ZHONGTIAN
ZHONGTIAN INTERNATIONAL LIMITED
中天國際控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 02379)

* for identification purposes only

2017

Annual Report

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS
CHEN Dezhao *(Chairman)*
CHEN Jun (appointed on 2 November 2017)
ZHAO Yun (resigned on 2 November 2017)

INDEPENDENT NON-EXECUTIVE DIRECTORS
Chan Chak Kwan (appointed on 25 May 2017)
GUO Qiang (resigned on 25 May 2017)
CUI Haitao (appointed on 28 February 2018)
CHEN Wenping
LIU Jinlu

COMPANY SECRETARY
TAI Man Hin, Tony *(CPA)*

AUDIT COMMITTEE
CHEN Wenping *(Chairman)*
Chan Chak Kwan (appointed on 25 May 2017)
GUO Qiang (resigned on 25 May 2017)
CUI Haitao (appointed on 28 February 2018)
LIU Jinlu

REMUNERATION COMMITTEE
CHEN Wenping *(Chairman)*
CHEN Dezhao
Chan Chak Kwan (appointed on 25 May 2017)
GUO Qiang (resigned on 25 May 2017)
CUI Haitao (appointed on 28 February 2018)

NOMINATION COMMITTEE
CHEN Dezhao *(Chairman)*
CHEN Wenping
Chan Chak Kwan (appointed on 25 May 2017)
GUO Qiang (resigned on 25 May 2017)
CUI Haitao (appointed on 28 February 2018)

HONG KONG LEGAL ADVISORS
Loong & Yeung Solicitors

AUTHORISED REPRESENTATIVES
Chen Dezhao
Chen Jun

STOCK CODE
02379

COMPANY'S WEBSITE
www.irasia.com/listco/hk/zhongtian

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 1603, 16/F
China Building
29 Queen's Road Central
Hong Kong

AUDITOR
Crowe Horwath (HK) CPA Limited

PRINCIPAL BANKERS
China Construction Bank
No.3 branch, Shinan District, Qingdao
Hua Xia Bank
Nanjing Road Sub branch Qingdao
The Hongkong and Shanghai Banking Corporation Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

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

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
5th Floor, Block C
Zhongtian Building
No. 38 Shandongtou Road
Laoshan District
Qingdao City
Shandong Province
The People's Republic of China

CHAIRMAN’S STATEMENT

We believe that hard work will be rewarded and we shall strive forward with our initial ambitions.

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Zhongtian International Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”), I hereby present the annual results and the audited financial statements of the Group for the year ended 31 December 2017 (the “**Year**”).

In the Year, the Group was principally engaged in leasing of commercial properties, generating rental revenue of approximately RMB39,583,000, growing by 30.3% as compared to 2016. This result marks stability of the Group’s business with growth.

Throughout the Year, China’s economy remained largely stable with signs of improvement. Supported by better than expected recovery, the market vitality was continuously released, with increased stability, coordination and sustainability, achieving stable and healthy development. As for the real estate sector, the market was on a down trend due to more stringent regulations in 2017, with diverged performance of major indicators. In particular, land acquisitions have accelerated. The investments in property development were relatively stable, showing strong resilience. Sales growth was declining on a monthly basis, with price gains slowed down. The government has launched a series of policies and measures to strictly control risks associated with high housing prices, rapid housing price growth and asset bubbles.

The property of Qingdao Zhongtian Software Park Company Limited, an indirect wholly-owned subsidiary of the Company, is located at Jinjialing Financial Zone of Laoshan District, Qingdao City. It situates in the core of Qingdao’s pilot district for wealth management and financial comprehensive reformation, which is clustered by financial institutions, with an average annual growth of above 20% in financial industry in the past three years. The rental market for offices in the district continued to be strong. In 2017, 46% of Qingdao’s rental transactions came from Laoshan Business District, with a net absorption of more than 342,000 square meters. In the long run, the office property owned by the Group has a great potential for appreciation and development.

In the Year, along with the land transaction restriction policies across China, the project land at No. 877 Huihai Road, owned by Qingdao Zhongtian Enterprise Development Company Limited, an indirect wholly-owned subsidiary of the Company, began to unveil its value. The ancillary facilities surrounding the project land are being built, with Qingdao Hongdao High-Speed Rail Station 1.5 kilometers from the project expected to be open at the end of 2018. Meanwhile, the new Qingdao Jiaodong International Airport, which is located 18 kilometers away, is close to completion. It is expected to be completed in 2019, and the passenger throughput will reach 55 million passenger trips in 2025. As the surrounding area is currently under full development, the valuation of the project land is expected be rising rapidly in the next few years, and the Group will also prepare the construction plan for the project land accordingly in due course.

The Board remained confident and optimistic of the future prospect of the Group, and would promote the full optimization and reformation of internal governance. Looking into 2018, we will adhere to our initial ambitions and strive forward to create a more expansive prospect for the Group.

Zhongtian International Limited
Chen Dezhao
Chairman

26 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the Year, the Group was principally engaged in three business segments, namely trading, financial service and property.

Trading

Trading of intelligent electronic products and modern office furniture products became a business segment with fewer obstructions in the course of transition of the Group's operation towards diversification.

Meanwhile, as the competition in this business segment has been keen and the overall cost of customer development has been relatively high, this segment did not contribute revenue in the reporting period.

Financial Service

On 17 July 2017, Qingdao Zhongtian Enterprise Development Co., Ltd. ("Qingdao Zhongtian"), an indirect wholly-owned subsidiary of the Company, entered into a construction and procurement agreement with Qingdao Ruiding Energy Co., Ltd.*（青島瑞鼎能源有限公司）("Ruiding") and Qingdao Ruikangjie New Energy Material Co., Ltd.*（青島瑞康捷新能源材料有限公司）("Ruikangjie"), two independent third parties. Pursuant to the aforesaid agreement, as clarified by a supplemental agreement between Qingdao Zhongtian and Ruiding on 26 March 2018, Qingdao Zhongtian was appointed by Ruiding to provide financing services, for a period of 10 years, and to obtain a loan facility of RMB600,000,000 from a designated trust scheme for the purpose of financing the purchase consideration of materials and equipments, to be supplied by Ruikangjie, for construction of Ruiding's Natural Gas Project located in Qingdao. Under the aforesaid agreements, Ruiding shall bear all the obligations for the repayment of the loan principal, together with the interests accruing thereon, through Qingdao Zhongtian, to the trust scheme on 31 May 2020, 31 May 2021 and 31 May 2022, with each payment being not less than RMB200,000,000. Further details of the arrangements under the aforesaid agreements are set out in Note 15 to the consolidated financial statements. This business segment is expected to contribute a stable long-term revenue to the Group.

Property

After the renovation of its investment properties in the year of 2010 and further acquisition of new office premises in the year of 2016, the Group leased its commercial properties to generate rental revenue, and there was a comparatively stable and growing revenue generated from the property segment. Taking into account the improvements in local investment environment and the favourable conditions in the local commercial property market, the Board will continue to pay attention to the development of this segment and to identify and seek suitable opportunities for further investments.

As at 31 December 2017, the details of the investment properties of the Group are as follows:

(a) Completed Properties

Particulars	Location	Total approximate gross floor area	Approximate occupancy rate
Composite building with 11 commercial units, 24 office units and an underground storage unit	Laoshan District, Qingdao City, the PRC	12,499 sq.m.	99.9%
244 underground car parking spaces within a composite building	Laoshan District, Qingdao City, the PRC	10,250 sq.m.	N/A – leasing out at hourly basis
A storey in a commercial building	Shinan District, Qingdao City, the PRC	1,511 sq.m.	64%

All the commercial and office units in the composite building located at Laoshan District, Qingdao City, the PRC, have been leased out. A lease agreement has been entered into with a tenant by the Group with an initial period of 3 years. An underground storage with gross floor area of 14.82 sq.m. has not been rented out. 244 underground car parking spaces in the composite building have been rented out on an hourly basis to tenants and visitors to the composite building.

Most of the units in the storey in a commercial building located at the Shinan District, Qingdao City, the PRC have been leased out. Lease agreements have been entered into with the tenants by the Group with an initial period ranging from 3 to 10 years.

(b) Land under Development

The land of the Company which is under development is situated within the Chengyang District in Qingdao City, the PRC, with a site area of approximately 91,165 sq.m. which was planned as to 66% and 34% of its gross floor area for (i) wholesale and retail use and (ii) business and financial use, respectively. The management of the Company is still following up with the local government on the recent changes in the development plan around the area. A concrete plan of development of the land will be filed for domestic government's approval once the overall plan has been confirmed.

On 17 December 2017, the Group entered into a construction agreement with an independent third-party contractor to carry out construction works in relation to the land held as investment property under development at a total consideration of RMB150,000,000. As at 31 December 2017, the construction work has not yet been started and a prepayment of RMB45,000,000 has been paid to the contractor in accordance with the terms of the construction agreement. The construction works have been planned to be started in April 2018.

Taking into account the improvements in local investment environment and the favourable conditions in the local commercial property market, the Board will continue to pay attention to the development of this segment and seek suitable opportunities for further investments.

FINANCIAL REVIEW

Turnover

The Group's total turnover for the Year was approximately RMB43,429,000 (2016: approximately RMB31,414,000), representing an increase of approximately 118% as compared to the year of 2016. This was mainly attributable to the increase in rental income from the property segment and the service income from the financial service segment.

Other Income and Other Net Gains

The Group's other income and other net gains for the year were approximately RMB34,509,000 (2016: RMB6,179,000), representing an increase of approximately 458.5% as compared to the year of 2016. This was mainly attributable to interest income from loan receivable generated from the financial service segment.

Selling and Distribution Costs

During the Year, the Group postponed all marketing activities due to the lack of large-scale tender projects in the trading segment. There was no distribution cost in 2017 (2016: Nil).

General and Administrative Expenses

The Group's administrative expenses for the Year were approximately RMB21,715,000 (2016: approximately RMB14,789,000), representing an increase of approximately 46.8% as compared to the year of 2016. This was mainly attributable to the increase in the impairment of trade receivable and salary expenses during the Year.

Finance Costs

The Group's finance costs for the Year were approximately RMB40,130,000 (2016: RMB16,124,000), representing an increase of approximately 148.9% as compared to the year of 2016. This was mainly attributable to the increase in bank and other borrowings.

Net Profit

During the Year, the Group recorded a net profit of approximately RMB83,481,000, representing an increase of 46.6% as compared to the year of 2016 of approximately RMB56,944,000. The increase in net profit was mainly due to the increase in revenue and increase in fair value of investment properties.

BUSINESS REVIEW

Analysis by Business Segments

During the Year, the Group's principal source of income was derived from the property segment, which accounted for approximately 91.1% of the total turnover of the Group and the financial service segment contributed the remaining 8.9%. Sale of intelligent electronic products and modern office furniture products from the trading segment did not generate any revenue during the Year.

During the Year, all of the Group's income was derived from Shandong Province, the PRC, and accounted for 100% of the Group's total turnover.

FUTURE OUTLOOK

Commercial properties of the Group have commenced to generate stable and growing rental revenue and became a major source of income for the Group. On the other hand, the intelligent electronic products and modern office furniture business of the Group has been diminishing for several years and has shown a continuous drop in sales revenue and profit, and cannot contribute income to the Group. On the other hand, the new financial service segment involving clean energy will be the new growth factor to generate revenue for the Group. Besides, the Group has been actively conducting research, identifying and exploring local property business and other business domains with great potential growth in order to achieve a diversification of income source of the Group in the future.

DEBTS

As at 31 December 2017, the Group had secured bank and other borrowings of approximately RMB840,450,000 (2016: approximately RMB181,108,000). For details of the secured bank and other borrowings, please refer to note 22 to the consolidated financial statements in the annual report.

Save as disclosed above, the Group had no other debt securities that were issued, outstanding, approved or otherwise created but unissued, or term loans or other borrowings or debts of borrowing nature, including bank overdrafts, acceptance liabilities or acceptance credits, obligations under financing lease and mortgages.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's capital requirement represents mainly working capital in relation to the sale of intelligent electronic products and modern office furniture products, cost of supplies in the new energy material and equipment and related costs of business in relation to the property segment. The Group financed its operation and investment from its internal resources.

As at 31 December 2017, the Group had cash and bank balances of approximately RMB25,341,000 (31 December 2016: approximately RMB6,407,000), approximately 99% and 1% of which were held in RMB and HK$, respectively. The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was 217.6% (31 December 2016: 59.8%).

During the Year, the Group did not employ any material financial instrument for hedging purposes.

FOREIGN EXCHANGE

Since most of the revenue generated from the sale of products by the Group and the receipt of rental income and the payment for purchases of materials, components and equipment are in RMB, the Directors are of the opinion that the Group will have sufficient funds to meet its foreign exchange requirements. The Group did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates and did not adopt any currency hedging policy or other hedging instruments during the Year.

SUBSTANTIAL ACQUISITION AND DISPOSAL

There was no material acquisition and disposal of subsidiaries and associated companies by the Group during the Year.

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2017, leasehold land with carrying amount of approximately RMB3,550,000 (2016: RMB3,624,000), building with carrying amount of approximately RMB4,519,000 (2016: RMB4,613,000), and the investment properties with fair value of approximately RMB790,900,000 (2016: RMB689,570,000) and the entire paid-up capital of Qingdao Zhongtian Enterprise Development Company Limited are pledged for bank and other borrowings of the Group.

Save as disclosed above, the Group had no other material pledge of assets and contingent liabilities as at 31 December 2017.

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2017 and 2016 are as follows:

	2017 **RMB'000**	2016 RMB'000
Authorised but not contracted for	**33,038**	184,609
Contracted but not provided for	**107,917**	1,885

As at 31 December 2017 and 2016, the Group had authorised but not contracted for and contracted but not provided for capital commitments mainly for construction costs relating to the land held as investment property under development.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group had 27 employees (31 December 2016: 22 employees). Most of the Group's employees were based in the head office of the Group in Qingdao City of Shandong Province, the PRC.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses may be awarded to the employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the Year was approximately RMB2,803,000 (31 December 2016: approximately RMB1,961,000). The increase in staff cost in the Year as compared with 2016 was mainly attributable to the increase in number of staff for the new business.

