



Chen Xing Development Holdings Limited

辰興發展控股有限公司

(Incorporated in Cayman Islands with limited liability)

(於開曼群島註冊成立的有限公司)

Stock code: 2286

股份代號：2286

誠以致遠，
信達天下

2017

ANNUAL REPORT

年度報告

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Bai Xuankui *(Chairman)*
Mr. Bai Wukui
Mr. Bai Guohua
Mr. Dong Shiguang

Independent Non-executive Directors

Mr. Gu Jiong
Mr. Tian Hua
Mr. Qiu Yongqing

COMPANY SECRETARY

Ms. Ng Wing Shan

AUTHORIZED REPRESENTATIVES

Mr. Bai Guohua
Ms. Ng Wing Shan

AUDIT COMMITTEE

Mr. Gu Jiong *(Chairman)*
Mr. Tian Hua
Mr. Qiu Yongqing

REMUNERATION COMMITTEE

Mr. Tian Hua *(Chairman)*
Mr. Gu Jiong
Mr. Bai Xuankui

NOMINATION COMMITTEE

Mr. Bai Xuankui *(Chairman)*
Mr. Qiu Yongqing
Mr. Gu Jiong

AUDITOR

Ernst & Young

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
China Merchants Bank Co., Ltd.
China Construction Bank Corporation
Bank of China Limited
Bank of Jinzhong Co., Ltd.

CORPORATE INFORMATION

LEGAL ADVISORS

As to Hong Kong law
Mayer Brown JSM

As to PRC law
Jingtian & Gongcheng

REGISTERED OFFICE

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
(the "Stock Exchange")

STOCK CODE

2286

COMPANY WEBSITE

www.chen-xing.cn

FINANCIAL HIGHLIGHTS

- For the year ended 31 December 2017 (the “**Reporting Period**”), contracted sales of Chen Xing Development Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) amounted to RMB1,489.5 million and the corresponding contracted gross floor area (“**GFA**”) amounted to approximately 237,638 sq.m., representing a decrease of 11.8% and 27.3% comparing with the same period last year, respectively;
- Revenue for the Reporting Period amounted to RMB1,076.7 million, of which RMB1,069.0 million was revenue from property development;
- Gross profit for the Reporting Period amounted to RMB376.3 million, of which RMB368.7 million was gross profit from property development;
- Net profit for the Reporting Period amounted to RMB179.6 million, of which RMB170.5 million was net profit attributable to equity holders of the Company;
- Total GFA of land bank amounted to 2,231,868 sq.m. and the average cost of land bank was RMB717.9 per sq.m. as at the end of Reporting Period;
- Contracted average sales price (the “**Average Sales Price**”) for the Reporting Period was RMB6,267.9 per sq.m.;
- Basic earnings per share for the Reporting Period was RMB0.34; and
- The board (the “**Board**”) of directors (the “**Directors**”) of the Company proposed a final dividend for the year ended 31 December 2017 of HK\$ 0.2 per share.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present the annual results of the Group for the year ended 31 December 2017.

REVIEW OF ANNUAL RESULTS FOR 2017

2017 was the “year of control” for the property industry across China. Based on “properties are for accommodation but not for speculation”, the policy on the property industry insisted to implement control measures in property market across China. On one hand, measures were implemented on a city-by-city basis and regulation was carried out by classification. Heated cities focused on curbing property market bubbles while cities with high inventory level continued to focus on de-stocking; on the other hand, control policies such as restrictions on property purchases and mortgage loans and encouragements on both renting and purchasing were released frequently, the structure of land supply improved and the land transaction volume and supply increased significantly. The Group adjusted its operating strategy timely according to industry policies, achieving a significant growth in sales performance and revenue from its main businesses.

During the Reporting Period, the amount of the Group's contracted sales were RMB1,489.5 million, representing a decrease of 11.8% as compared to the same period last year. Contracted GFA amounted to 237,638 sq.m., representing a decrease of 27.3% as compared with that in the same period of last year.

During the Reporting Period, the Group recorded a revenue of approximately RMB1,076.7 million, representing a decrease of approximately 0.5% as compared to the same period of last year, including revenue from property development of approximately RMB1,069.0 million, a decrease of approximately 0.5% as compared to the same period of last year. The profit attributable to equity owners of the Group was approximately RMB170.5 million, an increase of 12% as compared to the same period of last year, which was mainly due to an increase in the net profit as the wealth management income increased and the cost of property sales decreased.

In respect of land bank, the Group continued its prudent strategy in land and equity acquisitions in respect

CHAIRMAN'S STATEMENT

of developments. On 13 April 2017 and 15 September 2017, the Group added two wholly-owned subsidiaries through equity acquisition. These two companies operate in Haikou City, Hainan Province, and have land bank of 43,795.32 sq.m. and 87,021.33 sq.m. respectively.

As at 31 December 2017, the Group had a land bank of approximately 2,231,868 sq.m..

FINAL DIVIDEND

The Board recommended the payment of a final dividend for the year ended 31 December 2017 of HK\$0.2 per share (the “**Final Dividend**”). The Final Dividend will be paid subject to the approval of the Company’s Shareholders (“**Shareholders**”) at the forthcoming annual general meeting of the Company to be convened on Thursday, 31 May 2018. The dividend yield for the year is 49% of the profit attributable to owners for the year.

PROSPECT FOR 2018

As the 19th Congress and the National Conference of the Communist Party pointed out industry policies such as insisting on the position of “properties are for accommodation but not for speculation”, speeding up the development of housing system with multi-body supply, multi-channel security and encouragements on both renting and purchasing, adhering to the control target, it can be anticipated that control policies will continue in 2018. At the same time, coexistence of policies to stimulate urbanization and curb property bubbles will continue for a long period of time.

According to the current market situation of China’s real estate market and the Group’s judgement on future development trend, in 2018, the Group will continue with the strategic position to accelerate its development, and expand its scale. It will continue to focus on developing residential properties for buyers of rigid demand, reducing the development cycle during the development, controlling the development cost effectively and increasing its industry competitiveness. Meanwhile, it will position its products accurately to create products and services with higher quality and increase the market competitiveness of the products. The Group will continue to carry out company management reformation, strengthen its standardization and modularization in management and enhancing its ability in response to market changes.

In respect of land investment, land bank is of the essence. The Group will actively search for land-banking channels, grasp opportunities for land investment and select land parcels in cities with investment value as lands bank. In addition, the Group will actively seek for strategic partners as well as a win-win cooperative development model, with an aim to achieve accelerated growth and create greater benefits for the Group, partners and the Shareholders.



CHAIRMAN'S STATEMENT

ACKNOWLEDGEMENT

Finally, I would like to express my sincerest gratitude on behalf of the Board to the management and staff of the Company for their hard work. At the same time, I would also like to thank investors, customers and partners for their great support and trust on the Group.

Bai Xuankui
Chairman

Jinzhong, Shanxi, the PRC
27 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, the amount of the Group's contracted sales were RMB1,489.5 million, representing a decrease of 11.8% as compared to the same period last year. During the Reporting Period, the Group's revenue was RMB1,076.7 million, representing a decrease of 0.5% as compared to the same period last year. Revenue derived from property development was RMB1,069.0 million, representing a decrease of 0.5% as compared to the same period last year. During the Reporting Period, the Group had net profit of RMB179.6 million of which net profit attributable to equity holders of the Company was RMB170.5 million.

CONTRACTED SALES

For the years ended 31 December 2017 and 2016, the amount of the Group's contracted sales were approximately RMB1,489.5 million and RMB1,689.1 million, respectively, representing a decrease of 11.8%. Contracted total GFA for the years ended 31 December 2017 and 2016 were 237,638 sq.m. and 326,957 sq.m., respectively, representing a decrease of 27.3% as compared to the same period last year. The Group's contracted sales from Jinzhong, Taiyuan and Mianyang by geographic location were approximately RMB34.8 million, RMB1,017.3 million and RMB437.4 million, respectively, accounting for approximately 2.3%, 68.3% and 29.4%, of the Group's total contracted sales respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the Group's contracted sales as at 31 December 2017 by geographic location:

	Contracted Sales for 2017 (RMB million)	Contracted Sales for 2016 (RMB million)	Contracted GFA for 2017 (sq.m.)	Contracted GFA for 2016 (sq.m.)	Contracted Average Sales Price for 2017 (RMB/sq.m.)	Contracted Average Sales Price for 2016 (RMB/sq.m.)
Jinzhong						
Riverside Gardens-Heshun (和順濱河小區)	—	1.6	—	833	—	1,920.7
Upper East Gardens (上東庭院) Phase II	6.1	4.2	1,326	894	4,632.0	4,698.7
Grand International Apartments (君豪公寓)	2.6	6.0	655	1,401	4,001.6	4,272.2
Xin Xing International Cultural Town (新興國際文教城) (Phases III, IV and V)	26.1	37.0	5,812	9,428	4,496.1	3,926.2
Taiyuan						
Yosemite Valley Town — Taiyuan (龍城優山美郡) (Phase I)	568.0	477.9	72,323	84,247	7,854.2	5,673.1
Yosemite Valley Town — Taiyuan (龍城優山美郡) (Phase II)	449.3	530.7	63,165	90,235	7,113.1	5,881.5
Mianyang						
Yosemite Valley Town — Mianyang (綿陽優山美郡)	12.7	78.3	3,008	19,786	4,230.2	3,956.4
Elite Gardens (綿陽天御)	10.8	50.3	3,279	12,825	3,303.9	3,919.0
Chang Xing Star Gardens (綿陽長興星城)	413.9	503.1	88,070	107,308	4,700.2	4,688.2
Total	1,489.5	1,689.1	237,638	326,957	6,267.9	5,166.1

Note:

Contracted sales, total contracted GFA and contracted Average Sales Price in the above table also include car parking spaces sold, if applicable.

MANAGEMENT DISCUSSION AND ANALYSIS

Property Projects

The Group's property projects are divided into the following three categories depending on their development stage: completed properties, properties under development and properties held for future development. As some of projects are developed successively in several phases, a single project may involve different development phases like completed, under development and held for future development.

As at 31 December 2017, the Group had a completed total GFA of 2,477,834 sq.m. and a land bank with a total GFA of 2,231,868 sq.m. comprising (i) a total GFA of 414,679 sq.m. which is completed but unsold; (ii) a total GFA of 1,251,346 sq.m. which is under development; and (iii) a total planned GFA of 565,843 sq.m. held for future development.

