31 December 2016	1,910,587	(855,000)	(765,000)	(28,438)	(1,295,519)	(1,033,370)
Cash flows	(86,628)	575,000	(2,160,000)	(68,623)	–	(1,740,251)
Effect of foreign exchange rate changes	(30,759)	–	–	–	–	(30,759)
Other non-cash movements	–	(380,000)	380,000	(1,229,268)	1,295,519	66,251
Net debt as at 31 December 2017	1,793,200	(660,000)	(2,545,000)	(1,326,329)	–	(2,738,129)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

33 COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Contracted, but not provided for:		
Properties under development	265,023	178,535
Investment properties	203,920	663,646
Investment in Changsha Joy City	–	44,034
	468,943	886,215

34 FINANCIAL GUARANTEES

The Group had the following financial guarantees as at the end of the reporting period:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Mortgage facilities for certain purchasers of the Group's properties	1,397,714	1,397,075

As at 31 December 2017, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default on mortgage repayments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interests and penalties owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the property purchasers obtain the "property title certificate" which is then pledged with the banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

35 OPERATING LEASE ARRANGEMENTS**AS LESSOR**

The operating lease arrangements of the Group will negotiate for terms ranging from two to five 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 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December 2017 <i>RMB'000</i>	31 December 2016 <i>RMB'000</i>
Within one year	3,746	3,676
In the second to fifth years, inclusive	12,591	15,670
After five years	3,063	3,713
	19,400	23,059

AS LESSEE

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of two years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2017 <i>RMB'000</i>	31 December 2016 <i>RMB'000</i>
Within one year	11,094	10,304
In the second to fifth years, inclusive	-	8,379
	11,094	18,683

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

36 RELATED PARTY TRANSACTIONS

Apart from the transactions and balances disclosed elsewhere in the financial information, the Group had the following significant transactions with related parties during the reporting period:

(a) PROVISION OF SERVICES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Provision of services		
– Project management services for BCL	2,400	1,200

(b) PURCHASES OF SERVICES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Purchases of services		
– Sales agency service fee to an associate of BCL	–	5,174
– Rental expense to BCL	1,703	1,758
– Service fee for keepwell deed to Capital Group (i)	3,900	3,900
– Rental expense to a joint venture of BCL	7,972	8,390

- (i) As disclosed in Note 24, Capital Group and Rosy signed “Keepwell and Liquidity Support Deed” (“keepwell deed”). According to the agreement, Rosy issued RMB1.3 billion guaranteed notes. Rosy would pay Capital Group, as the Keepwell and Liquidity Support Deed provider to ensure the existence and good liquidity of the issuer, with an amount of 0.3% of the issued aggregate principal, amounted to RMB3,900,000 annually. Rosy recorded administration fee amounting to RMB3,900,000 during the current year. The service fee fall within the exemption for connected transactions pursuant to Rule 14A.90 of the Listing Rules.

(c) PURCHASE OF GOODS

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Purchase of goods from a subsidiary of BCL	32,266	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) YEAR-END BALANCES

	31 December 2017 RMB'000	31 December 2016 RMB'000
Prepayments to related parties		
– Capital Group (Note 21)	2,275	2,275
Trade payables		
– Fellow subsidiary	637	–
– An associate of BCL	–	4,497
	637	4,497
Other payables and accruals		
– BCL	1,668	1,799
Trade receivables due from related parties		
– BCL	3,600	1,200
– Fellow subsidiaries	2,279	–
	5,879	1,200

(e) KEY MANAGEMENT COMPENSATION

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kinds	9,493	4,095
Performance related bonuses	2,670	–
Pension scheme contributions	325	126
	12,488	4,221

Further details of directors' and the chief executive's emoluments are included in Note 10 and Note 11 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(f) LOANS DUE TO RELATED PARTIES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
BCL:		
At 1 January	640,114	–
Loans advanced during the year	–	662,000
Repayments during the year	(630,000)	(32,000)
Interest charged	22,704	10,114
Interest paid	(31,051)	–
At 31 December	1,767	640,114
Fellow subsidiaries:		
At 1 January	–	–
Loans advanced during the year	–	32,000
Repayments during the year	–	(32,000)
Interest charged	–	117
Interest paid	–	(117)
At 31 December	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(g) AMOUNTS DUE FROM RELATED PARTIES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
BCL:		
At 1 January	-	68,238
Amounts advanced during the year	-	5,592
Repayments during the year	-	(73,830)
At 31 December	-	-
Fellow subsidiaries:		
At 1 January	-	108,177
Amounts advanced during the year	122	-
Repayments during the year	-	(108,177)
At 31 December	122	-
An associate of BCL:		
At 1 January	-	-
Generated from disposal of a subsidiary	181,572	-
Repayments during the year	(119,928)	-
At 31 December	61,644	-

Amounts due from related parties were unsecured, interest free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(h) AMOUNTS DUE TO RELATED PARTIES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
BCL:		
At 1 January	–	1,036,831
Amounts advanced during the year	1,008	266,520
Repayments during the year	–	(1,303,351)
At 31 December	1,008	–
Fellow subsidiaries:		
At 1 January	16	5,499
Amounts advanced during the year	1	16
Repayments during the year	–	(5,499)
At 31 December	17	16
Non-controlling interests:		
At 1 January	–	–
Amounts advanced during the year	164,380	–
At 31 December	164,380	–

Amounts due to related parties were unsecured, interest free and repayable on demand.