FINAL DIVIDEND

The Directors do not recommend payment of any final dividend for the Year (2016: Nil).

REPORT OF THE DIRECTORS

The Board presents their report together with the audited financial statements of the Company and the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 23 to the consolidated financial statements on page 98 of the annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income. The Board does not recommend the payment of any dividend for the Year.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the Year are set out in note 14 to the consolidated financial statements on page 96 of the annual report.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 24 to the consolidated financial statements on page 107 of the annual report.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 42 of the annual report.

As at 31 December 2017, the Company had reserves available for distribution to shareholders of approximately RMB235,117,000 (2016: RMB236,321,000).

BUSINESS REVIEW

Further discussion and analysis of the business of the Company, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the business of the Group, can be found in the section headed "Management Discussion and Analysis" as set out on pages 5 to 10 of the annual report. These discussions form part of this report of the Directors.

ENVIRONMENTAL POLICIES

The Group is devoted to promoting and maintaining the environmental and social sustainable development of the regions where it operates. As a responsible enterprise, the Group is in compliance with all the material laws and regulations in terms of the environmentally friendliness, health and safety, adopts effective measures, conserves energy and reduces waste.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Our establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the Year and up to the date of this report, as far as the Company is concerned, except for the breach of Listing Rules 13.13 and 13.15 regarding a major transaction of financial assistance as disclosed in the announcement of the Company dated 25 March 2018, there was no material breach or non-compliance with applicable laws and regulations by the Group that has a significant impact on business and operations of the Group. The Directors consider such non-compliance has no significant impact on the Group's business and will make further announcement when necessary.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors recognize that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners and improving the quality of services to the customers.

Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated and its workers are provided with regular training courses on sales and marketing. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for last five financial years is set out on page 125 of the annual report.

DIRECTORS

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

Executive Directors

Mr. Chen Dezhao
Mr. Chen Jun (appointed on 2 November 2017)
Mr. Zhao Yun (resigned on 2 November 2017)

Independent non-executive Directors

Mr. Chen Wenping
Mr. Liu Jinlu
Mr. Guo Qiang (resigned on 25 May 2017)
Ms. Chan Chak Kwan (appointed on 25 May 2017)
Mr. Cui Haitao (appointed on 28 February 2018)

Each of Mr. Chen Wenping, Mr. Chen Jun, Ms. Chan Chak Kwan and Mr. Cui Haitao will retire from office as Directors at the forthcoming annual general meeting of the Company.

Each of Mr. Chen Jun, Ms. Chan Chak Kwan and Mr. Cui Haitao, being eligible, offer themselves for re-election pursuant to Article 87 of the Articles of Association of the Company (the "**Articles**") whereas, Mr. Chen Wenping had indicated to the Board that he will not offer himself for re-election.

DIRECTORS' SERVICE CONTRACT

Mr. Chen Dezhao, an executive Director, has entered into a service contract on 25 May 2017 with the Company for a term of one year and ending at the conclusion of the forthcoming annual general meeting of the Company.

Mr. Chen Jun, an executive Director, has entered into a service contract on 2 November 2017 with the Company for a term of one year subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's articles of association.

The three independent non-executive Directors, namely Ms. Chan Chak Kwan, Mr. Chen Wenping and Mr. Liu Jinlu, have respectively entered into a service contract with the Company for a term of one year commencing on 25 May 2017 subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's articles of association.

Mr. Cui Haitao, the, independent non-executive Director has entered into a Director's service agreement with the Company for a period of 1 year with effect from 28 February 2018, subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's articles of association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Directors

Executive Directors

Mr. Chen Dezhao (陳德昭) ("**Mr. Chen DZ**"), aged 75, has extensive experience in human resources, management and administration. Mr. Chen DZ was enlisted to serve in the army in August 1963 and he left the army in December 1982. From 1982 to 2002, he took up various important positions in Shandong Province Branch, the Bank of China (中國銀行山東省分行) including the chief of the department of human resources, vice chairman of the bank association (公會副主席) and the director of the staff education and research committee of the China financial system (中國金融系統職工教育研究會理事).

In addition, Mr. Chen DZ has been qualified as an economist and as a senior government affair advisor (高級政工師) since 10 December 1990 and 1 December 1996 respectively by the Bank of China. Mr. Chen DZ was appointed as an executive Director on 29 May 2015. He is the father of Mr. Chen Jun.

Mr. Chen Jun (陳軍), aged 45, is a director, general manager and legal representative of each of 青島中天源網路科技有限公司(formerly known as Qingdao Hai Yi Commercial Management Company Limited* (青島海逸商業管理有限公司)), Success Advantage Limited (成益有限公司), and Qingdao Hai Yi Investment and Consultancy Company Limited* (青島海逸投資諮詢有限公司), all of which are wholly-owned subsidiaries of the Company.

Mr. Chen Jun was graduated from the People's Republic of China's Marine and Submarine College (中國人民解放軍海軍潛艇學院). Mr. Chen Jun is also the visiting professor and instructor of Master students of Qingdao Technological University (青島理工大學), School of Civil Engineering. Mr. Chen Jun has over 15 years of experience in corporate planning and management. Mr. Chen Jun was appointed as an executive Director on 2 November 2017. He is the son of Mr. Chen DZ.

Independent non-executive Directors

Mr. Cui Haitao (崔海濤) ("**Mr. Cui**"), aged 46, graduated from the Shandong Foreign Trade Vocational College (山東外貿學院) in 1993, majoring in finance and accounting. He obtained his certified public accountant qualification from the Shandong Institute of Certified Public Accountants (山東省註冊會計師協會) in 2003. He has over 20 years of accounting and finance experience. Since 2002, Mr. Cui has been a department head of Qingdao Zhongxunzhitong Limited Liability Accounting Firm* (青島仲勳志同有限責任會計師事務所).

Mr. CHEN Wenping (陳文平) ("**Mr. Chen WP**"), aged 45, is an independent non-executive Director and was graduated from the Shandong Academy of Economy (山東經濟學院), majoring in finance in 1998 and was qualified as a PRC lawyer in 2001. Mr. Chen WP has extensive experience in accounting and financial management. He had worked for 山東匯德會計師事務所有限公司 (Shandong Huide Accounting Firm Co., Ltd.) for 3 years as a practicing accountant and valuer. He is currently the accountant in charge of 東莞華利聯合會計師事務所 (Dongguan Huali United Accounting Firm). Mr. Chen WP was appointed as an independent non-executive Director since 29 May 2007.

Mr. LIU Jinlu (劉金祿) ("**Mr. Liu**"), aged 56, is an independent non-executive Director and was graduated from the Beijing Sport University (北京體育大學). Mr. Liu was the deputy head of 北京金鼎木製品廠(Beijing Jinding Muzhipin Factory) from 1983 to 1998 and has been the general manager of 北京天頌三佳緣商貿中心(Beijing Tiansong Sanjiayuan Commercial Centre) since 1998. Mr. Liu was appointed as an independent non-executive Director since 20 May 2010.

Ms. Chan Chak Kwan (陳澤群) ("**Ms. Chan**"), aged 52, was graduated from Wuhan University of Technology. She has been working at Fairly Capital Company since July 2004. Prior to joining Fairly Capital Company, she worked at the Beijing branch of China National Technical IMP & EXP Corp and JC Premier Capital Limited and was mainly responsible for reorganisation and investment projects of companies in the People's Republic of China (the "PRC"). Ms. Chan has over 20 years of management experience in the financial and corporate sector in both the PRC and Hong Kong. She specializes in corporation business development for the PRC companies in support of their financing and listing. Due to Ms. Chan's years of experience in market development and corporate financial in the PRC, she has maintained a good relationship with foreign and domestic investors, investment banks, government departments and various advisory agencies. Ms. Chan is currently the chairlady of Hong Kong Association of Women Business Owners.

Save as disclosed above, there are no relationships among the members of the Board.

DIRECTORS' REMUNERATION

The Directors' fees are subject to the approval of the shareholders of the Company (the "**Shareholders**") at general meetings. Other emoluments are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group. In addition, the Directors' remuneration is reviewed by the remuneration committee of the Company (the "**Remuneration Committee**") annually. Details of the Director's remuneration are set out in note 10 of the consolidated financial statements on pages 90 to 91 of the annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, interests or short positions in the shares of the Company (the "**Shares**"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) held by the Directors and chief executive of the Company which have been 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 were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") are as follows:

Long position in Shares

Name of Directors	Capacity	Number of Shares interested/held	Approximate percentage of Shareholding
Chen Jun	Beneficial owner	5,525,000	1.35%
	Interest of a controlled corporation (Note 1)	108,042,781	26.34%
	Interest of a controlled corporation (Note 2)	124,000,000	30.23%

Notes:

(1) Fine Mean Investments Limited is wholly-owned by Mr. Chen Jun. Mr. Chen Jun is the sole director of Fine Mean Investments Limited. As such, Mr. Chen Jun is deemed, or taken to be, interested on all the Shares held by Fine Mean Investments Limited for the purposes of the SFO.

(2) Vast Yield Holdings Limited is wholly-owned by Mr. Chen Jun. Mr. Chen Jun is the sole director of Vast Yield Holdings Limited. As such, Mr. Chen Jun is deemed, or taken to be, interested on all the Shares held by Vast Yield Holdings Limited for the purposes of the SFO.

Save as disclosed above, as at 31 December 2017, none of the Directors nor chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2017, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept pursuant to section 336 of the SFO:

Long position in Shares and underlying Shares of the Company

Name of substantial Shareholder	Capacity	Number of Shares interested/held	Approximate shareholding percentage
Fine Mean Investments Limited	Beneficial owner	108,042,781	26.34%
Vast Yield Holdings Limited	Beneficial owner	124,000,000	30.23%
Ms. Su Haiqing *(Note 1)*	Interest of spouse	237,567,781	57.91%
Zhongtai Securities Company Limited *(Note 2)*	Security interest	232,042,781	56.57%
Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP) *(Note 3)*	Security interest	232,042,781	56.57%
Zhongtai International Asset Management Limited *(Note 4)*	Security interest	232,042,781	56.57%

Notes:

(1) Ms. Su Haiqing is the spouse of Mr. Chen Jun. Under the SFO, Ms. Su Haiqing is deemed or taken to be interested in all the Shares in which Mr. Chen Jun has, or is deemed to have, an interest for the purpose of the SFO.

(2) According to the disclosure of interest notice filed by Zhongtai Securities Company Limited on 5 May 2017, it had a security interest of 232,042,781 Shares. According to the notice, Zhongtai Securities Company Limited owned 100% equity interest in Zhongtai Financial International Limited, which in turn owned 100% equity interest in Zhongtai Financial Investment Limited. 108,042,781 Shares held by Fine Mean Investments Limited and 124,000,000 Shares held by Vast Yield Holdings Limited were charged to Zhongtai Financial Investment Limited. According to the disclosure of interest notice filed by Zhongtai Securities Company Limited on 23 January 2018, it ceased to have a security interest in the 232,042,781 Shares.

(3) According to the disclosure of interest notice filed by Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP) on 23 January 2018, it had a security interest of 232,042,781 Shares.

(4) According to the disclosure of interest notice filed by Zhongtai International Asset Management Limited on 23 January 2018, it had a security interest of 232,042,781 Shares.

Save as disclosed above, as at 31 December 2017, the Company had not been notified of any substantial Shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares in the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" below, no Director during the Year had a beneficial interest, either direct or indirect, in any contract of significance (as defined in Appendix 16 to the Listing Rules) to which the Company, its holding company or any of its subsidiaries was a party at the end of the Year or at any time during the Year.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 167 of the Articles, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. In addition, the Company has maintained appropriate Directors' liability insurance coverage for the Directors during the Year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the sections headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and "Share Option Scheme" below, at no time during the Year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective associates to acquire such rights in any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's purchases and turnover attributable to major suppliers and customers are as follows:

	2017	2016
	%	%
Percentage of purchases:		
From the largest supplier	**100.0%**	38.9%
From the five largest suppliers	**100.0%**	90.7%
Percentage of turnover:		
From the largest customer	**88.1%**	92.6%
From the five largest customers	**99.2%**	99.5%

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 Group's five largest customers nor suppliers.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at 31 December 2017, the Directors were not aware of any business or interest of the Directors and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of this report.

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

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre emptive rights under the Articles and the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions

The Group has entered into a leasing agreement (the "**Leasing Agreement**") with an associate of Mr. Chen Jun, a controlling shareholder of the Company. The term of the Leasing Agreement is from 1 January 2017 to 31 December 2017. Accordingly, the Leasing Agreement constituted a continuing connected transaction. Pursuant to the Leasing Agreement, a vehicle would be leased to the Group for its business purpose. The Leasing Agreement was fully exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements as they were on normal commercial terms and all of the applicable ratios were, in aggregate, on an annual basis, less than 5% and the annual consideration was less than HK$1,000,000. Further details of the Leasing Agreement are disclosed under note 30 to the consolidated financial statement on page 112 of the annual report.

The Directors consider that those material related party transactions disclosed in Note 30 to the financial statements did not fall or were fully exempted under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules, and hence are not required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

CORPORATE GOVERNANCE

The corporate governance practices of the Group are based on the principles and the code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules. The Company has complied with all the code provisions as set out in the Code during the Year except for the following deviations:

Code Provision A.6.7 of the Code provides that independent non-executive Directors and other non-executive Directors should attend general meetings. Code Provision E.1.2 of the Code also provides that the chairman of the Board should attend the annual general meeting. Further, it provides that the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. In addition, the chairman of the Board should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting.

Mr. Chen Wenping, Mr. Guo Qiang and Mr. Liu Jinlu, each being an independent non-executive Directors, and Mr. Chen Dezhao, an executive Director and the chairman of the Board, were unable to attend the annual general meeting of the Company held on 25 May 2017, respectively, due to other business commitments or unexpected engagements. Mr. Zhao Yun, an executive Director and who took the chair at the aforesaid annual general meeting of the Company, was of sufficient calibre and knowledge for answering questions at these general meetings.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the Code.

The details of Group's compliance with the Code is set out in the Corporate Governance Report from pages 22 to page 32 of the annual report.

ANNUAL GENERAL MEETING AND BOOK CLOSURE

The annual general meeting of the Company will be held on 25 May 2018 at 10:30 a.m. at 3/F, Block C, Zhongtian Building, 38 Shandongtou Road, Laoshan District, Qingdao City, Shandong Province, the PRC.