The Group selectively retains the ownership of substantially all self-developed commercial properties with a strategic value to generate sustainable and stable revenue. As at 31 December 2017, the Group had investment properties with a total GFA of 21,613 sq.m..

MANAGEMENT DISCUSSION AND ANALYSIS

Property Portfolio Summary

Intended use ⁽¹⁾	Completed Total GFA (sq.m.)	Under development Total GFA (sq.m.)	Held for future development Total GFA (sq.m.)
Mid-rise	786,168	91,322	133,017
High-rise	869,067	625,390	159,480
Townhouses	27,612	—	—
Multi-story garden apartments	576,743	21,735	54,452
Retail Outlets	146,902	176,256	114,523
SOHO apartments	6,931	—	15,791
Hotels	—	12,182	35,831
Parking Spaces	59,524	319,705	40,000
Ancillary ⁽²⁾	4,887	4,756	12,749
Total GFA	2,477,834	1,251,346	565,843
Attributable GFA⁽³⁾	2,392,182	951,310	544,206

Notes:

- (1) Includes the portion of GFA held by the Group as utilities not saleable or leasable.
- (2) Comprises primarily utilities which are not available for sale.
- (3) Comprises the portion of the total GFA attributable to the Group based on the Group's effective interest in the relevant projects or project phases.

MANAGEMENT DISCUSSION AND ANALYSIS

Completed Projects

The following table sets forth a summary of information on the Group's completed projects and corresponding project phases, if any, as at 31 December 2017:

Project	Project type	Actual completion date	Site area (sq.m.)	Completed GFA (sq.m.)	Saleable/Leasable GFA		GFA sold (sq.m.)	Other GFA ⁽¹⁾ (sq.m.)	Ownership interest ⁽²⁾ (%)
					remaining unsold (sq.m.)	held for investment (sq.m.)			
Jinzhong									
1. East Lake Mall (東湖井)	Retail outlet	July 2000	1,330	17,886	—	10,610	7,276	—	100
2. Grand International Mall & Apartments (君豪國際)	Residential/ Commercial	June 2007	7,465	65,544	9,874	8,241	47,429	—	100
3. Blossom Gardens (錦綉新城)	Residential	April 2007	5,261	39,080	—	—	39,080	—	100
4. Xin Xing International Cultural Town (新興國際文教城)									
Phase I	Residential	December 2005	5,600	24,602	—	—	24,602	—	100
Phase II	Residential/ Commercial	April 2012	17,968	93,060	161	—	92,748	151	100
Phase III	Residential/ Commercial	December 2009	255,918	545,046	3,321	—	541,725	—	100
Phase IV	Residential/ Commercial	July 2016	30,987	71,106	4,055	—	67,051	—	100
Phase V	Residential/ Commercial	July 2016	22,578	50,438	4,245	—	45,158	1,035	100
5. Upper East Gardens (上東庭院)									
Phase I	Residential/ Commercial	November 2006	19,361	47,926	—	—	47,926	—	100
Phase II	Residential/ Commercial	December 2011	24,343	75,889	234	—	75,655	—	100
6. Riverside Gardens — Zuoqua (左權濱河嘉園)	Residential/ Commercial	December 2007	73,035	98,545	—	—	97,990	555	100
7. SOLO Apartments (尚座公寓)	Commercial/ Complex	September 2009	2,411	9,783	256	—	9,527	—	100

MANAGEMENT DISCUSSION AND ANALYSIS

Project	Project type	Actual completion date	Site area (sq.m.)	Completed GFA (sq.m.)	Saleable/Leasable GFA		GFA sold (sq.m.)	Other GFA ⁽¹⁾ (sq.m.)	Ownership interest ⁽²⁾ (%)
					remaining unsold (sq.m.)	held for investment (sq.m.)			
8. Riverside Gardens – Heshun (和順濱河小區)									
Phase I	Residential	June 2008	60,100	62,507	–	–	62,167	340	100
Phase II	Residential	October 2012	5,898	51,217	–	–	51,217	–	100
9. Mandarin Gardens – Taigu (太谷文華庭院)									
	Residential/Commercial	May 2011	30,690	51,525	–	–	51,525	–	100
10. Shuncheng Street Underground Space (順城街地下空間)									
	Retail outlet	August 2015	–	897	–	–	897	–	100
Taiyuan									
1. Yosemite Valley Town – Taiyuan (龍城優山美郡) – Part of Southern District, Phase I									
	Residential/Commercial	December 2014	115,050	340,038	40,320	–	299,718	–	100
2. Yosemite Valley Town – Taiyuan (龍城優山美郡) – Part of Northern District, Phase I									
	Residential	November 2016	83,279	301,078	115,622	–	185,456	–	100
Mianyang									
1. Yosemite Valley Town – Mianyang (綿陽優山美郡)									
	Residential/Commercial	May 2012	74,124	126,329	18,778	–	105,706	1,845	83.89
2. Elite Gardens (綿陽天御)									
	Residential/Commercial	September 2014	68,529	116,888	16,200	–	100,001	687	83.89
3. Chang Xing Star Gardens (Phase I) (綿陽星城一期)									
	Residential/Commercial	June 2017	68,150	288,450	201,613	–	85,516	1,321	83.89
Total			972,077	2,477,834	414,679	18,851	2,038,370	5,934	
Total Attributable GFA⁽³⁾			938,117	2,392,182	376,564	18,851	1,991,454	5,313	

Notes:

- (1) Includes the portion of GFA held by the Group as utilities not saleable or leasable.
- (2) Calculated based on the Group's effective ownership interest in the respective project companies.
- (3) Comprises the portion of the total GFA attributable to the Group based on the Group's effective interest in the relevant projects or project phases.

MANAGEMENT DISCUSSION AND ANALYSIS

Properties under Development and Properties Held for Future Development

The following table sets forth a summary of information on the Group's projects under development and corresponding project stages, if any, and properties held for future development as at 31 December 2017:

Project	Project type	Site area (sq.m.)	Actual/ Estimated completion date	Under development			Held for future development		
				GFA under development (sq.m.)	Saleable/ Leasable GFA (sq.m.)	GFA pre-sold (sq.m.)	Planned GFA (sq.m.)	GFA with the land use right certificate not yet obtained (sq.m.)	Ownership interest ⁽¹⁾ (%)
Jinzhong									
1.	Phase I of Longtian Project (龍田項目一期)	129,049		449,634	428,000	27,161	—	—	51
	Stage I	14,346	October 2018	78,954	74,203	27,161	—	—	51
	Stage II	24,367	October 2018	110,725	101,386	—	—	—	51
	Stage III	26,682	December 2019	126,120	121,061	—	—	—	51
	Stage IV	13,422	November 2018	28,819	28,819	—	—	—	51
	Stage V	50,232	October 2018	105,016	102,531	—	—	—	51
2.	Beiliubao (北六堡)	63,173		116,149	114,704	—	44,157	—	51
	Phase I	46,763	December 2018	116,149	114,704	—	—	—	51
	Phase II	16,410	December 2019	—	—	—	44,157	—	51
Taiyuan									
1.	Yosemite Valley Town — Taiyuan (龍城巒山美郡)	220,161		531,838	447,674	189,945	232,693	—	100
	Phase I (Southern District)	2,078	May 2018	72,399	72,325	35,732	—	—	100
	Phase I (Northern District)	24,726	December 2018	90,855	20,173	813	—	—	100
	Phase II	111,477	December 2018	368,584	355,176	153,400	8,893	—	100
	Phase III	60,080	December 2019	—	—	—	212,400	—	100
	Phase IV	21,800	December 2018	—	—	—	11,400	—	100

MANAGEMENT DISCUSSION AND ANALYSIS

Project	Project type	Site area (sq.m.)	Actual/ Estimated completion date	Under development			Held for future development		Ownership interest ⁽¹⁾ [%]
				GFA under development (sq.m.)	Saleable/ Leasable GFA (sq.m.)	GFA pre-sold (sq.m.)	Planned GFA (sq.m.)	GFA with the land use right certificate not yet obtained (sq.m.)	
Mianyang									
1. Chang Xing Star Gardens (綿陽長興星城)		36,158		141,543	—	—	—	—	83.89
Phase II	Residential/ Commercial	36,158	May 2019	141,543	—	—	—	—	83.89
Haikou									
1. Degao (德高)	Commercial	43,795	April 2020	—	—	—	65,692	—	100
2. Yousheng (友升)	Residential	87,021	April 2020	—	—	—	104,426	—	100
Wuzhishan									
Phase I	Commercial	28,745	December 2018	12,182	— ⁽²⁾	—	35,831	—	100
Phase II	Residential	23,827	October 2019	—	— ⁽²⁾	—	28,592	—	100
Phase III	Residential	18,244	October 2019	—	— ⁽²⁾	—	21,893	—	100
Phase IV	Residential	21,706	October 2020	—	— ⁽²⁾	—	32,559	—	100
Total		671,879		1,251,346	990,378	217,106	565,843	—	
Total Attributable GFA⁽²⁾				951,310	724,453	203,797	544,206	—	

Notes:

- (1) Calculated based on the Group's effective ownership interest in the respective project companies.
- (2) Comprises the portion of the total GFA attributable to the Group based on the Group's effective interest in the relevant projects or project phases.
- (3) On 28 September 2017, Hainan Provincial People's Government issued the "Hainan Provincial People's Government's Opinion on Further Deepening the Policy of 'Two Suspensions' to Promote the Steady and Healthy Development in Real Estate" (《海南省人民政府關於進一步深化「兩個暫停」政策促進房地產業平穩健康發展的意見》) (Qiong Fu [2017] No. 76), and proposed "to permanently suspend the construction of new real estate projects for foreign sale in four central ecological core areas of Wuzhishan, Baoting, Qiongzong and Baisha; while the Provincial Housing and Urban-Rural Development Department would work together with the Provincial Planning Commission, the Provincial Department of Land Resources and other departments to formulate another implementation plan with consideration of the situation of commercial residential land use in the central ecological core area of the four cities and counties, which will be promulgated for implementation after approval by the Provincial Government." "Cities and counties, especially the four central ecological core areas, are encouraged to regulate the use of land in accordance with the law, re-direct the existing supply of commercial residential land to the development in business operation properties such as tourism, culture, education, medical care, health care and commercial use, and promote the transformation of property development. For the existing commercial residential land that cannot be used for residential development due to the factors of planning adjustment, the municipal and county governments can use different approaches in accordance to the laws, including the recovery of land use rights, replacement, extension of the limitation on construction period and arrangement of temporary use, etc." As of now, the government has not yet to release its implementation plan. The Company's Wuzhishan project is affected by the policy and there is uncertainty with its subsequent development.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth a summary of information on the Group's investment properties as at 31 December 2017:

Project	Type of property	Total GFA held for investment (sq.m.)	Effective leased GFA (sq.m.)	Occupancy rate (%)	Rental income for the year ended 31 December	
					2017 (RMB million)	2016
Grand International Mall & Apartments (君豪國際)	Retail outlet	8,241	3,376	69.7	2.8	3.2
East Lake Mall (東湖井)	Retail outlet	10,610	9,584	100	1.6	1.5
Office Building of West Yingbin Street (迎賓西街辦公樓)	Retail outlet	2,762	2,762	100	3.3	3.4
Total		21,613	15,722	—	7.7	8.1

The table below sets forth a summary of the Group's land bank as at 31 December 2017 by geographical location:

	Completed	Under development	Future development	Total land bank ⁽¹⁾	% of total land bank	Average land cost
Saleable/Leasable GFA remaining unsold (sq.m.)	GFA under development (sq.m.)	Planned GFA (sq.m.)	Total GFA (sq.m.)	(%)	(RMB/sq.m.)	
Jinzhong	22,146	565,783	44,157	632,086	28.3	817.6
Taiyuan	155,942	531,838	232,693	920,473	41.2	393.5
Mianyang	236,591	141,543	—	378,134	16.9	643.5
Haikou	—	—	170,118	170,118	7.7	2,201.8
Wuzhishan	—	12,182	118,875	131,057	5.9	1,192.1
Total	414,679	1,251,346	565,843	2,231,868	100.0	717.9

Note:

- (1) Land bank equals the sum of (i) saleable/leasable GFA remaining unsold, (ii) total GFA under development and (iii) total planned GFA held for future development.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth a summary of the Group's land bank as at 31 December 2017 by type of property:

	Completed	Under development	Future development	Total land bank ⁽¹⁾	% of total land bank
Saleable/ Leasable GFA	remaining unsold (sq.m.)	GFA under development (sq.m.)	Planned GFA (sq.m.)	Total GFA (sq.m.)	(%)
Mid-rise	5,147	91,322	133,017	229,486	10.3
High-rise	266,202	625,390	159,480	1,051,072	47.1
Townhouses	1,909	—	—	1,909	0.1
Multi-story garden apartments	16,400	21,735	54,452	92,587	4.1
Available-for-sale office/ commercial properties	66,908	176,256	114,523	357,687	16.0
SOHO apartments	58	—	15,791	15,849	0.7
Hotels	—	12,182	35,831	48,013	2.2
Parking spaces	58,055	319,705	40,000	417,760	18.7
Ancillary ⁽²⁾	—	4,756	12,749	17,505	0.8
Total	414,679	1,251,346	565,843	2,231,868	100.0

Notes:

(1) Land bank equals the sum of (i) saleable/leasable GFA remaining unsold, (ii) total GFA under development and (iii) total planned GFA held for future development.

(2) Comprises primarily utilities which are not available for sale.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group's revenue was RMB1,076.7 million, representing a decrease of 0.5% from RMB1,082.0 million for the same period last year. The decrease was mainly due to the completion of only Chang Xing Star Gardens during the Reporting Period, while other projects were in the clearance stage of the remaining units during the Reporting Period which generated a slight decrease in revenue.

The Group's revenue from property development during the Reporting Period was RMB1,069.0 million, representing a decrease of 0.5% as compared to the same period last year. The decrease was primarily due to a decrease in revenue from property development of the Company since only Chang Xing Star Gardens was completed during the Reporting Period, while other projects were in the selling stage of the remaining units.

Sales and Services Cost

The Group's sales and services cost decreased by 6% from approximately RMB745.3 million for the year ended 31 December 2016 to approximately RMB700.3 million during the year ended 31 December 2017, which was mainly due to a corresponding decrease in cost of sales with the decrease in the sales for the year.

Gross Profit

During the Reporting Period, the Group's gross profit was RMB376.3 million, representing an increase of 12% from RMB336.7 million for the year ended 31 December 2016. The gross profit margin was 35% during the Reporting Period, as compared to 31% for the year ended 31 December 2016.

During the Reporting Period, the Group's gross profit of property development was RMB368.7 million, representing an increase of 12% from RMB329.1 million for the year ended 31 December 2016. The increase in the gross profit of property development of the Group was mainly due to the increase in the gross profit of property development of the project of Chang Xing Star Gardens.

During the Reporting Period and for the year ended 31 December 2016, the gross profit margin of property development of the Group was 34% and 31%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income and Gains

The Group's other income and gains were RMB25.7 million during the Reporting Period, as compared to RMB10.2 million for the year ended 31 December 2016, which was primarily due to the increase in the gains from financial assets investments.

Net Profit Attributable to Owners of the Company

During the Reporting Period, net profit attributable to owners of the Company was RMB170.5 million, representing an increase of 12% from RMB151.8 million for the year ended 31 December 2016. The increase of the net profit attributable to owners of the Company which was primarily due to the increase in net profit of the Group as a result of the increase in wealth management income and the decrease in the sales and services costs for the year.

Change in Fair Value of Investment Properties

The Group's change in fair value of investment properties decreased from RMB164.0 million for the year ended 31 December 2016 to RMB163.0 million for the year ended 31 December 2017, which was primarily due to the decrease in fair value of Grand International Mall.

Selling and Distribution Expenses

The Group's selling and distribution expenses decreased by 21% from RMB58.9 million for the year ended 31 December 2016 to RMB46.6 million for the year ended 31 December 2017, which was primarily due to the decrease of RMB13.8 million in advertising expenses during the Reporting Period.

Administrative Expenses

The Group's administrative expenses increased by 19% from RMB38.1 million for the year ended 31 December 2016 to RMB45.2 million for the year ended 31 December 2017. This was primarily due to the substantial increase in the expense for project visits during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

The Group's finance costs increased by 79% from RMB3.8 million for the year ended 31 December 2016 to RMB6.8 million for the year ended 31 December 2017, which was primarily due to the increase of loans during the Reporting Period.

Income Tax Expense

The Group's income tax expense increased from RMB89.4 million for the year ended 31 December 2016 to RMB116.5 million for the year ended 31 December 2017, which was primarily due to the increase in profit before tax.

Profit and Total Comprehensive Income for the Year

As a result of the foregoing, the Group's profit and total comprehensive income for the year increased from RMB150.5 million for the year ended 31 December 2016 to RMB176.4 million for the year ended 31 December 2017.

Cash Position

As at 31 December 2017, the Group's cash and cash equivalents were RMB282.5 million, representing a decrease of 3% as compared to RMB290.6 million as at 31 December 2016.

Net Operating Cash Flow

The Group recorded a negative operating cash flow of RMB320.8 million as at 31 December 2017 while the Group recorded a positive operating cash flow of RMB831.1 million as at 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowings

The Group had outstanding bank borrowings of RMB446.0 million as at 31 December 2017 while the Group had outstanding bank borrowings of RMB281.0 million as at 31 December 2016.

Pledged Assets

Some of the Group's borrowings were secured by its properties under development and investment properties or combinations of the above. As at 31 December 2017, the assets pledged to secure certain borrowing granted to the Group amounted to RMB587.2 million.

Financial Guarantees and Contingent Liabilities

In line with market practice, the Group has entered into schemes of arrangement with various banks for the provision of mortgage financing to its customers. The Group does not conduct any independent credit checks on customers, but relies on credit checks conducted by mortgagee banks. As with other property developers in the PRC, the banks usually require the Group to guarantee its customers' obligation to repay the mortgage loans on the properties. The guarantee period normally lasts until the time when the bank receives the strata-title building ownership certificate (分戶產權證) from the customer as security of the mortgage loan granted. As at 31 December 2017, the Group's outstanding guarantees in respect of the mortgages of its customers amounted to RMB1,548.7 million.

The Group had no other material contingent liabilities as at 31 December 2017.

Gearing Ratio

As at 31 December 2017, based on the Group's total debt of approximately RMB446.0 million and total equity of approximately RMB1,107.7 million, the gearing ratio of the Group was 40% (31 December 2016: approximately 27%). The increase in gearing ratio was mainly due to an increase in total debt during the year.

Foreign Currency Risk

The Group operates mainly in the PRC. Most of its revenue and expenses are settled in RMB. The Group's exposure to foreign currency risk is the risk that the value of the bank balances denominated in HK dollar will fluctuate due to changes in foreign exchange rates. Due to the effects of various factors, such as the changes in the political and economic conditions in the PRC, the exchange rate of RMB against HK dollar may fluctuate. The Board expects that the fluctuation of RMB exchange rate will not have material and adverse effects to the Group. The Group does not have hedging policy in respect of the foreign currency risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Material Acquisitions and Disposals and Significant Investments

On 13 April 2017, Chenxing Real Estate Development Co., Ltd. (辰興房地產發展有限公司) (“**Chenxing**”), a domestic subsidiary of the Group, acquired 100% equity interest in Hainan DeGao Investment Co., Ltd. (海南德高投資有限公司) (“**Hainan Degao**”) at a maximum consideration of RMB250,000,000 (equivalent to approximately HK\$282,500,000). Hainan Degao, which was established under the laws of the PRC with limited liability on 30 May 2007, is not engaged in any business activity, and its major asset is a land parcel situated in Haikou High Technology Development District Medicine Valley Industrial Park, Hainan Province, the PRC with an aggregate area of 43,795.32 sq.m..

On 15 September 2017, Chenxing, a domestic subsidiary of the Group, acquired 100% equity interest in Hainan Yousheng Hongtor Real Estate Development Company Limited (海南友升宏拓房地產開發有限公司) (“**Yousheng Hongtor**”) at a consideration of RMB147,000,000 (equivalent to approximately HK\$174,930,000). Yousheng Hongtor, which was established under the laws of the PRC with limited liability on 3 March 2008, is not engaged in any business activity, and its major asset is a land parcel situated in Haiyu East Line in Haikou City, Hainan Province, the PRC with an aggregate area of 87,021.33 sq.m..