- (i) As at 31 December 2016, Chuangxin Jianye acquired 1% of equity interests of Fang Shan with a consideration of RMB15,889,000 from a subsidiary of BCL, China Creative Properties Limited. Chuangxin Jianye has accrued related payables net of withholding tax, amounting to RMB15,167,000, which were paid in 2017.
- (j) As at 31 December 2017, BCL provided irrevocable guarantee for the bank borrowings of the Group amounted to RMB1,885,000,000 (31 December 2016: RMB540,000,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

37 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31 December 2017	31 December 2016
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	10	19
Amounts due from subsidiaries	845,070	666,070
	845,080	666,089
Current assets		
Trade and other receivables	144	259
Amounts due from subsidiaries	5,088,952	4,692,440
Cash and cash equivalents	31,618	996,006
	5,120,714	5,688,705
Total assets	5,965,794	6,354,794
LIABILITIES		
Current liabilities		
Trade payables	–	1
Other payables and accruals	645	29,011
Amounts due to subsidiaries	1,180,298	1,281,608
Amounts due to BCL	1,668	1,799
	1,182,611	1,312,419
Total liabilities	1,182,611	1,312,419
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	16,732	16,732
PCBS	945,289	945,197
Reserves	(a) 4,032,351	4,032,351
Retained earnings	(a) (211,189)	48,095
Total equity	4,783,183	5,042,375
Total equity and liabilities	5,965,794	6,354,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

37 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

(a) RESERVE MOVEMENT OF THE COMPANY

	Share premium account <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings/ (Accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2016	1,585,175	–	20,629	1,605,804
Issuance of ordinary shares	348,944	–	–	348,944
Issuance of class B CPS	2,098,232	–	–	2,098,232
Total comprehensive income for the year	–	–	27,466	27,466
At 31 December 2016	4,032,351	–	48,095	4,080,446
At 1 January 2017	4,032,351	–	48,095	4,080,446
Dividends payable to PCBS holders	–	–	(92)	(92)
Total comprehensive loss for the year	–	–	(259,192)	(259,192)
At 31 December 2017	4,032,351	–	(211,189)	3,821,162

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial period/years is set out below.

RESULTS

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000 (Restated)	Nine Months ended 31 December 2014 RMB'000	Year ended 31 March 2014 RMB'000
CONTINUING OPERATIONS					
REVENUE	511,523	997,931	893,872	–	–
Cost of sales	(286,369)	(783,723)	(660,919)	–	–
Gross profit	225,154	214,208	232,953	–	–
Fair value gains on investment properties	222,394	431,581	395,112	–	–
Other gains – net	48,295	17,214	3,219	–	–
Other income	142,888	12,011	179,529	–	–
Selling and marketing expenses	(99,675)	(102,235)	(100,351)	–	–
Administrative expenses	(160,290)	(122,521)	(104,971)	(35,055)	(9,091)
Gain on bargain purchase on acquisition of interests in subsidiaries	–	–	259,996	–	–
Operating profit	378,766	450,258	865,487	(35,055)	(9,091)
Finance costs	(111,676)	(95,518)	(115,905)	(212)	–
Share of loss of investment accounted for using the equity method	(694)	–	(602)	–	–
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	266,396	354,740	748,980	(35,267)	(9,091)
Income tax expense	(153,087)	(126,903)	(137,420)	–	–
PROFIT/(LOSS) FOR THE YEAR/ PERIOD FROM CONTINUING OPERATIONS	113,309	227,837	611,560	(35,267)	(9,091)
DISCONTINUED OPERATION					
Profit/(loss) for the year/period from discontinued operation	–	–	19,465	(13,556)	11,707
PROFIT/(LOSS) FOR THE YEAR/ PERIOD	113,309	227,837	631,025	(48,823)	2,616
Attributable to:					
Owners of the Company	113,159	227,273	631,025	(48,823)	2,616
Non-controlling interests	150	564	–	–	–
	113,309	227,837	631,025	(48,823)	2,616

FIVE-YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000 (Restated)	Nine Months ended 31 December 2014 RMB'000	Year ended 31 March 2014 RMB'000
TOTAL ASSETS	12,895,511	10,596,330	9,253,485	335,581	205,569
TOTAL LIABILITIES	(7,203,643)	(5,019,271)	(6,117,581)	(229,367)	(50,529)
NON-CONTROLLING INTERESTS	(4,294)	(2,644)	–	–	–
	5,687,574	5,574,415	3,135,904	106,214	155,040

The financial information of the Group for the nine months ended 31 December 2014, the year ended 31 March 2014 was not restated. The published results and the statement of assets and liabilities may not be comparable.