The transfer books and the register of members of the Company will be closed from 21 May 2018 to 25 May 2018, both days inclusive. During such period, no Share transfers will be effected. In order to qualify for attending the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 18 May 2018.

SIGNIFICANT EVENTS AFTER REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2017 and up to the date of this report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2017 have been audited by Crowe Horwath (HK) CPA Limited ("**Crowe Horwath**"). Crowe Horwath will retire as auditor at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re appointment. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Crowe Horwath as the auditor of the Company.

On behalf of the Board

Chen Dezhao
Chairman

Hong Kong, 26 March 2018

CORPORATE GOVERNANCE REPORT

The corporate governance practices of the Group are based on the principles and the code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules. The Company has complied with all the code provisions as set out in the Code during the Year except for the following deviations:

Code Provision A.6.7 of the Code provides that independent non-executive Directors and other non-executive Directors should attend general meetings. Code Provision E.1.2 of the Code also provides that the chairman of the Board should attend the annual general meeting. Further, it provides that the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. In addition, the chairman of the Board should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting.

Mr. Chen Wenping, Mr. Guo Qiang and Mr. Liu Jinlu, each being an independent non-executive Directors, and Mr. Chen Dezhao, an executive Director and the chairman of the Board, were unable to attend the annual general meeting of the Company held on 25 May 2017, respectively, due to other business commitments or unexpected engagements. Mr. Zhao Yun, an executive Director and who took the chair at the aforesaid annual general meeting of the Company, was of sufficient calibre and knowledge for answering questions at these general meetings.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the Code.

The key corporate governance practices of the Group are summarised as follows:

BOARD OF DIRECTORS

Composition

The Board includes two executive Directors and four independent non-executive Directors.

Executive Directors

Chen Dezhao *(Chairman)*
Chen Jun *(Chief Executive Officer)* (appointed on 2 November 2017)
Zhao Yun (resigned on 2 November 2017)

Independent Non-executive Directors

Chen Wenping
Liu Jinlu
Guo Qiang (resigned on 25 May 2017)
Chan Chak Kwan (appointed on 25 May 2017)
Cui Haitao (appointed on 28 February 2018)

More than one third of the Board is independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of the Directors.

There is no financial, business, family or other material/relevant relationship among the members of the Board, in particular, between the Chairman of the Board and the Chief Executive Officer. The independent non-executive Directors, namely Ms. Chan Chak Kwan, Mr. Chen Wenping and Mr. Liu Jinlu, have respectively entered into a service contract with the Company for a term of one year commencing on 25 May 2017. Mr. Cui Haitao, the, independent non-executive Director has entered into a Director's service agreement with the Company for a period of 1 year with effect from 28 February 2018. All the independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles.

At each annual general meeting, one third of the Directors are required to retire from office. Each Director shall retire from office once every three years. The Directors to retire in every year shall be those appointed by the Board during the Year and those who have been longest in office since their last election or re election. New Directors appointed by the Board during the Year shall retire and submit themselves for re election at the annual general meeting immediately following their appointments.

Under Code provision A.4.3, if an independent non-executive Director serves more than 9 years, his/her further appointment should be subject to a separate resolution to be approved by the Shareholders. As such, although Mr. Chen Wenping has been serving as an independent non-executive Director for more than nine years, the Board considers that Mr. Chen Wenping is a person of integrity and independent in judgement and character. He is independent of management and free from any business or other relationships or circumstances which could materially interfere with the exercise of his independent judgement. The Board considers that Mr. Chen Wenping meets the independent guidelines set out in Rule 3.13 of the Listing Rules, and is of the view that her independence is not affected by his long service with the Company.

Each of Mr. Chen Wenping, Mr. Chen Jun, Ms. Chan Chak Kwan and Mr. Cui Haitao will retire from office as Directors at the forthcoming annual general meeting of the Company.

Mr. Chen Jun, Ms. Chan Chak Kwan and Mr. Cui Haitao, being eligible, offer themselves for re election pursuant to Article 87 of the Articles, whereas, Mr. Chen Wenping had indicated to the Board that he will not offer himself for re-election.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to the requirements of the Listing Rules. The Group considers all independent non-executive Directors to be independent in accordance with the Listing Rules.

Save as disclosed in the section headed "Directors' and Senior Management's Biographies" in this report, all members of the Board have no relationship with each others.

BOARD MEETINGS

The Board meets regularly. In addition to regular meetings, it meets as and when warranted by particular circumstances. A record of the Directors' attendance at the Board meetings and general meeting(s) are set out as follows:

	Attendance/ Number of Board Meetings	**Attendance/ Number of General Meetings**
Executive Directors		
Chen Dezhao *(Chairman)*	5/5	0/1
Zhao Yun (resigned on 2 November 2017)	4/4	1/1
Chen Jun (appointed on 2 November 2017)	0/0	0/0
Independent Non-executive Directors		
Chen Wenping	5/5	0/1
Liu Jinlu	5/5	0/1
Guo Qiang (resigned on 25 May 2017)	3/3	0/1
Chan Chak Kwan (appointed on 25 May 2017)	3/3	0/0

Board responsibilities and delegation

The Board is responsible to the Shareholders for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the annual development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system and supervising and managing management's performance.

Regarding our Group's corporate governance, during the Year, the Board had performed the duties following:

- reviewed the policies and practices on corporate governance of the Group and made recommendations;
- reviewed and monitored the training and continuous professional development of Directors and senior management;
- reviewed and monitored the Group's policies and practices on compliance with legal and regulatory requirements;

- reviewed and monitored the code of conduct applicable to the Directors and employees; and
- reviewed the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

CORPORATE GOVERNANCE REPORT

The Board delegates the day to day management, administration and operation of the Group to the management. The delegated functions are reviewed by the Board periodically to ensure they remain appropriate to the needs of the Group. The Board gives clear directions to the management as to the matters that must be approved by the Board before decisions are made on behalf of the Group by the management.

CHAIRMAN AND CHIEF EXECUTIVE

The Group understands that the role of the chairman of the Board and chief executive of the Company shall have clear division of responsibilities. The Group has appointed a separate chairman and chief executive officer of the Company since 2007. The two positions are assumed by different persons, in order to ensure that their independence, accountability and power are clear. Mr. Chen Dezhao, the Chairman, is responsible for the operation of the Board and the formulation of the Group's strategies and policies. Mr. Chen Jun, the chief executive officer of the Company, with the assistance of other members of the Board and senior management, is responsible for the management of the Group's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation. The chairman ensures that all Directors are properly briefed on issues arising at the Board meetings and receive adequate, complete and reliable information in a timely manner.

COMPANY SECRETARY

Mr. Tai Man Hin, Tony ("Mr. Tai"), CPA, an external service provider, has been engaged by the Company as its Company Secretary. His primary contact person at the Company is Mr. Chen Jun, the executive Director. During the Year, Mr. Tai has satisfied the requirements in respect of receiving professional trainings under Rule 3.29 of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and all the Directors have confirmed that they had complied with such code of conduct during the Year.

DIRECTOR'S CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

All Directors are encouraged to and had confirmed that they had complied with the Code Provision A.6.5 of the Code during the Year, that all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged an in house training on the Listing Rules and the Code for Directors in the form of a seminar with provision of training materials compiled by the legal adviser. All Directors had attended the in-house training. The training covered disciplinary matters on breach of the Listing Rules and requirements on disclosure of insider information under the Listing Rules.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") on 25 April 2005. As at the date of this report, the Remuneration Committee comprised an executive director, namely Mr. Chen Dezhao, and two independent non-executive directors, namely Mr. Chen Wenping and Mr. Guo Qiang. Mr. Chen Wenping is the chairman of the Remuneration Committee.

The written terms of reference of the Remuneration Committee adopted by the Board are in line with the Code and are available on the Company and the Stock Exchange's websites.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Group's policy and structure for the remuneration of Directors, reviewing and making recommendations on their specific remuneration package by reference to market conditions, performance of the Group and corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee held one meeting during the Year and all the members have attended to review the Group's remuneration policy and approved the terms of executive Directors' service contracts. During the Year, the Board as a whole has determined the remuneration policy and packages of the Directors. No individual Director was allowed to participate in the procedures for deciding his/her individual remuneration package.

A record of the members' attendance at the Remuneration Committee's meeting is set out as follows:

Members of Remuneration Committee	**Attendance/ Number of Meetings**
Chen Wenping *(Chairman)*	3/3
Chen Dezhao	3/3
Guo Qiang (resigned on 25 May 2017)	2/2
Chan Chak Kwan (appointed on 25 May 2017)	1/1

The Remuneration Committee held one meeting during the Year and members of the Remuneration Committee had performed the following duties:

- consulted the chairman of the Board and/or chief executive about their remuneration proposals for other executive Directors. The Remuneration Committee has access to independent professional advice if necessary;
- made recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewed and approved the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- reviewed and approved the terms of executive Directors' service contracts;
- made recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- made recommendations to the Board on the remuneration of non-executive Directors; and
- considered salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company and its subsidiaries.

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management recognise the responsibility of safeguarding the interest of Shareholders and provide transparent and real time information on the Company so as to keep the Shareholders and investors abreast of the Company's position and help them to make the best investment decision. The Company believes that maintaining good and effective communication with shareholders can facilitate the Shareholders' understanding of the business performance and strategies of the Group. The Board and senior management also recognise the responsibility of safeguarding the interest of the Shareholders. In order to safeguard the Shareholders' interest, information of the Company and the Group are delivered to the Shareholders through a number of channels, which includes annual reports, interim reports, announcements and circulars. The latest information of the Company and the Group together with the published documents are also available on the Company's website.

The Company holds annual general meeting every year as an appropriate media for direct communication between the Board and the Shareholders. Shareholders can raise questions directly to the Board in respect of the business performance and future development of the Group at such annual general meetings.

SHAREHOLDER'S RIGHTS

Procedures for putting forward proposals at general meeting by Shareholders

In accordance with the requirements under Article 58 of the Articles, extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to Article 88 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The minimum length of the period, during which the notices required under the Articles will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Attention: Mr. Tony Tai, Zhongtian International Limited
5th Floor, Block C, Zhongtian Building, No. 38 Shandongtou Road
Laoshan District, Qingdao City, Shandong Province
The People's Republic of China

Shareholders' enquiries and concerns are forwarded to the Board and/or relevant Board committees of the Company, where appropriate, to answer the Shareholders' questions.

INVESTOR RELATIONS

During the Year, the Company did not make any changes to the Memorandum of Association of the Company and the Articles and the current version of which is available on the websites of the Stock Exchange and the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the responsibility to maintain appropriate and effective risk management and internal control systems in order to safeguard the interest of the Group and the Shareholders, and to review and monitor the effectiveness of the internal control and risk management systems on a regular basis to ensure that the systems in place are adequate.

The Group's risk management and internal control systems comprise, among others, the relevant financial, operational and compliance controls and risk management procedures, a well-established organisational structure with clearly defined lines of responsibility and authority. Each department is accountable for its daily operations and is required to implement the business strategies and policies adopted by the Board from time to time.

The internal audit department of the Company supported the Board and the Audit Committee in reviewing the effectiveness of risk management and internal control systems and performed its functions during the year following an annual audit plan and submitting their reports of their findings to the Board and the Audit Committee at the meetings. The Audit Committee provides independent review on effectiveness of the risk management and internal control systems of the Group and gives their recommendation to the Board. The Board is responsible for reviewing the internal audit report and approving policies and procedures designed by the management.

The Board conducted a review and assessment of the effectiveness of the Group's risk management and internal control systems and procedures during the financial year ended 31 December 2017 by way of discussions with the management of the Group, members of the Audit Committee and the external independent auditor. The Board considered major investigation findings of the external consultant on risk management and internal control matters and management's response to these findings.

The Board believes that the existing risk management and internal control systems are adequate and effective. The Board also reviewed the resources, qualification and experience of staff of the Group's accounting and financial reporting function and their training schemes and budget and was satisfied with their adequacy.

The Board also assessed the effectiveness of the Group's internal audit function and external audit process, and satisfied itself, through the work of its Audit Committee, that the internal audit function is adequately resourced and is effective at providing assurance to the Board on the relevant risks faced by the Company, and that the external audit process is effective.

The Company has its inside information policy and dissemination procedure, and has regularly reminded its Directors and employees about due compliance with all policies regarding the inside information. Pursuant to the relevant procedures, after an employee is aware of any information which may constitute an inside information, he/she should report to his/her department head or the management of the Group. Upon the Directors and management of the Group having confirmed such information is an inside information, they shall ensure such inside information be kept confidential until the disclosure of such information is appropriately approved, and the dissemination of such information should be efficiently and consistently made. The Company keeps its Directors and employees appraised of the latest regulatory updates in order to ensure the compliance with the regulatory requirements.

AUDITOR’S REMUNERATION

The remuneration paid or payable to the external auditor of the Group in the year of 2017 comprised fees for audit services of approximately RMB607,000.

AUDIT COMMITTEE

The Audit Committee is primarily responsible for reviewing and supervising the financial reporting process and internal control system of the Group as well as external auditor of the Group.

The Audit Committee held two meetings during the Year to review the financial results and reports (including the interim results of the Group for the six months ended 30 June 2017). Policies in relation to financial controls, internal controls, risk management systems of the Group, and the retirement and appointment of the external auditor were reviewed by the Audit Committee at the meetings. The Audit Committee has reviewed this annual report and confirmed that this annual report is complete, accurate and complies with all applicable rules and regulations, including but not limited to the Listing Rules and the Code. There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor.