Save as disclosed in this annual report, the Group did not have any material acquisition and disposal and significant investment during the Reporting Period.

Future Plans for Material Investments or Capital Assets

The Group will continue to invest in property development projects and acquire suitable land parcels in selected cities, if it thinks fit. It is expected that internal resources and bank borrowings will be sufficient to meet the necessary funding requirements. Save as disclosed in the prospectus of the Company dated 22 June 2015 and mentioned above, the Group did not have any future plans for material investments as at the date hereof.

Employees and Remuneration Policies

During the Reporting Period, the Group had approximately 183 employees. During the Reporting Period, the Group incurred employee costs of approximately RMB23.5 million. Remuneration for the employees generally includes salary and performance-based quarterly bonuses. As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans of the municipal and provincial governments, including housing provident funds, pension, medical, maternity, occupational injury and unemployment benefit plans.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Bai Xuankui (白選奎), aged 65, is one of the founders and controlling shareholders of the Group. He is also an executive Director, chairman of the Board, chairman of the nomination committee and member of the remuneration committee of the Company as well as the chairman of Chen Xing. Mr. Bai Xuankui is also a director of White Empire (PTC) Limited, one of the controlling shareholders of the Company. Mr. Bai Xuankui has over 20 years of experience in property development, management and operation.

Mr. Bai Xuankui founded the Group in 2004 and since then has been leading the Group to engage in property development. Before founding the Group, Mr. Bai Xuankui worked at Xinxing Construction Ltd. (新興建築公司) where he successively served as assistant manager and manager from April 1983 to May 1992. In July 1993, he was appointed as deputy director of Yuci City Enterprise Management Bureau (榆次市城區企業管理局). From April 1998 to October 2001, he was appointed by People's Congress of Yuci City as commissioner of Yuci City Industrial Economic Commission (榆次市工業經濟委員會). From December 2001 to October 2010, he served as the chairman of Jinzhong City Yuci Region Federation of Industry & Commerce (晉中市榆次區工商業聯合會). From June 2007 to January 2015, Mr. Bai Xuankui had also been the vice chairman of Jinzhong City Federation of Industry & Commerce (晉中市工商業聯合會).

Mr. Bai Xuankui obtained a postgraduate certificate in master of business administration (工商管理碩士研究生文憑) issued by Tianjin University of Finance & Economics (天津財經學院), the PRC in November 2000. In December 2008, he obtained the qualification as a senior engineer from Shanxi Township Enterprise Engineering Series Senior Technical Position Evaluation Committee (山西鄉鎮企業工程系列高級技術職務評審委員會).

Mr. Bai Wukui (白武魁), aged 54, is the brother of Mr. Bai Xuankui and an executive Director and the chief executive officer of the Company. He is also the vice chairman and general manager of Chen Xing, executive director and general manager of Wuzhishan Chenxing Real Estate Development Co., Limited. (五指山辰興房地產開發有限公司), an indirect subsidiary of the Company, executive director of Sichuan Chenxing Real Estate Development Co., Limited (四川辰興房地產發展有限公司), an indirect holding company of the Company and the chairman of Jinzhong Development Zone Real Estate Development Co., Ltd. (晉中開發區房地產開發有限公司), an indirect holding company of the Company.

Mr. Bai Wukui is also one of the founders of the Group. He has been the chief executive officer of the Group since December 2004. He was appointed as a director of the Group in February 2015. Mr. Bai Wukui is also a director of White Legend Global Holdings Limited.

Before founding the Group, Mr. Bai Wukui served as director and chief executive officer of Yuci Xinxing Real Estate Development Co., Ltd. (榆次新興房屋開發有限公司) from January 1997 to August 2007.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Bai Wukui obtained a professional certificate in civil engineering specialty (long distance learning) (工民建專業文憑 (函授)) issued by Shanxi Radio & TV University (山西廣播電視大學), the PRC in July 1990 and later obtained a postgraduate certificate in master of business administration (工商管理碩士研究生文憑) issued by Tianjin University of Finance & Economics (天津財經學院), the PRC in November 2000. He obtained the qualification as an engineer from Shanxi Province Engineering Series Intermediate Professional Technical Position Evaluation Committee (山西省工程系列中級專業技術職務評審委員會) and Jinzhong Township (Privately-owned) Enterprise Engineering Series Intermediate Technical Position Evaluation Committee (晉中鄉鎮 (民營) 企業工程系列中級技術職務評審委員會) in February 2001 and December 2008, respectively. In February 2010, he obtained the qualification as a senior engineer from Shanxi Township Industrial Engineering Series Senior Engineer Evaluation Committee (山西鄉鎮工業工程系列高級工程師職務評審委員會).

Mr. Bai Guohua (白國華), aged 41, is the son of Mr. Bai Xuankui and executive Director and executive vice president of the Company. He is also an executive director of Jinzhong Chenxing Commercial Management Co., Limited (晉中辰興商業管理有限責任公司), an indirect subsidiary of the Company, and executive director and general manager of Shanxi Chenxing Property Services Co., Limited (山西辰興物業服務有限公司), an indirect subsidiary of the Company. Mr. Bai Guohua joined the Group in December 2004 and successively served as associate administration manager, secretary of the board and assistant general manager. Mr. Bai Guohua was appointed as a Director of the Company on 3 November 2014 and the executive vice president of the Group in February 2016. Mr. Bai Guohua is also a director of White Dynasty Global Holdings Limited, one of the controlling shareholders of the Company.

Mr. Bai Guohua obtained a professional certificate in law (法學專業文憑) issued by Shanxi Politics and Law Institute for Administration (山西政法管理幹部學院), the PRC in July 1998. He then undertook and completed an undergraduate degree in law from Shanxi University (山西大學), the PRC, in June 2001. Mr. Bai Guohua is furthering his studies and is taking an executive master of business administration degree from Arizona State University, the United States.

Mr. Dong Shiguang (董世光), aged 60, is an executive Director of the Company and a director of Chen Xing.

Mr. Dong joined the Group in December 2005 and successively served as manager in branch offices of Chen Xing (Heshun) and Chen Xing (Taigu). He served as the executive director of Sichuan Chenxing Real Estate Development Co., Limited (四川辰興房地產發展有限公司), a majority-owned subsidiary of the Group, from December 2007 to February 2012. Mr. Dong was appointed as a Director of the Group in November 2007. He was appointed as a Director of the Company in February 2015 and later was redesignated as an executive Director in June 2015. Mr. Dong is also a director of Honesty Priority Global Holdings Limited.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Dong obtained the qualification as an engineer granted by Shanxi Province Engineering Series Intermediate Professional Technical Position Evaluation Committee (山西省工程系列中級專業技術職務評審委員會) in December 2000 and later as a senior engineer granted by Shanxi Township Enterprise Engineering Series Senior Technical Position Evaluation Committee (山西鄉鎮企業工程系列高級技術職務評審委員會) in February 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gu Jiong (顧炯), aged 45, is an independent non-executive Director, the chairman of the audit committee and members of the remuneration committee and the nomination committee of the Company. He was appointed as an independent non-executive Director of the Company on 12 June 2015. From July 1995 to April 2004, Mr. Gu worked at Ernst & Young's Shanghai office and was the senior manager of the audit department when he left the firm. He subsequently joined UT Starcom Inc. (stock code: UTSI), the shares of which are listed on Nasdaq from April 2004 to December 2009. Mr. Gu then served as the chief financial officer of BesTV New Media Co., Ltd. (stock code: 600637), the shares of which are listed on Shanghai Stock Exchange from January 2010 to September 2013. Since September 2013, Mr. Gu has been the chief financial officer of CMC Capital Partners (華人文化基金), an investment fund specialized in media and entertainment investments in China and globally. He has been an independent non-executive director of Xinming China Holdings Limited (stock code: 2699), a company listed on the Stock Exchange since 8 June 2015.

Mr. Gu obtained a bachelor degree in financial management from Fudan University (復旦大學), the PRC in July 1995. He has been a non-practicing member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since April 2004.

Mr. Tian Hua (田華), aged 54, is an independent non-executive Director, the chairman of the remuneration committee and a member of the audit committee of the Company.

Mr. Tian joined Shanxi Zhongyu Certified Public Accountants (山西中宇會計事務所) in August 1998 as the chief accountant until December 2008. From December 2008 to present, he has been working at Shanxi He Pu Hua Certified Public Accountants (山西禾譜華會計事務所) as an accountant.

Mr. Tian obtained a professional certificate in accountancy issued by Shanxi Finance & Taxation College (山西財政稅務專科學校), the PRC in July 2001. He has been a practicing member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since May 1999.

Mr. Qiu Yongqing (裘永清), aged 52, is an independent non-executive Director and members of the audit committee and the nomination committee of the Company. Mr. Qiu was appointed as the chairman of Shanxi Jintai Venture Capital Co., Ltd. (山西金泰創業投資有限公司) in April 2004 and vice chairman and general manager of Shanxi Small & Medium Enterprises Financing Guarantee Co., Ltd. (山西中小企業發

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

展融資擔保有限公司) in May 2012. He was also appointed as member of the Jinzhong City's Committee of Chinese People's Political Consultative Conference (晉中市政協委員) in April 2005, senior expert jointly appointed by Shanxi and Jinzhong Municipal Committee (山西省及晉中市委) in December 2011 and vice chairman of Taiyuan Professional Manager Association (太原職業經理人協會) in March 2014.

Mr. Qiu obtained a certificate in engineering issued by Shanxi Radio & TV University (山西廣播電視大學), the PRC in July 1989. He then undertook and completed a course in business administration from School of Management of Xian Jiaotong University (西安交通大學管理學院) in July 2000. He obtained a master of business administration degree from Arizona State University, the United State, in May 2011. In April 2013, Mr. Qiu obtained the qualification as a senior economist granted by Department of Human Resources and Social Security of Shanxi Province (山西省人力資源和社會保障廳).

SENIOR MANAGEMENT

Mr. Jiao Wuli (焦悟理), aged 56, is the deputy general manager in engineering of the Group. He joined the Group in March 2008, responsible for managing the design, procurement, bidding and construction cost of the Group's projects. He was later promoted to the deputy general manager in engineering of Chen Xing in January 2011.

Before joining the Group, Mr. Jiao worked at Shanxi Third Construction Engineering Co., Ltd. (山西省第三建築工程公司) as technical deputy director from February 1990 to January 1994, and deputy manager and chief engineer from January 1994 to March 1996. In March 1996, he joined Shanxi Construction Engineering (Group) Corporation (山西省建築工程(集團)總公司) and worked at its Wuhan Branch as deputy manager and deputy chief engineer.