The Audit Committee comprises three independent non-executive Directors. A record of the Directors’ attendance at the Audit Committee’s meetings is set out as follows:

Members of the Audit Committee	**Attendance/ Number of Meetings**
Chen Wenping *(Chairman)*	2/2
Liu Jinlu	2/2
Guo Qiang (resigned on 25 May 2017)	1/1
Chan Chak Kwan (appointed on 25 May 2017)	1/1

During the Year and up to the date of this report, members of the Audit Committee had performed the following duties:

- reviewed and approved the annual results of the Group for the year ended 31 December 2017 and the interim results of the Group for the six months ended 30 June 2017;
- made recommendations to the Board on the appointment of the Company’s external auditor, and approved the remuneration and terms of engagement of the Company’s external auditor;
- reviewed and monitored the Company’s external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

- monitored the integrity of the Company's financial statements and annual report and accounts, half year report and reviewed significant financial reporting judgements contained in them;
- discussed with the Company's external auditors questions and doubts arising in audit of interim and annual accounts;
- reviewed the letter to the Company's management from the Company's external auditors and the management's response;
- reviewed the statement about the Company's internal control system which included in this annual report prior to submission for the Board's approval;
- reviewed the Company's financial reporting, financial controls, internal control and risk management systems;
- discussed the risk management and internal control system with the Company's management to ensure that management has performed its duty to have an effective internal control system;
- considered major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- ensured that the Company's internal audit function is adequately resourced and had appropriate standing within the Company, and reviewed and monitored its effectiveness;
- reviewed the financial and accounting policies and practices of the Group;
- reviewed the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- ensured that the Board had provided a timely response to the issues raised in the external auditor's management letter; and
- reviewed the new terms of reference of the Audit Committee and provided advice thereon to the Board and enhanced the function of supervising risk management system of the Company in accordance with the amendments to the Code and Corporate Governance Report made by the Stock Exchange, which is applicable to the accounting period beginning from 1 January 2017.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the Year. The auditor of the Company acknowledge their reporting responsibilities in the auditor's report on the financial statements for the Year. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") on 28 March 2012, which comprises an executive Director, namely Mr. Chen Dezhao, and two independent non-executive Directors, namely Mr. Chen Wenping and Mr. Guo Qiang. Mr. Chen Dezhao shall act as the chairman of the Nomination Committee. The main function of the Nomination Committee is to identify appropriate individuals qualified to become Board members and to provide advice to the Board in respect of nominating such persons to the Board.

In August 2013, the Board has adopted its board diversity policy. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

A record of the members' attendance of the first meeting of the Nomination Committee during the year ended 31 December 2017 is set out as follows:

Members of the Nomination Committee	**Attendance/ Number of Meetings**
Chen Dezhao *(Chairman)*	3/3
Chen Wenping	3/3
Guo Qiang (resigned on 25 May 2017)	2/2
Chan Chak Kwan (appointed on 25 May 2017)	1/1

The written terms of reference of the Nomination Committee are in line with the Code, and are available on the Company and the Stock Exchange's websites.

During the Year, the Nomination Committee has performed the following duties:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identified individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- assessed the independence of independent non-executive Directors; and

- made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive of the Company.

INDEPENDENT AUDITOR'S REPORT

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZHONGTIAN INTERNATIONAL LIMITED
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Zhongtian International Limited (the "Company") and its subsidiaries (the "Group") set out on pages 40 to 124, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as 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 (the "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 the Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which indicates that the Group had net current liabilities of approximately RMB112,490,000 as of 31 December 2017. Chen Jun, the ultimate controlling party and an executive director of the Company, has provided an irrevocable undertaking of making adequate funds to the Group to enable it to meet its debts as and when they fall due and to carry on its business as a going concern in the foreseeable future. This condition, along with other matters as set forth in note 1, indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for 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.

The key audit matter	How our audit addressed the key audit matter
(a) Recoverability of loan and other receivables, and interest receivable	
(Refer to notes 2(i)(i), 4, 5(b)(vi), 15 and 18(d)(i) to the consolidated financial statements) At 31 December 2017, the Group had long-term loan and other receivables (non-current assets), and accrued interest receivables of approximately RMB604,500,000 and RMB24,933,000, respectively, due from an independent third-party natural gas operator, which holds a concession right for the construction of natural gas pipeline networks and for the distribution of natural gas in certain designated areas in Qingdao, the People's Republic of China, as further detailed in Note 15 to the consolidated financial statements. The long-term loan and other receivables (non-current assets), and accrued interest receivable have been secured by the entire equity interest of the natural gas operator. The Group assessed the recoverability of the long-term loan and other receivables (non-current assets), and accrued interest receivables by reference to the recoverable amount, being the fair value less cost of disposal, of the entire equity interest of the natural gas operator based on a valuation performed by an independent professional valuer with qualifications and experiences in valuing similar assets. Based on the assessment, the directors of the Company considered that the recoverable amount of the long-term loans and other receivables (non-current assets), and accrued interest receivables exceeded their aggregate carrying amount and accordingly, no impairment was recognised at 31 December 2017. Due to the inherent uncertainty and complexity, significant judgements and estimates are involved in forecasting future cash flows, based on the assumptions which reflect management's view on future prospect of natural gas business and in determining appropriate discount rate, which are the basis for the assessment of recoverability. This is the key judgemental area that our audit is concentrated on. The Group's policy on impairment of the long-term loan and other receivables and accrued interest receivables and the uncertainties on the accounting estimates and judgements are disclosed in Notes 2(i)(i) and 5(b)(vi) to the consolidated financial statements, respectively.	We performed the following audit procedures: • Examining critically the terms of the underlying agreements; • Reviewing the legal opinion issued by the Company's lawyer on the legality of the arrangements under the underlying agreements, ownership of the natural gas operator and the title of the concession right for the construction and distribution of the natural gas; • Examining the contract for pledge of the entire paid-up capital of the natural gas operator, in favour of the Group, as collaterals for the long-term loan and other receivables and accrued interest receivables; • Verifying the ownership of the natural gas operator that has been pledged in favour of the Group; • Performing interviews with the top management of the natural gas operator and physical inspection on its natural gas construction sites; • Obtaining direct confirmation from the natural gas operator for the balance of the long-term loan and other receivables and accrued interest receivables; • Verifying that the natural gas concession right of the natural gas operator is clean of any pledge or not subject to any encumbrances, in accordance with the natural gas concession right agreement signed between the government and the natural gas operator; • In respect of valuation of the equity interest of the natural gas operator: – assessing the external valuer's independence, competence, capabilities and objectivity; – evaluating the valuation methodology used; and – challenging the reasonableness of the key assumptions adopted and the discount rate. We also assessed the disclosures made in the consolidated financial statements for the long-term loan and other receivables (non-current assets) and accrued interest receivables under the underlying agreements.

<table>
<tr><th>The key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
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(b) Valuation of investment properties

(Refer to notes 2(e), 5(b)(i) and 13 to the consolidated financial statements)

The fair value of the Group's investment properties of approximately RMB790,900,000 at 31 December 2017, were determined by the directors of the Company with reference to the professional valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, being an independent firm of professional valuers which has, amongst its staff, fellow members of chartered surveyors with recent experiences and qualifications in the category and locations of similar properties being valued. The change in the fair value gain of approximately RMB99,759,000 on the Group's investment properties during the year, was recognised and credited to consolidated statement of profit or loss for the year.

The outcome of valuations for the Group's investment properties are dependent on the selection of valuation approaches and key assumptions that require significant judgements and estimates made by the management of the Group and the valuer. The valuation methodologies and key assumptions applied by the valuer in determining the fair value of the Group's investment properties at 31 December 2017 have been disclosed in Note 13 to the consolidated financial statements.

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Our procedures performed include:

- Assessing the independent external valuers' independence, competence, capabilities and objectivity;
- Assessing the appropriateness of the valuation methodologies and approaches for the Group's investment properties at 31 December 2017;
- Reviewing and challenging the reasonableness and relevance of the assumptions and input data adopted by the valuer in the valuations for the investment properties with reference to our knowledge of the property market data like the capitalised rental income yield, prevailing market rentals and recent transaction prices for similar properties in the similar conditions and locations where the Group's investment properties are situated;
- Checking mathematical accuracy of calculation for the fair value gain of the investment properties and related deferred tax liabilities arising from fair value changes of the Group's investment properties; and
- Assessing the disclosures made in the consolidated financial statements in respect of the valuation of the Group's investment properties.

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Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all 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 were required to report the fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors 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 requirement 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 directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibility 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. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intention omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 26 March 2018

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	**2017** **RMB'000**	2016 RMB'000
Revenue	6(a)	**43,429**	31,414
Cost of goods sold		**–**	(968)
Other revenue, income and other net gains/losses	7	**34,509**	6,179
Change in fair value of investment properties	13	**99,759**	54,620
Gain on bargain purchase from acquisition of business	31	**–**	27,574
Other operating costs		**(3,703)**	(1,980)
Administrative expenses		**(21,715)**	(14,789)
Profit from operations		**152,279**	102,050
Finance costs	8(a)	**(40,130)**	(16,124)
Profit before taxation	8	**112,149**	85,926
Income tax expenses	9(a)	**(28,668)**	(28,982)
Profit for the year attributable to owners of the Company		**83,481**	56,944
Other comprehensive loss for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign operations		**(319)**	(3,341)
Total comprehensive income for the year			
Attributable to owners of the Company		**83,162**	53,603
Earnings per share (expressed in RMB cents)			
Basic and diluted		**20.4**	15.0

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Investment properties	13	**790,900**	689,570
Fixed assets			
– Property, plant and equipment	14	**5,966**	5,336
– Leasehold land held under operating lease	14	**3,550**	3,624
Loan and other receivables	15	**604,500**	–
Prepayment for construction cost	16	**45,000**	–
		1,449,916	698,530
Current assets			
Inventories	17	**29**	–
Trade and other receivables	18	**27,237**	34,134
Cash and cash equivalents	19(a)	**25,341**	6,407
		52,607	40,541
Current liabilities			
Trade and other payables	20	**39,442**	43,316
Amounts due to directors	30(a)	**323**	221
Amount due to the ultimate controlling party of the Company	30(b)	**15,244**	13,858
Tax payable	21(a)	**5,788**	5,190
Bank and other borrowings	22	**104,300**	104,658
		165,097	167,243
Net current liabilities		**(112,490)**	(126,702)
Total assets less current liabilities		**1,337,426**	571,828
Non-current liabilities			
Bank and other borrowings	22	**736,150**	76,450
Deferred tax liabilities	21(b)	**215,046**	192,310
		951,196	268,760
Net assets		**386,230**	303,068
Total assets		**1,502,523**	739,071

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Capital and reserves			
Share capital	24	**3,667**	3,667
Reserves	25	**382,563**	299,401
Total equity		**386,230**	303,068

Approved and authorised for issue by the board of directors of the Company on 26 March 2018 and signed on its behalf by:

Chen Jun
Director

Chen Dezhao
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company						
		Reserves					
	Share capital	Share premium	Exchange reserve	Property revaluation reserve	Retained earnings/ (accumulated losses)	Sub-total	Total
	note 24	note 25(a)	note 25(b)	note 25(c)			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	2,634	220,979	–	1,652	(84,048)	138,583	141,217
Changes in equity for 2016:							
Profit for the year	–	–	–	–	56,944	56,944	56,944
Other comprehensive loss for the year:							
Exchange difference on translation of financial statements of foreign operations	–	–	(3,341)	–	–	(3,341)	(3,341)
Total comprehensive income for the year	–	–	(3,341)	–	56,944	53,603	53,603
Issue of ordinary shares related to acquisition transaction (note 31)	1,033	107,215	–	–	–	107,215	108,248
At 31 December 2016 and 1 January 2017	3,667	328,194	(3,341)	1,652	(27,104)	299,401	303,068
Changes in equity for 2017:							
Profit for the year	–	–	–	–	83,481	83,481	83,481
Other comprehensive loss for the year:							
Exchange difference on translation of financial statements of foreign operations	–	–	(319)	–	–	(319)	(319)
Total comprehensive income for the year	–	–	(319)	–	83,481	83,162	83,162
At 31 December 2017	3,667	328,194	(3,660)	1,652	56,377	382,563	386,230

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Operating activities			
Profit before taxation		**112,149**	85,926
Adjustments for:			
Interest income from bank deposits	7	**(113)**	(7)
Interest income from other loan receivables	7	**–**	(6,304)
Interest income from loan receivable	7	**(24,933)**	–
Finance costs	8(a)	**40,130**	16,124
Gain on bargain purchase from acquisition of business	31	**–**	(27,574)
Loss on written off of property, plant and equipment	8(c)	**–**	6
Impairment loss on trade receivables	8(c)	**4,448**	–
Change in fair value of investment properties	13	**(99,759)**	(54,620)
Depreciation and amortisation	14	**335**	203
		32,257	13,754
Changes in working capital			
Increase in inventories		**(29)**	–
(Increase)/decrease in trade and other receivables		**(3,583)**	7,311
Increase/(decrease) in trade and other payables		**3,309**	(10,223)
Increase in amounts due to directors		**102**	321
Increase in amount due to the ultimate controlling party of the Company		**1,386**	3,568
Cash generated from operations		**33,442**	14,731
Bank interest received		**113**	7
Income tax paid		**(5,334)**	(420)
Land appreciation tax paid		**(3,788)**	(1,506)
Net cash generated from operating activities		**24,433**	12,812

	Note	2017 RMB'000	2016 RMB'000
Investing activities			
Receipt of other loan receivables		–	137,587
Other interest received		**26,146**	5,235
Net cash outflow on acquisition of subsidiaries	31	–	(19,263)
Payments for construction costs of completed investment properties		–	(14,480)
Payments for construction costs of land under development	16	**(45,000)**	–
Payments for expenditure on investments properties and property, plant and equipment		**(2,462)**	(496)
Payment for a project loan	15	**(600,000)**	–
Net cash (used in)/generated from investing activities		**(621,316)**	108,583
Financing activities			
Repayment of other loan		–	(10,609)
Proceeds from bank and other borrowings	19(b)	**724,000**	49,000
Repayment of bank and other borrowings	19(b)	**(64,658)**	(258,789)
Interest paid	19(b)	**(43,525)**	(12,826)
Net cash generated from/(used in) financing activities		**615,817**	(233,224)
Net increase/(decrease) in cash and cash equivalents		**18,934**	(111,829)
Cash and cash equivalents at beginning of the year		**6,407**	118,236
Cash and cash equivalents at end of the year	19(a)	**25,341**	6,407

The accompanying notes form part of these financial statements.

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 December 2003 under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 22 September 2004. The addresses of the registered office and principal of business of the Company are disclosed in the corporate information to the annual report.

The principal business activities of the Group are property development, property leasing and investment, sale of intelligent electronic products and modern office furniture products, and provision of financial services in the People's Republic of China (the "PRC").

Going concern basis

At 31 December 2017, the Group's current liabilities exceeded current assets by approximately RMB112,490,000. This condition indicates the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, may not be able to realise its assets and discharge its liabilities in the normal course of business in the next twelve months after the date of approval for the consolidated financial statements.

Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared by the directors of the Company on the assumption that the Group will be able to operate as a going concern in the foreseeable future, after taking into consideration of:

(a) continuing financial support from the ultimate controlling party of the Company, Mr. Chen Jun who has provided an irrevocable undertaking to the Group by providing adequate funds to the Group to enable it to meet its debts as and when they fall due and to carry on its business as a going concern in the foreseeable future; and

(b) additional new credit facilities being currently in serious discussions between the Group and certain financial institutions.

1. GENERAL INFORMATION *(Continued)*

Going concern basis *(Continued)*

The directors of the Company have prepared a cash flow forecast of the Group for a period covered not less than twelve months from date of approval of the consolidated financial statements. Based on the forecast which has taken into account of the Group's above measures taken to date, the directors of the Company are of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the date of approval of the consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and the future capital expenditure requirements. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2017 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have been made to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group").

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and its subsidiaries operating in the PRC is Renminbi ("RMB") while that of Best Sight Limited, which is operating in Hong Kong, is Hong Kong dollar. These financial statements are presented in RMB, rounded to the nearest thousand, except for per share data.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at the fair value as explained in the accounting policies set out below:

– investment properties (see note 2(e))

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the equity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loss control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations

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

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

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Incomes Taxes and HKAS 19 Employee Benefits respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations *(Continued)*

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

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

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(g)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(r)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(g).

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less any accumulated depreciation and any accumulated impairment losses (see note 2(i)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of their estimated lives, being no more than 50 years and the unexpired term of the lease
- Motor vehicles — 5 years
- Furniture, fixtures and equipment — 5 years
- Computer equipment — 3 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment *(Continued)*

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(e)); and

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leased assets *(Continued)*

(i) Classification of assets leased to the Group *(Continued)*

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(e)) or is held for development or sale.

(h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets

(i) Impairment of loan and trade and other receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For loan and trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of loan and trade and other receivables *(Continued)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loan and trade debtors included within loan and other receivables and trade and other receivables, respectively, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loan and trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– leasehold land held under operating lease; and

– investments in subsidiaries in the Company's statement of financial position

If any such indication exists, the asset's recoverable amount is estimated.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, (if determinable).

– Reversals of impairment losses

In aspect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(i)(i) and (ii)).

(j) Loan and trade and other receivables

Loan and trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables (including amounts due to directors and the ultimate controlling party of the Company) are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits/accumulated losses).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(e), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Rental income from operating leases

Rental income under operating leases is recognised in profit or loss on a straight line basis over the terms of the respective leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral rate of the aggregate net lease payment receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Revenue from services

Revenue from services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue from services is recognised in accordance with the terms of the relevant agreement and based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (percentage of completion method).

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition *(Continued)*

(iv) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is stated after deduction of any trade discounts.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies carried at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items of statement of financial position are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Related parties

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

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

 (ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision maker ("CODM"), being the Group's most senior executive management, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group.

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 19(b) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Disclosure Initiative*, which require entities to provide disclosures that enable users of financial statement to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments by categories

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables		
– Loan and other receivables	**604,500**	–
– Trade and other receivables (excluding prepayments and deposits)	**26,949**	34,004
– Cash and cash equivalents	**25,341**	6,407
	656,790	40,411
Financial liabilities		
At amortised cost		
– Trade and other payables (excluding receipt in advance, accruals and other tax payable)	**19,058**	20,821
– Amounts due to directors	**323**	221
– Amount due to the ultimate controlling party of the Company	**15,244**	13,858
– Bank and other borrowings	**840,450**	181,108
	875,075	216,008

The Group has exposure to the credit risk, liquidity risk, interest rate risk and currency risk arising from financial instruments. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk

(i) Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

(ii) The Group's credit risk is primarily attributable to loan and trade and other receivables and cash and cash equivalents. In order to minimize the credit risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Ongoing credit evaluation is performed on the financial condition of the debtors. These evaluations focus on the debtors' past history of making payments when due and current ability to pay, and take into account information specific to the debtor as well as pertaining to the economic environment in which the debtor operates. Trade receivables are usually due within 10-30 days from the date of billing. For debtors with balances past due, further credit would not be granted until all outstanding balances are settled. Normally, the Group does not obtain collateral from its customers. Loan and interest receivable and service income receivables are due ranging from around 2.5 to 4.5 years after the end of the reporting period. The Group has obtained collateral from the shareholders of this debtor representing 100% equity interest in the debtor for a back-to-back loan amounting to RMB600,000,000, together with the interest accrued thereon and service income, receivable from a debtor as further detailed in note 15 .

(iii) The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor. As at 31 December 2017, 99.7% (2016: 86%) and 100% (2016: 100%) of the total trade, loan and interest receivables, and service income receivable were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from loan and trade and other receivables are set out in notes 15 and 18.

(iv) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's cash and cash equivalents are placed with creditworthy banks with high credit ratings and the Group has limited exposure to any of these banks.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

At 31 December 2017, the Group has net current liabilities of approximately RMB112,490,000 (2016: RMB126,702,000) which included obligation under amounts due to directors and amount due to the ultimate controlling party of the Company of approximately, RMB323,000 (2016: RMB221,000) and RMB15,244,000 (2016: RMB13,858,000), respectively. Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Board is of the opinion that the Group will be able to obtain necessary funds for financing its future working capital and financial requirements as described in note 1 to the financial statements.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

The following tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years** RMB'000	**More than 2 years but less than 5 years** RMB'000	**More than 5 years** RMB'000	**Total contractual undiscounted cash flow** RMB'000	**Carrying amount** RMB'000
2017						
Trade and other payables	**19,058**	**–**	**–**	**–**	**19,058**	**19,058**
Amount due to a director	**323**	**–**	**–**	**–**	**323**	**323**
Amount due to the ultimate controlling party of the Company	**15,244**	**–**	**–**	**–**	**15,244**	**15,244**
Bank and other borrowings	**165,662**	**70,627**	**796,562**	**5,430**	**1,038,281**	**840,450**
	200,287	**70,627**	**796,562**	**5,430**	**1,072,906**	**875,075**
2016						
Trade and other payables	20,821	–	–	–	20,821	20,821
Amounts due to directors	221	–	–	–	221	221
Amount due to the ultimate controlling party of the Company	13,858	–	–	–	13,858	13,858
Bank and other borrowings	115,403	18,820	51,364	20,845	206,432	181,108
	150,303	18,820	51,364	20,845	241,332	216,008

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings and loan receivable at the end of the reporting period:

	2017		2016	
	Effective interest rate%	**RMB'000**	Effective interest rate%	RMB'000
Fixed rate borrowings:				
Bank borrowings	**6.2**	**49,000**	6.2	49,000
Other borrowings	**8.0-9.0**	**640,000**	2.5-9.5	41,358
		689,000		90,358
Variable rate borrowings:				
Bank borrowings	**4.75-6.37**	**151,450**	5.88-6.37	90,750
Total borrowings		**840,450**		181,108
Fixed rate borrowings as a percentage of total borrowings		**82.0%**		49.9%
Fixed rate loan receivable	**8.0**	**600,000**	N/A	–

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable-rate borrowings, with all other variables held constant, would have decreased/increased the Group's profit after tax and decreased/increased (2016: increased/decreased) retained earnings (2016: accumulated losses) by approximately RMB1,136,000 (2016: RMB633,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analyses above have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2016:100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The analysis is performed on the same basis for 2016.

(d) Currency risk

(i) Exposure to currency risk

The Group is exposed to currency risk primarily through bank deposits, trade and other receivables, trade and other payables and amounts due to directors and a the ultimate controlling party of the Company that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily Hong Kong dollar.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk *(Continued)*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities that are denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

	2017 **RMB'000**	2016 RMB'000
Hong Kong dollar:		
Trade and other receivables	**202**	188
Cash and cash equivalents	**276**	35
Trade and other payables	**(3,156)**	(1,342)
Amounts due to directors	**(323)**	(221)
Amount due to the ultimate controlling party of the Company	**(5,798)**	(5,657)
Overall exposure arising from recognised assets and liabilities	**(8,799)**	(6,997)

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits/accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	**(Decrease)/ increase on profit after taxation and retained earnings RMB'000**	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase on profit after taxation and (increase)/ decrease in accumulated losses RMB'000
Hong Kong dollar	**5%**	**(440)**	5%	(350)
	5%	**440**	(5%)	350

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities profit/(loss) after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group and the Company which expose the Group and the Company to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2016.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement

Financial assets and liabilities measured at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 2, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

(a) Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Going concern basis

As mentioned in note 1 to the financial statements, the directors are satisfied that the Group has sufficient cash resources to satisfy the Group's working capital and other financial obligations for the next twelve months from the end of the reporting period. Under such circumstances, the consolidated financial statements have been prepared on a going concern basis. If the going concern basis was not appropriate, adjustments would have to be made to restate the values of assets to their immediate recoverable amounts, to make provision for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. Such adjustment may have a significant consequential effect on the profit for the year and net assets of the Group.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(a) Critical judgement in applying accounting policies *(Continued)*

(ii) Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objectives is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have presumed that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale. As a result, the Group has recognised the deferred taxes on changes in fair value of investment properties on the basis that the Group is subject to enterprise income tax, value-added tax and land appreciation tax in the PRC. The carrying amount of deferred liabilities on investment properties at 31 December 2017 was approximately RMB213,267,000 (2016: RMB190,525,000).

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Fair value of investment properties

Investment properties, including those completed properties and land held as investment property under development, are carried in the consolidated statement of financial position at their fair value, details of which are disclosed in note 13. The fair value of the investment properties was determined by reference to valuations conducted on these properties by an independent firm of property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment properties included in the consolidated statement of financial position and corresponding adjustments to the changes in fair value reported in the consolidated profit or loss. At 31 December 2017, the carrying amount of investment properties was approximately RMB790,900,000 (2016: RMB689,570,000).

(ii) Land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including sales charges, borrowing costs and all property development expenditures. The Group is subject to land appreciation taxes in the PRC which has been included in income tax of the Group. However, the Group has not finalised its land appreciation tax returns with the tax authorities for certain property development projects of the Group. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates according to the understanding of the tax rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Income tax and deferred taxation

The Group is subject to enterprise income tax in the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made. Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be 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.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(iv) Depreciation of property, plant and equipment and impairment of property, plant and equipment/leasehold land held under operating lease

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The management of the Group review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expenses to be recorded. The useful lives are based on the Group's historic experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. As at 31 December 2017, the carrying amount of property, plant and equipment was approximately RMB5,966,000 (2016: RMB5,336,000).

Property, plant and equipment and leasehold land held under operating lease are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculations or fair value less cost of disposal. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to such items such as level of turnover and amount of operating costs. Included in the property, plant and equipment and leasehold land held under operating lease were leasehold land and building which have an aggregate carrying value of approximately RMB8,069,000 (2016: RMB8,237,000) as at 31 December 2017. The directors of the Company determined the recoverable amount of the leasehold land and building by reference to a valuation conducted on this property by an independent firm of property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions.

(v) Impairment of interests in subsidiaries

The Company makes impairment on interests in subsidiaries when the related recoverable amounts of the investments in subsidiaries, with reference to the net asset values of the subsidiaries, are estimated to be less than their carrying amounts. As at 31 December 2017, the carrying amount of interests in subsidiaries was approximately RMB213,160,000 (2016: RMB213,160,000).

(vi) Impairment of loan and trade and other receivables

The Group makes allowance for impairment of loan and trade and other receivables based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each counterparty debtor and the subsequent settlement from the debtors. If the financial conditions of the counterparty debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2017, the carrying amount of loan and other receivables (classified under non-current assets) was approximately RMB604,500,000, and the carrying amount of trade and other receivables (classified under current assets) was approximately RMB27,237,000 (2016: RMB34,134,000), net of allowance for doubtful debts of approximately RMB4,848,000 (2016: RMB400,000).

6. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue represents the rental income from investment properties, revenue from provision of financial services, and sales value of goods supplied to customers, net of value-added tax and/or sales tax and less sales discounts and returns. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2017 **RMB'000**	2016 RMB'000
Gross rental income from investment properties	**39,583**	30,374
Revenue from provision of financial services (note 15)	**3,846**	–
Sale of intelligent electronic products and modern office furniture products	**–**	1,040
	43,429	31,414

(b) Segment information

The Group manages its business by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and performance assessment, the Group has identified the following three (2016: two) reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Property segment: this segment includes property development, investment and leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term. Currently, all of the Group's investment properties are located in the PRC.

– Financial services segment: provision of services in connection with financing and procurement arrangements in the PRC, details of which are disclosed in note 15.

– Trading segment: sale of intelligent electronic products and modern office furniture products in the PRC, which has insignificant contribution to the Group's revenue, results, cashflows, assets and liabilities during the current year.

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocation of resources between segments, the Group's CODM monitors the results, assets and liabilities of each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segment and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "segment operating results". Segment operating profit/loss includes the operating profit/loss generated by the segment without allocation of central administration costs. Taxation charge is not allocated to reportable segment.