Mr. Jiao obtained a professional certificate in civil engineering specialty (工業與民用建築專業文憑) from Taiyuan Institute of Technology (太原工業學院), the PRC in December 1981. Later, he obtained the qualification as a senior engineer granted by Shanxi Construction Profession Senior Engineer Technical Position Evaluation Committee (山西省建設工程專業高級工程師技術職務評審委員會) in April 2004.

Mr. Wang Binzhou (王斌周), aged 40, is the deputy general manager in administration of the Group. Mr. Wang joined the Group in March 2009 and later he served as the general counsel from March 2009 to January 2010 and administrative officer of the board and secretary of the chairman from January 2010 to February 2012. He was promoted to the deputy general manager in administration in February 2012.

Before joining the Group, Mr. Wang worked at Shanxi Shenghe Law Offices (山西聖合律師事務所) as a lawyer from May 2007 to March 2009.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang undertook and completed the bachelor degree in law from Tianjin School of Commerce (天津商學院), the PRC in July 1998 and then master degree in law from Tsinghua University (清華大學), the PRC in July 2008. In December 2002, Mr. Wang obtained the qualification as a legal advisor granted by Department of Personnel of Shanxi Province (山西省人事廳) and then was qualified to practice law in the PRC in March 2004.

Mr. Bai Aijing (白皚晶), aged 40, is nephew of Mr. Bai Xuankui and Mr. Bai Wukui and the chief financial officer of the Group.

Mr. Bai Aijing joined the Group in March 2004 and served as the accounting officer from March 2004 to March 2011 and officer of asset management centre from March 2011 to January 2013. He was later promoted to chief financial officer in January 2013.

Mr. Bai Aijing obtained a professional certificate in enterprise management from Beijing Metallurgy Cadre College (北京冶金幹部學院), the PRC in July 1998. He then obtained a professional certificate in accountancy granted by Finance Commission of Yuci Region (榆次區財政局) in March 2011.

Mr. Zhao Haijun (趙海軍), aged 42, is the deputy general manager of operation of the Group.

Mr. Zhao joined the Group in December 2005 as the marketing manager and later he was promoted to the deputy general manager of operation in February 2009.

Mr. Zhao obtained a professional certificate in project cost and management, which is an online learning course, issued by Harbin Institute of Technology (哈爾濱工業大學), the PRC in July 2010. He obtained the qualification as an engineer granted by Jinzhong Township (Private-owned) Enterprise Engineering Series Intermediate Technical Position Evaluation Committee (晉中鄉鎮(民營)企業工程系列中級技術職務評審委員會) in December 2008. He then obtained the qualification as a registered real estate appraiser granted by Finance Department of Shanxi Province (山西省財政廳) in April 2015.

COMPANY SECRETARY

Ms. Ng Wing Shan (吳詠珊), is the company secretary of the Company. She was appointed as company secretary of the Company on 6 February 2015.

Ms. Ng is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Ng is the assistant vice president of SW Corporate Services Group Limited, primarily responsible for assisting listed companies in professional company secretarial work. She has over 10 years of professional experience in the company secretarial field.

DIRECTORS' REPORT

DIRECTORS' REPORT

The Board is pleased to present the annual report and audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL BUSINESS

The Company is an investment holding company. Its principal subsidiaries are engaging in property development operations in China, and focusing mainly on the development of residential and, to a less extent, commercial property development projects.

An analysis of the revenue generated by the principal business of the Group for the Reporting Period is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss on page 246.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

For detailed discussions on business review for the year and future developments of the Group, please refer to the chairman's statement. The Group's financial risk management objectives and policies are set out in note 38 to the consolidated financial statements.

The Group's analysis of its annual performance using financial key performance indicators is set out in management discussion and analysis.

PERMITTED INDEMNITY CLAUSE

During the Reporting Period, pursuant to the articles of association of the Company ("**Articles of Association**"), all legal costs, expenses, fees, losses, damages and expenditures incurred during the performance of duties by Directors of the Company may be indemnified by the assets and profits of the Company.

DIRECTORS' REPORT

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group continued to use new environmental construction materials in order to meet or stay ahead of environmental standards. The Group kept on strengthening its management of construction sites of on-going projects by controlling and reducing dust and noise pollutions. The Group has implemented energy saving and water conservation measures persistently in office premises, and continued the internal recycling plans for consumables (such as paper, etc.) to reduce the impact of operations on the environment and natural resources.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group always upholds the importance of understanding and compliance with the requirements of laws and regulations, non-compliance with the relevant laws and regulations may render the Group's normal operation. The Group has a designated legal department to exercise comprehensive management and control over the Company's sustainable and legal operations. Through effective communication, good working relationship has been maintained with various regulatory authorities.

From 2004 to 2017, the PRC government introduced a series of regulations and policies designed to generally control the growth of the property market, including, among others:

- (i) strictly enforcing the idle land related laws and regulations;
- (ii) restricting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- (iii) prohibiting commercial banks from lending funds to real estate developers with an internal capital ratio of less than certain prescribed percentage; and
- (iv) restricting PRC commercial banks from granting loans to property developers for the purpose of paying land grant premiums.

In particular, the PRC government also introduced the following policies, among others, to specifically control the growth of the residential property market:

- (i) limiting the maximum amount of monthly mortgage and the maximum amount of total monthly debt service payments of an individual borrower;
- (ii) imposing a business tax levy on the sales proceeds for second-hand transfers subject to the length of holding period and type of properties;

DIRECTORS' REPORT

- (iii) increasing the minimum amount of down payment of the purchase price of the residential property of a family;
- (iv) tightening the availability of individual housing loans in the property market to individuals and their family members with more than one residential property; and
- (v) limiting the availability of individual housing provident fund loans for the purchase of second (or more) residential properties by labourers and their family members.

These measures resulted in downward pricing pressures on the PRC property market and low transaction volumes in recent years. The PRC government may implement further tightening measures to restrain the PRC property market at the national, provincial, municipal and/or local level, which may lead to the declining trends in transaction volume and selling prices of properties in the PRC, and as a result, the Group's financial condition and results of operations may be affected.

During the Reporting Period, the Group fully complied with the relevant laws, regulations and policies, and had no activities that were non-compliant with the laws and regulations.

MAJOR RISKS AND UNCERTAINTIES

The Group's businesses are mainly located in Jinzhong and Taiyuan in Shanxi Province, Mianyang in Sichuan Province and Wuzhishan in Hainan Province in China. As the development target of the Group is to further penetrate the markets in Shanxi Province, central and western China and southern China, the operations of the Group are highly dependent on the performance of the real estate markets in these areas.

The real estate market in China has been growing rapidly over the years. However, as the concerns over people's purchasing power and sustainability of growth continue to mount in the market, and the divergence of property markets between ultra-large cities in the eastern region and small and medium-sized cities in the central and western regions become more intense, there may be uncertainties which impact the business of the Group.

RELATIONSHIP WITH SIGNIFICANT STAKEHOLDERS

The Group's success is also dependent on the support of the employees, customers, suppliers and shareholders of the Group.

Employees

The Group's employees are regarded as the most important and most valuable assets of the Group. The most important objective of the Group's human resources management is to reward the employees with outstanding performance through proper compensation and benefits and implementation of a comprehensive appraisal and evaluation system. With proper training and development, the Company's employees are provided with opportunities for career development and promotions.

DIRECTORS' REPORT

Customers

Most of the Group's customers are home purchasers. The Group strives to develop high quality residential properties for the improvement of the customers' quality of living. In order to fulfill the Group's commitment for enhancing customer satisfaction persistently, the Group ensures to adopt the best concepts and use products of the highest qualities in development projects. In terms of customer service, the Group has always focused on the overall qualities of frontline staff by providing them with regular training to ensure consistently high service quality.

Suppliers

The service providers of the Group are mainly construction companies and suppliers of construction materials. The Group has good cooperation relationship with all the suppliers, and has signed strategic cooperation agreements with a number of high quality suppliers to ensure higher quality in construction work and materials supplied. The Group upholds the win-win principle to achieve common growth together with the suppliers.

Shareholders

One of the important corporate objectives of the Group is to maximize the value created for shareholders. The Group continues to promote business developments for the sustainable growth in profits. The Group will strive to deliver stable dividends for the shareholders, after considering the adequacy of capital, liquidity conditions and requirements for business development of the Group.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK\$0.2 per share, or an aggregate amount of HK\$100 million (equivalent to RMB83.6 million), for the year ended 31 December 2017 to the shareholders whose names appeared on the register of members of the Company on Friday, 8 June 2018. Subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be convened on Thursday, 31 May 2018, the final dividend will be paid on or around 20 June 2018.

ANNUAL GENERAL MEETING

The AGM will be convened on Thursday, 31 May 2018, a notice of which will be published and dispatched to the shareholders of the Company in due course.

DIRECTORS' REPORT

CLOSURE OF REGISTER OF MEMBERS

To ascertain the shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 25 May 2018 to Thursday, 31 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all share transfer documents together with relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 24 May 2018 for registration.

To ascertain the shareholders' entitlement to the final dividend, subject to the shareholders' approval at the AGM, the register of members of the Company will be closed from Wednesday, 6 June 2018 to Friday, 8 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to receive the final dividend, all share transfer documents together with relevant share certificate must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 5 June 2018 for registration.

SHARE CAPITAL

There were no movements in the Company's share capital during the Reporting Period.

EQUITY-LINKED AGREEMENT

The Company has not entered into any equity-linked agreement.

PROPERTY, PLANT AND EQUIPMENT

The details of changes in property, plant and equipment of the Group for the Reporting Period are set out in the note 13 to the consolidated financial statements.

INVESTMENT PROPERTIES

The details of changes in the investment properties of the Group for the Reporting Period are set out in note 14 to the consolidated financial statements.

DIRECTORS' REPORT

RESERVES

The details of changes in the reserves of the Group for the Reporting Period are set out in the consolidated statement of changes in equity on pages 250 to 251 of this annual report.

DISTRIBUTABLE RESERVES

Distributable reserves of the Group amounted to RMB550 million for the Reporting Period (for the year ended 31 December 2016: distributable reserves of RMB517.6 million).