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below:

For the year ended 31 December 2017

	Property RMB'000	Financial service RMB'000	Trading segment RMB'000	Total RMB'000
Reportable segment revenue from external customers	39,583	3,846	–	43,429
Reportable segment results	113,877	3,846	–	117,723
Interest income	113	24,933	–	25,046
Depreciation and amortisation	(306)	–	–	(306)
Finance costs	(15,197)	(24,933)	–	(40,130)
Change in fair value of investment properties	99,759	–	–	99,759
Reportable segment assets	852,379	629,433	–	1,481,812
Reportable segment liabilities	(472,024)	(625,587)	–	(1,097,611)

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities *(Continued)*

For the year ended 31 December 2016

	Property RMB'000	Trading RMB'000	Total RMB'000
Reportable segment revenue from external customers	30,374	1,040	31,414
Reportable segment results	92,134	43	92,177
Interest income	6,310	1	6,311
Depreciation and amortisation	(188)	(15)	(203)
Finance costs	(14,622)	–	(14,622)
Change in fair value of investment properties	54,620	–	54,620
Reportable segment assets	733,991	4,856	738,847
Reportable segment liabilities	(431,300)	(683)	(431,983)

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2017 RMB'000	2016 RMB'000
Revenue		
Total reportable segment revenue	**43,429**	31,414
Elimination of inter-segment revenue	**–**	–
Consolidated revenue	**43,429**	31,414
Profit/(loss)		
Reportable segment results	**117,723**	92,177
Unallocated finance costs	**–**	(1,502)
Unallocated other corporate expenses	**(5,574)**	(4,749)
Consolidated profit before taxation	**112,149**	85,926
Assets		
Total reportable segment assets	**1,481,812**	738,847
Unallocated cash and cash equivalents	**20,245**	35
Other unallocated corporate assets	**466**	189
Consolidated assets	**1,502,523**	739,071
Liabilities		
Total reportable segment liabilities	**1,097,611**	431,983
Unallocated income tax payable	**1,100**	1,100
Unallocated corporate liabilities	**17,582**	2,920
Consolidated liabilities	**1,116,293**	436,003

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(iii) Geographical information

In determining the Group's geographical information, revenues and results are attributed to the geographical location based on the location of the customers, and assets are attributed to the geographical location based on the location of the assets. As the Group's major operations and markets including location of the non-current assets are all located in the PRC, no further geographical information is provided.

(iv) Information from major customers

Revenue from external customers contributing 10% or more of the total revenue from the Group is as follows:

	2017 **RMB'000**	2016 RMB'000
Customer A (note)	**38,249**	29,078

Note:

The revenue was derived from the property segment.

7. OTHER REVENUE, INCOME AND OTHER NET GAINS/LOSSES

	2017 RMB'000	2016 RMB'000
Interest income from other loan receivables	–	6,304
Interest income from loan receivable (Note (a))	24,933	–
Interest income from bank deposits	113	7
Exchange gain/(loss), net	1,002	(534)
Income on forfeiture of rental deposit	–	35
Recovery of proceeds from properties sold in prior years (Note (b))	8,161	–
Government grant received	300	360
Sundry income	–	7
	34,509	6,179

Notes:

(a) This represented the interest accrued on a back-to-back long-term loan of RMB600,000,000 receivable from an independent third party gas operator under the arrangements as further disclosed in note 15 below. The interest expense of RMB24,933,000 accrued on the back-to-back loan of RMB600,000,000 payable to a trust scheme was included in the finance costs disclosed in note 8 below.

(b) In prior years, the Golden Century Group, which was acquired by the Group in 2016 as referred to in Note 31, sold certain properties to certain independent third party customers but the collectibility of the relevant sales proceeds was uncertain. During the year ended 31 December 2017, the Group received the sales proceeds of RMB8,161,000 which were recognised and credited to profit or loss.

8. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting) the following:

		2017 RMB'000	2016 RMB'000
(a)	**Finance costs**		
	Interest on bank and other borrowings	**40,130**	16,124
(b)	**Staff costs (including directors' remuneration)**		
	Salaries, wages and other benefits	**2,338**	1,509
	Contributions to defined contribution retirement plans	**465**	452
		2,803	1,961
(c)	**Other items**		
	Auditor's remuneration		
	– audit services	**607**	489
	– non-audit services	**–**	128
	Depreciation of property, plant and equipment	**261**	129
	Amortisation of leasehold land held under operating lease	**74**	74
	Gross rental income from investment properties less direct outgoings RMB68,000 (2016: RMB102,000)	**(39,515)**	(30,272)
	Impairment loss on trade receivables (Note 18(b))	**4,448**	–
	Operating lease charges in respect of buildings	**144**	92
	Cost of inventories recognised as expenses	**–**	968
	Loss on written off of property, plant and equipment	**–**	6

9. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2017 **RMB'000**	2016 RMB'000
Current tax – PRC Enterprise Income Tax		
– provision for current year	**5,932**	3,671
– under-provision in respect of previous years	**–**	420
	5,932	4,091
Deferred taxation:		
– origination and reversal of temporary differences (note 21(b))	**22,736**	24,891
Income tax expenses	**28,668**	28,982

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2016: 25%).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2017 and 2016, as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2017 and 2016.

9. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

(b) Reconciliation between tax expenses and accounting profit at the applicable tax rates:

	2017 RMB'000	2016 RMB'000
Profit before taxation	**112,149**	85,926
Notional tax on profit before taxation, calculated at the rates applicable to the profit in the tax jurisdiction concerned	**29,229**	19,669
Tax effect of non-taxable income	–	(4,550)
Tax effect of non-deductible expenses	**269**	1,753
Effect on utilisation of tax loss	**(69)**	(354)
Under-provision in prior years	–	420
Tax effect on unrecognised tax losses	**1,394**	808
Tax effect on unrecognised temporary differences	**(2,155)**	11,236
Income tax expenses	**28,668**	28,982

10. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the chief executive's emoluments are as follows:

	2017			
Name of directors	**Fees RMB'000**	**Salaries and other benefits RMB'000**	**Retirement scheme contributions RMB'000**	**Total emoluments RMB'000**
Executive directors				
Chen Dezhao	**–**	**152**	**–**	**152**
Chen Jun *(Appointed on and being chief executive officer since 2 November 2017)*	**–**	**219**	**17**	**236**
Zhao Yun *(Being chief executive officer until and resigned on 2 November 2017)*	**–**	**97**	**1**	**98**
Independent non-executive directors				
Chan Chak Kwan (Appointed on 25 May 2017)	**9**	**–**	**–**	**9**
Chen Wenping	**9**	**–**	**–**	**9**
Guo Qiang (Resigned on 25 May 2017)	**–**	**–**	**–**	**–**
Liu Jinlu	**9**	**–**	**–**	**9**
	27	**468**	**18**	**513**

	2016			
Name of directors	Fees RMB'000	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Total emoluments RMB'000
Executive directors				
Chen Dezhao	–	300	–	300
Zhao Yun *(Chief executive officer)*	–	179	47	226
Independent non-executive directors				
Chen Wenping	20	–	–	20
Guo Qiang	20	–	–	20
Liu Jinlu	20	–	–	20
	60	479	47	586

10. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

(Continued)

There was no amount paid during the years ended 31 December 2017 and 2016 to any directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2016.

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2016: two) are the directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other two (2016: three) individuals are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries and other benefits	**323**	375
Contributions to retirement benefits scheme	**25**	68
	348	443

The emoluments of individuals other than directors with the highest emoluments are within the following bands:

	2017 **Number of** **individuals**	2016 Number of individuals
Nil to HK$1,000,000 (equivalent to approximately RMB867,000) (2016: Nil to RMB856,000)	**2**	3

During the years ended 31 December 2017 and 2016, no emoluments were paid to the five highest paid individuals (including directors and other employees) as an inducement to join or upon joining the Group or as compensation for loss of office and no bonus was paid or payable by the Group to the five highest paid individuals based on the performance of the Group.

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB83,481,000 (2016: profit of RMB56,944,000) and the weighted average number of 410,209,122 ordinary shares (2016: 379,717,319 ordinary shares) in issue during the year, calculated as follows:

(i) Profit for the year attributable to owners of the Company

	2017 **RMB'000**	2016 RMB'000
Profit for the year	**83,481**	56,944

(ii) Weighted average number of ordinary shares of the Company

	2017	2016
Number of shares		
Issued ordinary shares at 1 January	**410,209,122**	286,209,122
Effect of issue of new shares related to acquisition transaction (note 24)	–	93,508,197
Weighted average number of ordinary shares	**410,209,122**	379,717,319

(b) Diluted earnings per share

For the years ended 31 December 2017 and 2016, diluted earnings per share are same as basic earnings per share because the Company had no dilutive potential ordinary shares outstanding.

13. INVESTMENT PROPERTIES

	Completed properties RMB'000	Land held as investment property under development RMB'000	Total RMB'000
At 1 January 2016	42,600	–	42,600
Investment properties acquired through acquisition of business (note 31(a))	451,386	140,964	592,350
Gain from fair value adjustments	47,384	7,236	54,620
At 31 December 2016 and 1 January 2017	541,370	148,200	689,570
Addition	–	1,571	1,571
Gain from fair value adjustments	18,930	80,829	99,759
At 31 December 2017	560,300	230,600	790,900

Notes:

(a) The analysis of carrying amounts of investment properties is as follows:

	2017 RMB'000	2016 RMB'000
In Qingdao, the PRC		
– Commercial	**790,900**	689,570

All the investment properties of the Group are held for rental purposes and/or capital appreciation in future.

13. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(b) The land held as investment property under development is situated in Qingdao, the PRC and held under a medium term lease of 40 years. It is the intention of the Group to develop the above land held as investment property under development into a commercial complex for rental purposes and/or capital appreciation.

(c) All of the Group's investment properties were revalued on 31 December 2017 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (2016: Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Asset Appraisal Limited), being an independent firm of valuers, who has amongst its staff, fellow members of chartered surveyors with qualification and recent experience in the location and category of similar properties being valued. The fair values of completed properties were arrived at by considering the capitalised income to be derived from the existing tenancies and the reversionary potential of the properties, where appropriate, by reference to market evidence of transaction prices for the similar properties in the same locations and conditions. The completed properties are currently leased to third parties under operating leases and further details of the Group's total future minimum lease receivables under non-cancellable operating leases are disclosed in note 28. The fair value of land held as investment property under development is revalued by reference to recent transaction prices of similar land, based on the direct comparison approach.

The change in fair value which amounted RMB99,759,000 is recognised in profit or loss for the year ended 31 December 2017. Deferred tax charges of RMB22,742,000 arising from change in fair value of the investment properties as at 31 December 2017 are recognised as disclosed in note 21(b). The investment properties are pledged to banks, other financial institutions and a trust scheme for bank and other borrowings of the Group, as further detailed in note 22.

(d) **Fair value measurements of investment properties**

(i) ***Fair value hierarchy***

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into three-level fair value hierarchy as defined in HKFRS 13, Fair Value Measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

13. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(d) Fair value measurements of investment properties *(Continued)*

(i) Fair value hierarchy *(Continued)*

	Fair value as at 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Investment properties:				
Commercial – PRC	**790,900**	**–**	**–**	**790,900**

	Fair value as at 31 December 2016 RMB'000	Fair value measurements as at 31 December 2016 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Investment properties:				
Commercial – PRC	689,570	–	–	689,570

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The senior management of the Group had discussions with the valuers on the valuation assumptions and valuation results when the valuations for the Group's investment properties were performed at the respective reporting dates.

13. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(d) Fair value measurements of investment properties *(Continued)*

(ii) Information about Level 3 fair value measurements

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

	Valuation techniques	Significant unobservable input	Range 2017	Range 2016
Commercial use – commercial units	Income approach	Prevailing daily market rents per square meter	**RMB8.0-8.4**	RMB8.0-9.0
		Reversionary yield	**6.6%**	7.8%
Commercial use – office units	Income approach	Prevailing daily market rents per square meter	**RMB3.9-5.2**	RMB4.8-5.2
		Reversionary yield	**6.4-6.9%**	8.1%
	Direct comparison approach	Prevailing market price per square meter	**N/A**	RMB26,023-35,000
Commercial use – car parks	Income approach	Prevailing daily market rents per parking space	**RMB29.03-32.14**	RMB24.44-31.67
Commercial use – underground warehouse	Income approach	Prevailing daily market rents per square meter	**RMB8.0-8.4**	N/A
		Reversionary yield	**5.5%**	N/A
	Direct comparison approach	Prevailing market price per square meter	**N/A**	RMB7,500-22,500
Land under development (for commercial complex)	Direct comparison approach	Prevailing market price per square meter	**RMB1,417-1,586**	RMB898-1,351

14. FIXED ASSETS

	Property, plant and equipment						
	Building RMB'000	**Motor vehicles** RMB'000	**Furniture, fixture and equipment** RMB'000	**Computer equipment** RMB'000	**Sub-total** RMB'000	**Leasehold land held under operating lease** RMB'000	**Total** RMB'000
Cost							
At 1 January 2016	4,928	2,438	6	–	7,372	3,872	11,244
Acquisition of business (note 31(a))	–	39	38	69	146	–	146
Addition	–	–	496	–	496	–	496
Written off	–	(115)	–	–	(115)	–	(115)
At 31 December 2016 and 1 January 2017	4,928	2,362	540	69	7,899	3,872	11,771
Addition	–	855	8	28	891	–	891
At 31 December 2017	4,928	3,217	548	97	8,790	3,872	12,662
Accumulated depreciation, amortisation and impairment							
At 1 January 2016	221	2,319	3	–	2,543	174	2,717
Charge for the year	94	15	11	9	129	74	203
Written off	–	(109)	–	–	(109)	–	(109)
At 31 December 2016 and 1 January 2017	315	2,225	14	9	2,563	248	2,811
Charge for the year	94	52	104	11	261	74	335
At 31 December 2017	409	2,277	118	20	2,824	322	3,146
Carrying amount							
At 31 December 2017	4,519	940	430	77	5,966	3,550	9,516
At 31 December 2016	4,613	137	526	60	5,336	3,624	8,960

Notes:

(a) The leasehold land and building are held for own use, situated in Qingdao, the PRC, and pledged to a bank for bank borrowings of the Group. Further details of the Group's bank borrowings are disclosed in note 22.

(b) At 31 December 2017, the fair value of the Group's leasehold land and building was RMB9,150,000 (2016: RMB8,800,000) and accordingly, no impairment on the leasehold land and building was considered necessary.

15. LOAN AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Loan receivable (note)	600,000	–
Income receivable from provision of financial services (note)	4,500	–
Loan and other receivables classified as loans and receivables	604,500	–

Note:

On 17 July 2017, Qingdao Zhongtian Enterprises Development Co., Ltd ("Qingdao Zhongtian"), an indirect wholly-owned subsidiary of the Company, entered into a construction and procurement agreement (the "Construction and Procurement Agreement") with Qingdao Ruiding Energy Co., Ltd ("Ruiding"), an independent natural gas operator which holds a concession right for the construction of natural gas pipeline networks and for distribution of natural gas in the designated areas in Qingdao (the "Natural Gas Project"), the PRC, and Qingdao Ruikangjie New Energy Material Co., Ltd ("Ruikangjie"), an independent supplier of materials and equipment for construction of the Natural Gas Project of Ruiding, for a term of 10 years. In accordance with the commercial substance of the arrangements under the Construction and Procurement Agreement, as clarified by a supplemental agreement dated 26 March 2018 ("Supplemental Agreement") made between Qingdao Zhongtian and Ruiding, during the year ended 31 December 2017, Qingdao Zhongtian provided the following services to Ruiding: (a) obtaining a loan of RMB600 million (the "Project Loan") (refer to note 22) from an independent third party trust scheme, which was then transferred, at the instructions of Ruiding, to Ruikangjie as advanced payments for the purchase costs of materials and equipment acquired and/or to be acquired from Ruikangjie, and (b) procurement of materials and equipment for the construction of the Natural Gas Project of Ruiding. The Project Loan was obtained by Qingdao Zhongtian from the trust scheme on a back-to-back basis for Ruiding. Ruiding has provided corporate guarantee to the trust scheme for the Project Loan and shall bear all the obligations to repay the principal of the Project Loan and the interest accruing at the rate of 8% per annum on the Project Loan payable to the trust scheme. The interest accruing on the Project Loan in the first annum will be first paid by Qingdao Zhongtian and then fully reimbursed by Ruiding on or before 30 July 2018. The Project Loan receivable from Ruiding, together with the interest accrued thereon and service charge as detailed below, is secured by the collateral of the entire equity interest of Ruiding and repayable, as to not less than RMB200 million by each of 31 May 2020, 31 May 2021 and 31 May 2022. At 31 December 2017, the Project Loan of RMB600,000,000, together with the accrued interest of RMB24,933,000 (note 18), receivable from Ruiding in aggregate amounted to RMB624,933,000, which was the same as the aggregate of long-term loan payable the trust scheme amounting to RMB600,000,000 (note 22), accrued interest payable to the trust scheme amounting to RMB6,267,000 (note 20) and the interest paid to the trust scheme amounting to RMB18,666,000 during the year ended 31 December 2017.

The Group assessed recoverability of the long-term loan and interest receivables, together with the service income receivable, by reference to the recoverable amount, being the fair value less cost of disposal, of the entire equity interest of Ruiding as collaterals, based on a valuation performed by CHFT Advisory And Appraisal Limited, an independent professional valuer with qualifications and experiences in valuing similar assets. Based on the assessment, the directors of the Company considered that the recoverable amount of the long-term long loan and interest receivable, and the service income receivable exceeded the aggregate of their carrying amounts and accordingly, no impairment on these assets was made as at 31 December 2017.

In consideration of the services rendered by Qingdao Zhongtian, Ruiding shall pay Qingdao Zhongtian a fee, as financial service income, which is recognised on a daily basis at RMB24,658 per day and straight-line basis over the contract term period of 10 years, in accordance with the terms of the Construction and Procurement Agreement as clarified by the Supplement Agreement. During the year ended 31 December 2017, financial service income of RMB4,500,000 (2016: Nil), net of value-added tax of RMB653,000 (2016: Nil), amounted to RMB3,847,000 (2016: Nil) which was recognised and credited to the profit or loss.

16. PREPAYMENT FOR CONSTRUCTION COST

	2017 RMB'000	2016 RMB'000
Prepayment for construction cost (note)	**45,000**	–

Note:

On 17 December 2017, the Group entered into a construction agreement with an independent third-party contractor to carry out construction works in relation to the land held as investment property under development (note 13) at a total consideration of RMB150,000,000. As at 31 December 2017, the construction work has not yet been started and a prepayment of RMB45,000,000 was paid to the contractor in accordance with the terms of the construction agreement. The construction works have been planned to be started in April 2018.

17. INVENTORIES

	2017 RMB'000	2016 RMB'000
Finished goods	**29**	–
	29	–

18. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**6,661**	8,140
Less: Allowance for doubtful debts (note (b))	**(4,848)**	(400)
Trade receivables, net (notes (a) and (c))	**1,813**	7,740
Other loan interest receivables (note (d))	**24,933**	26,146
Other receivables	**203**	118
Trade and other receivables classified as loans and receivables	**26,949**	34,004
Prepayments and deposits	**288**	130
	27,237	34,134

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date (or date of revenue recognition, if earlier) and net of doubtful debts, is as follows:

	2017 RMB'000	2016 RMB'000
0-30 days	**1,813**	–
31-60 days	**–**	–
61-90 days	**–**	103
91-180 days	**–**	1,006
181-365 days	**–**	6,631
	1,813	7,740

Trade receivables are due within 10-30 days from the date of invoice (or date of revenue recognition, if earlier). As at 31 December 2017, the directors consider that no further impairment is necessary by reference to the past repayment history and/or the financial status of these customers. Further details of the Group's credit policy are set out in note 4(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 2(i)(i)).

Movements in the allowance for doubtful debts

	2017 RMB'000	2016 RMB'000
At 1 January	**400**	400
Impairment loss recognised	**4,448**	–
At 31 December	**4,848**	400

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(b) Impairment of trade receivables *(Continued)*

As at 31 December 2017, trade receivables of the Group amounting to RMB4,848,000 (2016: RMB400,000) were individually determined to be impaired. The individually impaired receivables were outstanding for over 365 days at the end of the reporting period or were due from customers with financial difficulties. Accordingly, specific allowances for doubtful debts of RMB4,848,000 (2016: RMB400,000) were recognised.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2017 **RMB'000**	2016 RMB'000
Neither past due nor impaired	**1,813**	–
Past due but not impaired		
Less than 1 month past due	**–**	–
Over 1 month to 3 months past due	**–**	103
Over 3 months to 1 year past due	**–**	7,637
	1,813	7,740

Receivables that were neither past due but not impaired relate to a debtor under property segment for whom there was no recent history of default.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(d) Other loan interest receivables

(i) As detailed in note 15, Ruiding shall repay the interest accruing on the Project Loan in the first annum to Qingdao Zhongtian on or before 30 July 2018. Accordingly, as at 31 December 2017, the other loan interest receivable from Ruiding of RMB24,933,000 (2016: Nil) was classified under current assets.

(ii) As at 31 December 2016, the other loan interest receivables of RMB26,146,000 were outstanding interests receivable from independent third parties to which the Golden Century Group (as defined in note 31), prior to its acquisition by the Group as detailed in note 31, granted certain loans which were bearing interest at rates ranging from 5.5% to 10.0% per annum. As security for all of the loans and the interest receivables, the borrowers provided collaterals, which are properties of the respective borrowers, to the Golden Century Group. The Golden Century Group was not permitted to sell or pledge the collaterals in the absence of default by the borrowers.

As at 31 December 2016, the collectability of these outstanding interests receivable were guaranteed by the borrowers' collateralised properties. During the year ended to 31 December 2017, all other loan interest receivables as at 31 December 2016 had been fully settled.

19. CASH AND CASH EQUIVALENTS

	2017 **RMB'000**	2016 RMB'000
(a) Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows:		
Cash at bank and on hand	**25,341**	6,407

(b) Reconciliation of liabilities arising from financing activities

	Interest payables RMB'000 (note 20)	**Bank and other borrowings RMB'000 (note 22)**
At 1 January 2017	**14,805**	**181,108**
Interest recognised and charged to profit or loss	**40,130**	**–**
Changes from financing cash flows:		
– proceeds from bank and other borrowings	**–**	**724,000**
– repayments of bank and other borrowings	**–**	**(64,658)**
– interest paid	**(43,525)**	**–**
At 31 December 2017	**11,410**	**840,450**

20. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	**2,564**	2,965
Other payables	**5,084**	3,051
Loan interest payables (note)	**11,410**	14,805
Financial liabilities at amortised cost	**19,058**	20,821
Receipt in advance and accruals	**470**	506
Other tax payables		
– value-added tax payables	**4,408**	2,057
– land appreciation tax payables	**11,101**	14,889
– property tax payables	**4,054**	2,953
– others	**351**	2,090
	19,914	21,989
	39,442	43,316

Note: Included in loan interest payables is an amount of RMB6,267,000 (2016: Nil) payable to a trust scheme, as further detailed in note 15.

As of the end of the reporting period, the ageing analysis of the trade payable based on invoice date is as follows:

	2017 RMB'000	2016 RMB'000
0-30 days	–	69
31-60 days	–	47
61-90 days	–	10
91-180 days	–	263
181-365 days	**152**	487
Over 365 days	**2,412**	2,089
	2,564	2,965

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

21. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position:

	2017 **RMB'000**	2016 RMB'000
At beginning of the year	**5,190**	1,397
Acquisition of business (note 31)	**–**	122
Provision for current tax	**5,932**	3,671
Under-provision in respect of previous years	**–**	420
Paid during the year	**(5,334)**	(420)
At end of the year	**5,788**	5,190

(b) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Investment properties RMB'000	**Leasehold land and buildings** RMB'000	**Total** RMB'000
At 1 January 2016	8,717	1,789	10,506
Charged to profit or loss (note 9(a))	24,895	(4)	24,891
Acquisition of business (note 31(a))	156,913	–	156,913
At 31 December 2016 and 1 January 2017	190,525	1,785	192,310
Charged to profit or loss (note 9(a))	22,742	(6)	22,736
At 31 December 2017	213,267	1,779	215,046

21. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax liabilities recognised *(Continued)*

Note:

On 23 March 2016, China's Ministry of Finance and State Administration of Taxation jointly issued Circular Caishui [2016] 36 which contains the value-added tax ("VAT") rates and rules applicable to all of the industries which are transitioning from Business Tax to VAT with effect from 1 May 2016, including the real estate sector. The VAT rate for real estate sector is 11%, with grandfathering rules applicable to entities with properties acquired before 1 May 2016, for which 5% simplified VAT method would be applied on gross revenue from leasing or net gain from sales of properties.

(c) Deferred tax assets not recognised

As at 31 December 2016 and 2017, the Group did not have material unrecognised deferred tax assets.

22. BANK AND OTHER BORROWINGS

As at 31 December 2017, the Group had bank and other borrowing as follows:

	2017	2016
	RMB'000	RMB'000
Secured bank borrowings	**200,450**	139,750
Secured borrowing from an other financial institution	**40,000**	40,000
Secured borrowing from a trust scheme	**600,000**	–
Other secured borrowing	**–**	1,358
	840,450	181,108

22. BANK AND OTHER BORROWINGS *(Continued)*

At 31 December 2017, interest-bearing bank and other borrowings were due for repayment as follows:

	2017 **RMB'000**	2016 RMB'000
Carrying amounts repayable:		
Within 1 year	**104,300**	104,658
After 1 year but within 2 years	**133,500**	14,300
After 2 years but within 5 years	**597,700**	42,900
After 5 years	**4,950**	19,250
	840,450	181,108
Less: Current portion	**(104,300)**	(104,658)
Non-current portion	**736,150**	76,450

As at 31 December 2017, bank and other borrowings were interest bearing at 4.75% to 9.0% (2016: 2.5% to 9.0%) per annum.

A bank borrowing of RMB13,950,000 (2016: RMB15,750,000) was secured by certain investment properties (note 13), leasehold land and buildings held under operating lease (note 14). Bank borrowings of RMB186,500,000 (2016: RMB124,000,000) were secured by certain investment properties (note 13) or/and guaranteed by Mr. Chen Jun, the ultimate controlling party of the Company.

Borrowings of RMB600,000,000 (2016: Nil) payable to a trust scheme (note 15) and RMB40,000,000 (2016: RMB40,000,000) payable to an other financial institution have been secured by certain of the Group's investment properties (note 13) and personal guarantee of Mr. Chen Jun, the ultimate controlling party of the Company, and his spouse. Borrowing of RMB600,000,000 payable to the trust scheme is bearing interest at the rate of 8% per annum, repayable by instalments of RMB120,000,000, RMB120,000,000 and RMB360,000,000 due on 28 June 2020, 2021 and 2022, respectively, and secured by a corporate guarantee of Ruiding which contributed RMB120,000,000 to the trust scheme, which in turn lent the entire loan proceed of RMB600,000,000, through Qingdao Zhongtian, back to Ruiding, as referred to in note 15.

23. SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held is registered capital unless otherwise stated.

Name	Form of business structure	Class of shares held	Place of incorporation and business	Particulars of issued and paid up capital	Interest held directly	Interest held indirectly	Principal activities
Success Advantage Limited	Limited liability company	Ordinary	British Virgin Islands ("BVI")	100 shares of US$1 each	100%	–	Inactive
New East Glory Limited	Limited liability company	Ordinary	BVI	1 share of US$1 each	100%	–	Investment holding
Great Miracle Holdings Limited	Limited liability company	Ordinary	BVI	1 share of US$1 each	–	100%	Investment holding
Shan Dong Travel Services Holdings Limited	Limited liability company	Ordinary	Hong Kong	10,000 shares	–	100%	Investment holding
青島中天源網絡科技有限公司*	Wholly foreign-owned enterprise	Registered	PRC	US$423,200	–	100%	Sale of intelligent electronic products and furniture and fixtures and investment holding
Qingdao Hai Yi Investment and Consultancy Co., Ltd.#	Limited liability company	Registered	PRC	RMB25,000,000	–	100%	Property investment
Golden Century Trade Limited	Limited liability company	Ordinary	BVI	1 share of US$1 each	100%	–	Inactive
Best Sight Limited	Limited liability company	Ordinary	Hong Kong	1 share of HK$1 each	–	100%	Investment holding
Qingdao Zhongtian Enterprise Development Co., Ltd.*	Wholly foreign-owned enterprise	Registered	PRC	RMB170,876,000	–	100%	Property development and investment holding
Qingdao Zhongtian Huili Technology Development Company Limited*	Wholly foreign-owned enterprise	Registered	PRC	RMB50,000,000	–	100%	Investment holding
Qingdao Zhongtian Innovation Company Limited#	Limited liability company	Registered	PRC	RMB100,000,000	–	100%	Investment holding
Qingdao Zhongtian Software Park Co., Ltd.#	Limited liability company	Registered	PRC	RMB10,000,000	–	100%	Property development, leasing and investment

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

\# Registered under the laws of the PRC as a limited liability company.