BANK LOANS AND OTHER BORROWINGS

The details of bank loans and other borrowings of the Group as at the end of the Reporting Period are set out in the note 26 to the consolidated financial statements.

DIRECTORS AND SERVICE CONTRACTS OF DIRECTORS

The Directors for the Reporting Period and up to the date of this annual report are as follows:

Executive Directors

Mr. Bai Xuankui (*Chairman*)
Mr. Bai Wukui
Mr. Bai Guohua
Mr. Dong Shiguang

Independent Non-executive Directors

Mr. Gu Jiong
Mr. Tian Hua
Mr. Qiu Yongqing

Biographies of all Directors and senior management are set out in the section headed "Biographies of Directors and Senior Management" herein.

Pursuant to the requirements of Article 84(1) of the Articles of Association, Mr. Bai Xuankui, Mr. Bai Guohua and Mr. Tian Hua shall retire by rotation at the AGM, and being eligible, will offer themselves for re-election.

DIRECTORS' REPORT

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual confirmation from each of the independent non-executive Directors on his independence pursuant to Rule 3.31 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company considered all of the independent non-executive Directors were independent persons during the year ended 31 December 2017.

SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years and may be terminated subject to the relevant terms of the service contracts.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years and may be terminated subject to the relevant terms of the appointment letters.

None of the Directors has entered into a service contract with the Company which are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the Reporting Period, none of the Directors or their connected entities and controlling shareholders had direct or indirect material interest in any transaction, arrangement or contract which was significant to the business of the Group and the Company or any of its subsidiary was a party thereto.

MANAGEMENT CONTRACTS

During the Reporting Period, no contract was or had been signed in relation to the management and administrative matters of the Company's business as a whole or any material portion thereof.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the amount of purchases from the largest supplier of the Group represented approximately 15.9% of the total purchases of the Group, and the amount of purchases from the five largest suppliers of the Group represented 45.5% of the total amount of purchases of the Group.

DIRECTORS' REPORT

During the Reporting Period, the amount of sales to the largest customer of the Group represented 0.9% of the total sales of the Group, and the amount of sales to the five largest customers of the Group represented 1.6% of the total sales of the Group.

None of the Directors or any of their close associates or any shareholders of the Company has any interest in the five largest customers and suppliers of the Group.

INTERESTS AND/OR SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2017, the following Directors and chief executives of the Company had interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or required to be entered into the register mentioned under Section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of Appendix 10 to the Listing Rules:

Long Positions in the Shares of the Company

Name of Director/chief executive	Capacity/ Nature of interest	Number of shares held	Percentage of shareholdings ^(Note 1)
Mr. Bai Xuankui ("Mr. Bai") ^(Note 2)	Settlor of a discretionary trust	289,120,000	57.82%
Mr. Bai Wukui ^(Note 3)	Interest of a controlled corporation	54,120,000	10.82%
Mr. Bai Guohua ^(Note 4)	Beneficiary of a discretionary trust	289,120,000	57.82%
Mr. Dong Shiguang ("Mr. Dong") ^(Note 5)	Interest of a controlled corporation	9,023,117	1.80%

DIRECTORS' REPORT

Notes:

- As at 31 December 2017, the total number of issued shares of the Company was 500,000,000 shares.
- The shares were held by White Dynasty Global Holdings Limited ("**White Dynasty BVI**") in the capacity of a legal beneficial owner. White Dynasty BVI was a corporate controlling shareholder of the Company, and was owned by White Empire (PTC) Limited ("**White Empire BVI**") in the capacity of a legal beneficial owner. White Empire BVI was the trustee of the family trust established for the benefit of Mr. Bai Guohua, Ms. Cheng Guilian ("**Mrs. Bai**", the spouse of Mr. Bai), and other beneficiaries to be nominated by the trustee from time to time. Since Mr. Bai was the settlor of the family trust, Mr. Bai was deemed to be interested in the shares held by White Dynasty BVI under the SFO.
- The shares were held by White Legend Global Holdings Limited ("**White Legend BVI**") in the capacity of a legal beneficial owner. White Legend BVI was wholly-owned by Mr. Bai Wukui in the capacity of a legal beneficial owner. Since Mr. Bai Wukui held the entire issued share capital of White Legend BVI, Mr. Bai Wukui was deemed to be interested in the shares held by White Legend BVI under the SFO.
- The shares were held by White Dynasty BVI in the capacity of a legal beneficial owner. Since (i) Mr. Bai Guohua was a beneficiary of the family trust; and (ii) Mr. Bai Guohua was a person acting in accordance with the instructions from Mr. Bai, the settlor of the family trust, at all times, hence Mr. Bai Guohua was deemed to be interested in the shares held by White Dynasty BVI under the SFO.
- The shares were held by Honesty Priority Global Holdings Limited ("**Honesty Priority BVI**") in the capacity of a legal beneficial owner. Since Mr. Dong owned 34.81% shares in Honesty Priority BVI, Mr. Dong was deemed to be interested in the shares held by Honesty Priority BVI under the SFO.

Long Positions in the Shares of Associated Corporations of the Company

Name of Director/ chief executive	Name of associated corporation	Capacity/ Nature of interest	Number of shares held	Percentage of shareholdings
Mr. Bai	White Dynasty BVI ^(Note 1)	Settlor of a discretionary trust	10,000	100%
Mr. Bai	White Empire BVI ^(Note 1)	Settlor of a discretionary trust		100%
Mr. Bai Guohua	White Dynasty BVI ^(Note 1)	Beneficiary of a discretionary trust	10,000	100%
Mr. Bai Guohua	White Empire BVI ^(Note 1)	Beneficiary of a discretionary trust		100%

Note:

- White Dynasty BVI was a corporate controlling shareholder of the Company and was wholly-owned by White Empire BVI in the capacity of a legal beneficial owner. White Empire BVI was a company limited by guarantee incorporated in the British Virgin Islands and the trustee of the family trust which was held for the benefits of Mr. Bai Guohua, Mrs. Bai and other beneficiaries to be nominated from time to time, and Mr. Bai was the settlor of the family trust.

As at 31 December 2017, save as disclosed above, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which was required to be notified to

DIRECTORS' REPORT

the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or required to be recorded in the register mentioned under Section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At any time during the Reporting Period or as at the end of the year, none of the Company, its holding company or any of their subsidiaries or fellow subsidiaries had participated in any arrangement which enabled the Directors of the Company to gain benefits through purchasing of shares or debentures of the Company or any other corporations.

INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY HELD BY SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, to the best knowledge of the Company and the Directors, the following persons (not being Directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company, which were required to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered into the register mentioned under Section 336 of the SFO:

Name of shareholder	Capacity/Nature of interest	Number of shares held	Percentage of shareholdings ^(Note 1)
White Dynasty BVI ^(Note 2)	Beneficial owner	289,120,000	57.82%
White Empire BVI ^(Note 2)	Interest of a controlled corporation	289,120,000	57.82%
White Legend BVI ^(Note 3)	Beneficial owner	54,120,000	10.82%
Mrs. Bai ^(Note 4)	Beneficiary of a discretionary trust	289,120,000	57.82%
Ms. Zhang Lindi ^(Note 5)	Interest of spouse	289,120,000	57.82%
Ms. Gan Xuelin ^(Note 6)	Interest of spouse	54,120,000	10.82%
Hwabao Trust Co. Ltd	Trustee	54,120,000	10.82%

Notes:

1. As at 31 December 2017, the Company had a total number of 500,000,000 shares in issue.
2. White Dynasty BVI was wholly-owned by White Empire BVI, hence White Empire BVI was deemed to be interested in the shares owned by White Dynasty BVI under the SFO. White Empire BVI was the trustee for the family trust established for the benefit of Mr. Bai Guohua, Mrs. Bai and other beneficiaries to be nominated by the trustee from time to time. Mr. Bai was the settlor of the family trust.

DIRECTORS' REPORT

3. White Legend BVI was wholly-owned by Mr. Bai Wukui in the capacity of a legal beneficial owner. Since Mr. Bai Wukui had a controlling interest in White Legend BVI, Mr. Bai Wukui was deemed to be interested in the shares held by White Legend BVI under the SFO.
4. Mrs. Bai was the wife of Mr. Bai. Since Mrs. Bai was a beneficiary of the family trust, Mr. Bai was deemed to be interested in the shares held by White Dynasty BVI under the SFO.
5. Ms. Zhang Lindi was the wife of Mr. Bai Guohua. Since Mr. Bai Guohua was a beneficiary of the family trust, Mr. Bai Guohua was deemed to be interested in the shares held by White Dynasty BVI under the SFO, therefore, Ms. Zhang Lindi was deemed to be interested in the shares held by White Dynasty BVI under the SFO.
6. Ms. Gan Xuelin was the wife of Mr. Bai Wukui. Since Mr. Bai Wukui was deemed to be interested in the shares held by White Legend BVI under the SFO, therefore, Ms. Gan Xuelin was deemed to be interested in the shares held by White Legend BVI.

As at 31 December 2017, save as disclosed above, the Company was not aware of any other persons (other than Directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company, which were required to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered into the register mentioned under Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

The details of related party transactions of the Group for the Reporting Period are set out in the note 35 to the consolidated financial statements. These transactions do not constitute connected transactions or continuing connected transactions in the meaning of Chapter 14A of the Listing Rules.

ANNUAL REVIEW AND DISCLOSURE REQUIREMENT OF DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in this annual report, for the Reporting Period, none of the Directors or their respective associates engaged in or had any interest in any business which was or might be in competition with the business of the Group.

REMUNERATION POLICY

The Group has established the Remuneration Committee to review the remuneration policy and structure of the Group for the remuneration of all Directors and the senior management of the Group after considering the operating results of the Group, individual performance and contribution, time commitment and responsibilities of the Directors and senior management as well as the remuneration paid by comparable companies.

DIRECTORS' REPORT

The Group has formulated and implemented remuneration policies to motivate employees and, in turn, support the long-term development of the Group. Such policies are consistent with the business strategies and development objectives of the Group, which will be helpful in attracting and retaining professional employees with the relevant knowledge and skills.

SHARE OPTION SCHEME

The Company has adopted a share option scheme ("**Share Option Scheme**") on 12 June 2015. Since the adoption of the Share Option Scheme, the Company has not granted any share options under the Share Option Scheme.

A summary of the key terms of the Share Option Scheme is set out below. The terms of the Share Option Scheme have complied with the requirements of Chapter 17 of the Listing Rules.