24. SHARE CAPITAL

	2017		2016	
	No. of shares '000	Amount HK$'000	No. of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000**	**100,000**	10,000,000	100,000

	2017		2016	
	No. of shares '000	Amount RMB'000	No. of shares '000	Amount RMB'000
Issued and fully paid:				
At 1 January	**410,209**	**3,667**	286,209	2,634
Issue of ordinary shares related to acquisition of business (note)	**–**	**–**	124,000	1,033
At 31 December	**410,209**	**3,667**	410,209	3,667

Note:

On 31 March 2016, 124,000,000 new ordinary shares of the Company with a par value of HK$0.01 each were issued at an issue price of HK$1.35 per share as part of the consideration for the acquisition of the entire interest of the Golden Century Group, as defined and referred to in note 31 below. The fair value of these issued consideration shares was calculated by reference to the closing market price of the ordinary shares of the Company of HK$1.05 on 31 March 2016, being the date of share issue. These shares shall rank pari passu with all other shares in issue in all respects.

25. RESERVES

The Group

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

The Company

Details of the changes in the Company's individual components of reserves between the beginning and the end of the year are set out below:

	Share premium RMB'000 (note 25(a))	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	220,979	(87,544)	133,435
Issue of ordinary shares related to acquisition of business (note 31)	107,215	–	107,215
Loss for the year	–	(4,329)	(4,329)
At 31 December 2016 and 1 January 2017	328,194	(91,873)	236,321
Loss for the year	–	(1,204)	(1,204)
At 31 December 2017	328,194	(93,077)	235,117

25. RESERVES *(Continued)*

Nature and purpose of reserves are as follows:

(a) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Exchange reserve

The exchange reserve represents foreign exchange differences arising from the translation of the financial statements denominated in foreign currencies other than RMB.

(c) Property revaluation reserve

During the year ended 31 December 2013, certain properties previously occupied by the Group as owner-occupied property were transferred to investment properties and a revaluation surplus of RMB2,203,000 was credited to property revaluation reserve to account for the difference between the carrying amounts and the fair values of the properties at the date of change in use, determined using market comparison approach by an independent firm of valuers, net of tax liability of RMB551,000 arising from gain on revaluation of properties.

(d) Distributability of reserves

The Company's reserves available for distribution represent the share premium and accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors of the Company, as at 31 December 2017, the Company had reserves available for distribution to equity shareholders of RMB235,117,000 (2016: RMB236,321,000).

25. RESERVES *(Continued)*

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group consists of cash and cash equivalents and equity.

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2016.

26. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

27. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2017 and 2016 are as follows:

	2017 RMB'000	2016 RMB'000
Authorised but not contracted for (note (a))	**33,038**	184,609
Contracted but not provided for (note (b))	**107,917**	1,885

Note:

(a) As at 31 December 2017 and 2016, the Group had authorised but not contracted for capital commitments for construction costs relating to the land held as investment property under development.

(b) Contracted but not provided for capital commitment included an amount of RMB105,000,000 which is the outstanding amount under a construction agreement entered into between the Group and an independent third-party contractor for the development of the land held as investment property for development, as further detailed in note 16.

28. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2017, the Group's total future minimum lease receivables and payables under non-cancellable operating leases are as follows:

	2017 RMB'000	2016 RMB'000
As lessor:		
Within 1 year	**41,717**	41,321
After 1 year but within 5 years	**3,468**	43,062
Over 5 years	**1,150**	2,073
	46,335	86,456
As lessee:		
Within 1 year	**120**	120

28. COMMITMENTS UNDER OPERATING LEASES *(Continued)*

Operating lease receivables represent rentals receivable by the Group for its investment properties under operating lease arrangements, with leases negotiated for 3 to 10 years and rentals are fixed over the lease terms and do not include contingent rentals.

Operating lease payables represent rentals payable by the Group to a third party for its office. Leases are principally negotiated for 1 year and rentals are fixed over the lease terms and do not include contingent rentals.

29. PLEDGED OF ASSETS

As at 31 December 2017, all of the issued shares of a subsidiary of the Group, Qingdao Zhongtian Enterprise Development Company Limited (2016: Nil), and the Group's properties with the following carrying amounts were pledged to secure bank and other borrowings (note 22).

	2017	2016
	RMB'000	RMB'000
Investment properties (note 13)	**790,900**	689,570
Leasehold land and building held under operating lease (note 14)	**8,069**	8,237
	798,969	697,807

30. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2017, the directors are of the view that related parties of the Group include the following individuals:

Name of related party	Relationship with the Group
Chen Jun	Son of Chen Dezhao, executive director and chief executive office of the Company since 2 November 2017, legal representative and director of the PRC subsidiaries, and ultimate controlling party of the Company
Chen Dezhao	Executive director of the Company, father of Chen Jun
Zhao Yun	Former executive director and former chief executive officer of the Company, resigned on 2 November 2017

30. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Saved for as disclosed in note 31 and elsewhere in the financial statements, the Group has the following related party balances and transactions:

(a) Amounts due to directors

	2017	2016
	RMB'000	RMB'000
Chen Dezhao	**323**	191
Zhao Yun	**–**	30
	323	221

The amounts due are unsecured, interest-free and repayable on demand.

(b) Amount due to the ultimate controlling party of the Company

	2017	2016
	RMB'000	RMB'000
Chen Jun	**15,244**	13,858

The amount due is unsecured, interest-free and repayable on demand.

30. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with a related company

	2017 RMB'000	2016 RMB'000
Rental expenses paid to a related company		
– Motor vehicle	**141**	139
	141	139

Rental expenses were paid to a related company, for which Mr. Chen Jun, the ultimate controlling party of the Company is a director of the related company.

(d) Key management personnel remuneration

Remuneration for key management personnel, including amount paid to the Company's directors as disclosed in note 10 is as follows:

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	**495**	544
Post-employment benefits	**18**	58
	513	602

31. ACQUISITION OF BUSINESS – 2016

On 13 November 2015, the Group and Mr. Chen Jun, then substantial shareholder and former director of the Company, entered into a sale and purchase agreement (the "SPA") based on which, the Group agreed to acquire and Mr. Chen Jun agreed to sell the entire equity interests of Golden Century Trade Limited and its subsidiaries (the "Golden Century Group") at the consideration, comprising cash of RMB20,000,000 and 124,000,000 new ordinary shares at the par value of HK$0.01 each of the Company at the issue price of HK$1.35 per share, after an arm's length of negotiations (the "Acquisition"). In the Company's circular dated 6 March 2016 for the Acquisition, the Company's two joint independent financial advisers also provided an opinion to the Company's independent shareholders (excluding Mr. Chen Jun and his associates) that the consideration for the Acquisition was fair and reasonable. At the Company's extraordinary general meeting held on 22 March 2016, the Acquisition was approved by the independent shareholders of the Company. The Acquisition was completed on 31 March 2016 (the "Completion date"). The fair value of the consideration at the Completion Date was RMB128,248,000, including the fair value of RMB108,248,000 for those 124,000,000 new ordinary shares of the Company, determined by reference to the closing market price of the Company's shares on the issue date which was also the Completion date.

On the Completion date, the business activities of the Golden Century Group were property development, leasing and investment. The directors of the Company considered that the acquisition of the Golden Century Group could enrich its property portfolio, strengthen management expertise of the Group in property development, leasing and management, bring in synergy and enhance the competitive edge of the Group.

31. ACQUISITION OF BUSINESS – 2016 *(Continued)*

(a) The fair value of assets and liabilities of the Golden Century Group at the Completion Date, were as follows:

	Amounts recognised (at fair value) RMB'000
Fair value of assets and liabilities acquired of:	
Investment properties (note (i))	592,350
Property, plant and equipment	146
Cash and cash equivalents	737
Trade and other receivables	30,185
Other loan receivables (note (ii))	137,587
Trade payables	(16,935)
Other payables	(50,917)
Tax payable	(122)
Amount due to a shareholder of the Company	(10,290)
Bank and other borrowings	(370,006)
Deferred tax liabilities	(156,913)
Net identifiable assets and liabilities	155,822
Gain on bargain purchase from business combination (note (iv))	(27,574)
Total consideration	128,248
Fair value of consideration transferred	
– by shares (note (iii))	108,248
– by cash	20,000
	128,248

	RMB'000
Analysis of the net outflow of cash and cash equivalents in respect of the Acquisition:	
Cash consideration paid	(20,000)
Cash and cash equivalent acquired	737
Net outflow of cash and cash equivalents in respect of the Acquisition	(19,263)

31. ACQUISITION OF BUSINESS – 2016 *(Continued)*

(a) The fair value of assets and liabilities of the Golden Century Group at the Completion Date, were as follows: *(Continued)*

Notes:

(i) The fair value of the investment properties of the Golden Century Group at the Completion Date was determined by the directors of the Company by reference a valuation report performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of valuers who has, amongst its staff, fellow of members of chartered surveyors with qualification and recent experiences in the location and category of similar properties being valued. The fair value of the investment properties were categorised as Level 3 valuation in the fair value hierarchy and the valuation methodologies and approaches are further disclosed in note 13.

(ii) These loans were receivable from certain independent third parties which had fully repaid the principal of these other loans subsequent to completion of the Acquisition.

(iii) The fair value for 124,000,000 new ordinary shares of HK$0.01 each of the Company at the issue date was approximately HK$130,200,000 (equivalent to approximately RMB108,248,000), which was determined by reference to the closing market price of the shares of the Company at HK$1.05 per share at the issue date which is also the Completion Date.

(iv) Prior to entering into the SPA, the consideration price for the Acquisition was determined after an arm's length of negotiations made between the Group and Mr. Chen Jun. The gain on bargain purchase arising from the Acquisition was mainly arising from decrease in the fair value of those 124,000,000 shares of the Company as part of the consideration, due to the drop in the price of the Company's shares from the date of the SPA to the Completion Date.

(v) The Group incurred transaction costs of approximately HK$2,777,000 for the Acquisition, of which, approximately RMB1,002,000 (equivalent to HK$1,247,000) and RMB1,310,000 (equivalent to HK$1,530,000) were expensed and included in general and administrative expenses for the years ended 31 December 2015 and 2016, respectively.

(b) Since the completion of the Acquisition, the Golden Century Group contributed RMB29,226,000 to the Group's revenue and a profit of RMB40,645,000 to the Group's profit for the year ended 31 December 2016.

Had the Acquisition took place at the beginning of the last reporting period, the revenue and the profit of the Group for the year ended 31 December 2016 would have been RMB41,530,000 and RMB60,214,000 respectively.

32. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2017 RMB'000	2016 RMB'000
Non-current asset			
Interests in subsidiaries, at cost less impairment		**213,160**	213,160
Current assets			
Other receivables		**175**	188
Amounts due from subsidiaries		**34,550**	33,917
Cash and cash equivalents		**257**	15
		34,982	34,120
Current liabilities			
Other payables		**8,955**	6,991
Amounts due to directors		**323**	221
Amount due to a subsidiary		**80**	80
		9,358	7,292
Net current assets		**25,624**	26,828
Net assets		**238,784**	239,988
Capital and reserves			
Share capital	24	**3,667**	3,667
Reserves	25	**235,117**	236,321
Total equity		**238,784**	239,988

33. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs and interpretations mentioned below, the directors anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 which are relevant to the Group are as follows:

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

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

- For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised in profit or loss.

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

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

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

The amendments revise existing requirements in HKFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) in the case of negative compensation payments (where the lender has to make a settlement payment in the event of termination by the borrower).

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

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.

This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

The directors do not anticipate that the application of the HKFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer.

The directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amount of revenue recognised in the respective reporting periods.

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 16 Leases

As disclosed in note 2(g), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 28, as at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB120,000, the amount is payable within 1 year, which is not expected to be impacted by the new standard.

HK(IFRIC)-Int 22 Foreign Currency Transactions and Advance Consideration

HK(IFRIC)-Int 22 addresses how to determine the "date of transaction" for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

The directors of the Company do not anticipate that the application of both interpretations will have a material impact on the Group's financial statements.

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments specifically clarified how market and non-market vesting conditions and non-vesting conditions should be reflected in the measurement of a cash-settled share-based payment transaction.

The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group's financial statements as the Group does not have any cash-settled share-based payment transactions.

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction. For example, change in use for transfer from properties under development for sale in the ordinary course of business to investment properties could be evidenced by inception of an operating lease to another party. Currently, the Group accounts for such transfer only upon commencement of an operating lease.

The directors anticipate that the application of these amendments will result in early recognition of such transfers on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

34. ULTIMATE CONTROLLING PARTY

At the end of the reporting period and at the date of approval for the consolidated financial statements, the ultimate controlling party of the Company is Mr. Chen Jun.

FINANCIAL SUMMARY

For the year ended 31 December 2017

	For the year ended 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Revenue	9,702	12,200	3,855	31,414	**43,429**
Profit/(loss) from operations	(2,001)	(17,977)	(7,093)	102,050	**152,279**
Finance costs	–	–	(291)	(16,124)	**(40,130)**
Profit/(loss) before income tax	(2,001)	(17,977)	(7,384)	85,926	**112,149**
Income tax (expense)/credit	291	(717)	(203)	(28,982)	**(28,668)**
Profit/(loss) for the year attributable to owners of the Company	(1,710)	(18,694)	(7,587)	56,944	**83,481**

	As at 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and liabilities					
Total assets	114,329	141,025	179,669	739,071	**1,502,523**
Total liabilities	(21,570)	(33,788)	(38,452)	(436,003)	**(1,116,293)**
	92,759	107,237	141,217	303,068	**386,230**

PARTICULARS OF INVESTMENT PROPERTIES

Address	Use	Lease Term	Approximate gross floor area	Group's interest
11 commercial units, 24 office units, 244 underground car parking spaces and an underground storage unit of Zhongtian Building No. 38 Shandongtou Road Laoshan District Qingdao City Shandong Province The PRC	Commercial use	Medium-term lease	22,749 sq.m.	100%
All office units on Level 19 (currently known as 21st Floor) Huaren International Building No. 2 Shandong Road Shinan District Qingdao City Shandong Province The PRC	Commercial use	Medium-term lease	1,511 sq.m.	100%
A parcel of land No. 877 Huihai Road Chengyang District Qingdao City Shandong Province The PRC	Commercial use	Medium-term lease	91,165 sq.m.	100%