(a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Share Option Scheme will provide Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives: (i) motivate Eligible Participants to optimize their performance efficiency for the benefit of the Group; and (ii) attract and retain or otherwise maintain on-going business relationship with Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) Eligible Participants

The Board may, at its discretion and subject to such conditions as it thinks fit, offer to grant share options to the following persons (collectively, the "**Eligible Participants**"):

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any Directors (including executive, non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries;
- (iii) any advisers (professional or otherwise), consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and
- (iv) related entities who, in the sole opinion of the Board, will contribute or have contributed to the Company or any of its subsidiaries.

DIRECTORS' REPORT

(c) Total number of shares that may be issued

The maximum number of shares that may be issued pursuant to the Share Option Scheme is 50,000,000 shares, equivalent to 10% of the issued shares of the Company after completion of the global offering and 10% of the issued shares of the Company as at the date of this annual report.

(d) Maximum number of options granted to any individual

The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) to each Eligible Participant in any 12-month period shall not exceed 1% of the shares in issue of the Company.

Any further grant of options in excess of the above limit shall be subject to separate approval by the shareholders in a general meeting (such Eligible Participants and their associates are required to abstain from voting), and shall comply with other requirements prescribed under the Listing Rules and/or other applicable statutory regulations or rules.

(e) Maximum number of options granted to connected persons

Any grant of options to a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

If the Board determines to grant options to a substantial shareholder or any independent non-executive Director or any of their respective associates, the maximum number of shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each substantial shareholder or any independent non-executive Director or any of their respective associates in any 12-month period shall not exceed 0.1% of the shares in issue of the Company or such other percentage as may be from time to time provided under the Listing Rules, and the aggregate value calculated based on the closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange as at each date of grant shall not exceed HK\$5,000,000 or such other amount as may be from time to time provided under the Listing Rules.

If any further grant will exceed the above limit on options, such further grant shall be subject to a separate approval by the shareholders in a general meeting (such Eligible Participants and their associates shall abstain from voting), and shall comply with other requirements prescribed under the Listing Rules and/or other applicable statutory regulations or rules.

DIRECTORS' REPORT

(f) When the options may be exercised

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date.

The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

(g) Required minimum holding period before the exercise of an option

There is no minimum holding period required before an option may be exercised.

(h) Acceptance of offer

Upon acceptance of an option, the grantee shall pay HK\$1.00 to the Company as consideration for the grant.

(i) Basis for the determination of the exercise price

The share subscription price in respect of any specific option granted under the Share Option Scheme shall be determined at the sole discretion of the Board on the relevant price, but such price shall not be less than the highest of the following:

- (i) the official closing market price of the shares as stated in the daily quotation sheet of the Stock Exchange as at the date of grant, which must be a day when the Stock Exchange is open for securities trading business);
- (ii) the average official closing market price of the shares as stated in the daily quotation sheets of the Stock Exchange for five business days immediately before the date of grant; and
- (iii) par value of the shares.

(j) Residual term of the Share Option Scheme

The Share Option Scheme shall remain valid until 11 June 2025. Unless its early termination is approved by the general meeting of shareholders or by the Board of the Company, the Share Option Scheme shall remain valid and effective for a period of 10 years from the date when it was adopted.

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, the Company or any of its subsidiaries did not conduct any purchase, sale or redemption of any listed securities of the Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of Cayman Islands that will oblige the Company to offer new shares to existing shareholders on a pro-rata basis.

DONATION

During the Reporting Period, no donation was made by the Group.

CORPORATE GOVERNANCE

The Company is dedicated to maintain a high standard in corporate governance practice. During the Reporting Period, the Company has complied with the code provisions under the Corporate Governance Code contained in Appendix 14 to the Listing Rules. Information about the corporate governance practice adopted by the Company is set out in the section headed Corporate Governance Report of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors have confirmed that as at the date of this annual report, the Company has maintained a sufficient public float of our shares as required under the Listing Rules.

DIRECTORS' REPORT

EVENTS AFTER THE REPORTING PERIOD

On 31 January 2018, Jinzhong Chenxing Shiguang Zhicheng Real Estate Development Co., Ltd. (晉中辰興時光之城房地產開發有限公司), a domestic subsidiary of the Group, signed the land use rights grant contract with the Ministry of Land and Resources of Jinzhong City, acquiring a land parcel located in Jinzhong Economic and Technology Development District with a site area of 28,296.2 sq.m. for an aggregate grant consideration of RMB63.7 million.

On 31 January 2018, Jinzhong Chenxing Yijun Real Estate Development Co., Ltd. (晉中辰興頤郡房地產開發有限公司), a domestic subsidiary of the Group, signed the land use rights grant contracts with the Development District Branch of the Ministry of Land and Resources of Jinzhong City, acquiring four land parcels located in Jinzhong Development District with a total site area of 197,285.28 sq.m. for an aggregate grant consideration of RMB352.6 million.

AUDITOR

The Group's consolidated financial statements for the year ended 31 December 2017 have been audited by Ernst & Young.

Ernst & Young will retire and be eligible for re-appointment at the AGM. The resolution on the re-appointment of Ernst & Young as the auditor of the Company will be submitted to the AGM for approval. There has not been any change of auditors since the listing of the Company.

RECOMMENDATION TO CONSULT PROFESSIONAL TAX ADVICE

If the shareholders of the Company are not sure about the tax effect of the purchase, holding, sale, trading or exercise of any rights attached to the relevant shares of the Company, they are recommended to consult independent experts for advice.

By Order of the Board
Chen Xing Development Holdings Limited
Bai Xuankui
Chairman

Jinzhong, Shanxi, China, 27 March 2018

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICE

The Company is always committed to maintain high standard of corporate governance with a view to assuring the conduct of management of the Company and protecting the interests of the shareholders. The Company is fully aware that transparency and accountability in corporate governance are crucially important to the shareholders. The Board considers that sound corporate governance can maximize shareholders' interests.

The Company has adopted the code provisions under the Corporate Governance Code (“**the CG Code**”) as set out in Appendix 14 to the Listing Rules as its corporate governance code of practices. During the Reporting Period, the Company has complied with the CG Code.

The Company shall review and strengthen its corporate governance practice from time to time, and strengthen risk management and internal control with the help of its PRC and Hong Kong legal advisors, so as to ensure compliance with the Corporate Governance Code.

THE BOARD

Duties

The Board is responsible for the operation and planning of the Group's development. It oversees the business, strategic decision-making and performance of the Group and timely understands all relevant information of the Group's business. The Board has delegated the day-to-day management and operation powers and duties to the senior management. For overseeing particular areas of affairs of the Company, the Company has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee (together, the “**Board Committees**”). The Board has delegated to the Board Committees duties as set out in their terms of reference. Some of the independent non-executive Directors have certain qualifications and relevant management experience on financial accounting and corporate governance aspects and provide professional opinions to the Board.

All the Board members should ensure that they shall exercise their duties with integrity and comply with applicable laws and regulations, which is all times in the interests of the Company and its shareholders.

CORPORATE GOVERNANCE REPORT

Composition of the Board

The Board comprises of four executive Directors (namely Mr. Bai Xuankui, Mr. Bai Wukui, Mr. Bai Guohua, and Mr. Dong Shiguang) and three independent non-executive Directors (namely Mr. Gu Jiong, Mr. Tian Hua and Mr. Qiu Yongqing). The biographical details of each Director are set out in the “Biographical Details of Directors and Senior Management” section of this annual report.

Save as disclosed in this annual report, to the best knowledge of the Company, none of the Board members have any financial, business, family, or any other substantial relationships.

During the Reporting Period, the Board has complied with the requirements under Rule 3.10(1) and Rule 3.10(2) of the Listing Rules that at least three independent non-executive Directors must be appointed and at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. In addition, the number of independent non-executive Directors accounts for one-third of the Board members, which complies with the requirement under Rule 3.10A of the Listing Rules.

The Company has received confirmations from the independent non-executive Directors of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considered all the independent non-executive Directors as independent.

All the Directors (including the independent non-executive Directors) have broad and valuable business experience, expertise and professional skills for the effective operation of the Board. The independent non-executive Directors are appointed as members of the Audit Committee, Remuneration Committee, and Nomination Committee.

Pursuant to code provision A.6.6 of the Corporate Governance Code, each Director should disclose to the issuer at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. The identity of the public companies or organisations and an indication of the time involved should also be disclosed. All Directors have consented to disclose to the Company for the above provision on a timely basis.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

The chairman and chief executive officer of the Company are Mr. Bai Xuankui and Mr. Bai Wukui, both being executive Directors, respectively. The separation of roles of Chairman and chief executive officer enables balance of power and delegations, preventing the job responsibilities be concentrated on either one of them. The chairman is responsible for leadership work and the effective operation of the Board, whilst the chief executive officer is delegated for the effective management of business of the Group. The separation of responsibilities between the chairman and the chief executive officer is clearly defined and set out in written form.

Directors' Training and Continuous Professional Development

All the Board members understand the responsibilities as directors and the operation and business activities of the Company. The Company is responsible for arranging induction programmes, continuous training and professional development for the Directors, and providing funding therefor. Accordingly, the Company shall arrange induction programmes for any newly appointed Director before formal appointment, ensuring that he/she have certain understanding on the business and operations of the Group and be fully aware of the responsibilities and obligations set out in the Listing Rules and relevant laws and regulations.

The Company arranges seminars regularly, providing the Directors with the development and amendment updates of the Listing Rules and other relevant laws and regulations. The Directors also regularly receive updates on the performance, conditions and outlook of the Company to enable the Board to work as a whole and the Directors to exercise each of their own duties. The Company updates and provides written training materials about Directors' roles, functions and duties from time to time, and encourages Directors to read such materials. Each Director has to submit a training record each year.

During the year, all Directors (namely Mr. Bai Xuankui, Mr. Bai Wukui, Mr. Bai Guohua, Mr. Dong Shiguang, Mr. Gu Jiong, Mr. Tian Hua and Mr. Qiu Yongqing) attended formal and all-rounded training. The Company has received each Director's training record for the year.

CORPORATE GOVERNANCE REPORT

Appointment and Re-election of Directors

Nomination Committee is responsible for reviewing Board composition and monitoring the appointment, re-election and succession planning of Directors. Procedures and process for the appointment, re-election and removal of Directors are set out in the Articles of Association.

Each executive Director entered into service contract with the Company for a term of three years. The service contract can be terminated according to its terms.

Each independent non-executive Director entered into a letter of appointment with the Company for a term of three years. The service contract can be terminated according to its terms.

None of the Directors has entered into a service contract with the Group which is not terminable within one year without compensation (other than statutory compensation).

Pursuant to Article 84(1) of the Articles of Association, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

According to the requirement under Article 84(1) of the Articles of Association, Mr. Bai Xuankui, Mr. Bai Guohua and Mr. Tian Hua shall retire by rotation at the AGM and are eligible and offer themselves for re-election.

Board Meetings

The Company has adopted the practice of holding at least four regular Board meetings each year (approximately once in a quarter). Notice of regular Board meetings shall be distributed to all the Directors at least fourteen days before the meeting. Discussion matters shall be set out in the agenda of each meeting. Notices of other Board committee meetings shall normally be delivered according to the requirements of the terms of reference. Meeting agenda and relevant meeting papers shall be sent to the Directors and Board committee members at least 3 days before the meeting to ensure that they have adequate time for the review of the documents. If the Directors and the Board committee members are unable to attend the meetings, they shall be notified of the discussion matters and provide their views to the chairman of meeting before the meeting. Minutes of Board meetings and Board committee meetings shall be kept by the Company, a copy of which shall be circulated to the Directors and relevant Board committee members for reference and for records.

CORPORATE GOVERNANCE REPORT

Minutes of Board meetings and Board committee meetings shall record the matters considered and the decisions reached in the meetings, including the questions raised by the Directors and the Board committee members. Draft of the minutes of Board meetings and Board committee meetings shall be provided to Directors and relevant Board committee members in reasonable time for consideration and comments. The Directors are entitled to inspect the minutes of Board meetings and Board committee meetings.

During the Reporting Period, the Company held four Board meetings and one general meeting. Attendance of Directors at such meetings is set out in the following table:

Director	Number of Board meetings attended/held during his tenure	Number of general meetings attended/held during his tenure
Mr. Bai Xuankui	4/4	1/1
Mr. Bai Wukui	4/4	1/1
Mr. Bai Guohua	4/4	1/1
Mr. Dong Shiguang	4/4	1/1
Mr. Gu Jiong	4/4	1/1
Mr. Tian Hua	4/4	1/1
Mr. Qiu Yongqing	4/4	1/1

The Chairman of the Board convened a meeting with the independent non-executive Directors without the presence of the executive Directors during the Reporting Period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, all Directors confirmed that they have complied with the Model Code during the Reporting Period.

CORPORATE GOVERNANCE REPORT

DELEGATION OF THE BOARD

The Board retains the decision making rights for major matters of the Company, including approving and monitoring all policy affairs, overall strategy and budget, internal control and risk management systems, major transactions (especially those with possible conflict of interests), financial information, appointment of directors and other major financial and operational matters. The Directors may seek independent professional advice when exercising their duties, the cost of which is borne by the Company. The Directors are also encouraged to conduct independent consultation with the senior management of the Company.

The Group's day-to-day management, administration and operation are delegated to the senior management of the Company. The Board regularly reviews the functions and duties delegated to the senior management of the Company.

CORPORATE GOVERNANCE FUNCTIONS

The Board understands that corporate governance is a shared responsibility among all Directors. The Board has delegated the corporate governance functions to the Audit Committee, including:

- (i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (ii) to review and monitor the training and continuous professional development of Directors and senior management;
- (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (v) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

During the Reporting Period, the Audit Committee has exercised the aforementioned corporate governance functions, and has reported to the Board.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

Nomination Committee

The Nomination Committee comprises of three members, including one executive Director, Mr. Bai Xuankui (chairman), and two independent non-executive Directors, Mr. Qiu Yongqing and Mr. Gu Jiong. Therefore, the majority of members are independent non-executive Directors. The major duties of the Nomination Committee include:

- (i) review the structure, size and composition (including the skills, knowledge, experience and diversification) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (iii) make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors; and
- (iv) assess the independence of independent non-executive Directors.

The Nomination Committee shall assess the candidates or the current candidates according to standards, including integrity, experience, skills, time commitment and dedication, and ability to exercise duties and responsibilities.

The terms of reference of the Nomination Committee is posted on the websites of the Stock Exchange and the Company.

In order to enhance the effectiveness of the Board and corporate governance standards, the Board shall maintain a balance of composition of executive and non-executive Directors (including independent non-executive Directors) to enable high level independence of the Board for effective demonstration of independent judgment. During the Reporting Period, the Nomination Committee held one meeting. Attendance of Nomination Committee members at such meeting is set out in the following table:

Committee members	Number of meetings attended/held during his tenure
Mr. Bai Xuankui	1/1
Mr. Qiu Yongqing	1/1
Mr. Gu Jiong	1/1

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Nomination Committee has reviewed the structure, size and composition of the Board, made recommendation to the Board on the appointment of Directors, and assessed independence of the independent non-executive Directors.

The Company has adopted a board diversity policy and set measurable objectives. The Nomination Committee evaluates the balance and composition of the Board members' skills, experience and diverse points of views. In selection of candidates, the Nomination Committees considers different points of views, including but not limited to age, cultural and educational background, professional and industrial experience, skills, knowledge, ethnicity, other criteria which is crucial to the business of the Company, and the candidate's strengths and contributions to the Board. The Board shall review such measurable objectives from time to time, so as to ensure its appropriateness and the progress towards such objectives.

Remuneration Committee

The Remuneration Committee comprises of three members, including two independent non-executive Directors, Mr. Tian Hua (chairman) and Mr. Gu Jiong, and one executive Director, Mr. Bai Xuankui. Therefore, the majority of members are independent non-executive Directors. Major duties of the Remuneration Committee include:

- (i) to make 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;
- (ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (iii) to make recommendations to the Board on the remuneration of non-executive Directors;
- (iv) to ensure that no Director or any of his associates be involved in deciding his own remuneration; and
- (v) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group.

The terms of reference of the Remuneration Committee is posted on the websites of the Stock Exchange and the Company.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Remuneration Committee held one meeting. Attendance of Remuneration Committee members at such meeting is set out in the following table:

Committee members	Number of meetings attended/held during his tenure
Mr. Tian Hua	1/1
Mr. Gu Jiong	1/1
Mr. Bai Xuankui	1/1

The Remuneration Committee has reviewed the remuneration policy and structure for all Directors and senior management of the Company, reviewed the remuneration of individual Directors and senior management and made recommendations to the Board.

Audit Committee

The Audit Committee comprises of three independent non-executive Directors, including Mr. Gu Jiong (chairman), Mr. Tian Hua and Mr. Qiu Yongqing.

The major duties of the Audit Committee include:

- (i) to monitor and review financial statements, annual report and account, interim report and quarterly report (if any)), and review material comments regarding financial reporting as set out therein, and consider any material or unusual items put forward by the internal control department or the external auditor before presenting relevant documents to the Board;
- (ii) to review the relationship with the external auditor according to the duties of the auditor, their fees and engagement terms, and to make recommendations to the Board on the appointment, reappointment and removal of the external auditor; and
- (iii) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and relevant procedures, including resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions.

The terms of reference of the Audit Committee is posted on the websites of the Stock Exchange and the Company.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Audit Committee held two meetings. Attendance of Audit Committee members at such meetings is set out in the following table:

Committee members	Number of meetings attended/held during his tenure
Mr. Gu Jiong	2/2
Mr. Tian Hua	2/2
Mr. Qiu Yongqing	2/2

During the Reporting Period, the Audit Committee reviewed the annual results of the Group for the year ended 31 December 2016, the interim results of the Group for the six months ended 30 June 2017, the financial reporting systems, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programmes and budget for accounting and financial reporting functions), risk management systems and process. The Board has not deviated from the proposals of the Audit Committee on selection, appointment, resignation and removal of external auditor.

The Audit Committee also reviewed the annual results of the Group for the Reporting Period, and the audit report prepared by the external auditor related to accounting issues and material findings during the audit process.

REMUNERATION OF DIRECTORS AND FIVE EMPLOYEES WITH HIGHEST REMUNERATION

Details of the remuneration of the Directors and five employees with the highest remuneration for the Reporting Period are set out in note 8 and note 9 to the consolidated financial statements, respectively.

REMUNERATION OF SENIOR MANAGEMENT

During the year, the remuneration of senior management of the Group fell within the following bands:

	Number of individuals
HK\$300,000 or below	3
HK\$300,001 to HK\$400,000	1

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2017, which gives a true and fair view of the financial position of the Group.

The Board is supplied with sufficient explanation and information by the management to enable the Board to make an informed assessment of financial and other information put before it for approval.

The Board is not aware of any material uncertainties relating to events or factors that may cast significant doubt upon the Group's ability to operate as a going concern.

The statement by the Company's auditors about their reporting responsibilities on the consolidated financial statements is set out in Independent Auditor's Report on page 239 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for monitoring the risk management and internal control systems, and ensuring the proper maintenance and effectiveness of the risk management and internal control systems. The Board also oversees the management in the design, implementation and monitoring of the risk management and internal systems, and the management provides the Board with confirmation on the effectiveness of the relevant systems. The Board considers that such systems aim at managing, instead of eliminating, the risk of failure in performing business objectives, and merely giving reasonable but not absolute guarantee to the absence of unmaterial fact, statement or loss.

The Board is responsible for the risk management and internal control system. It performs a review on the effectiveness of the risk management and internal control systems at least once a year. The Company has established an internal control department, which plays an important role in monitoring the risk management and internal control systems of the Group. Through the Audit Committee, the Board will continuously review the effectiveness of the risk management and internal control systems, including monitoring procedures for finance, operations, compliance, risk identification and assessment, and implementation of risk response measures. The audit procedures include:

- (1) the internal control department of the Group assessing the relevant systems;
- (2) the management ensuring the maintenance of effective risk management and internal control systems; and
- (3) the external auditors discovering internal control problems when carrying out statutory audits.

CORPORATE GOVERNANCE REPORT

The management and internal control department, supported by the Board, are responsible for the design, implementation and monitoring of the risk management and internal control systems, as well as reporting to the Board and the Audit Committee.

During the Reporting Period, the management and internal control department reported to the Board and the Audit Committee periodically in relation to the adequacy and effectiveness of internal controls, including but not limited to any indications of failings or material weaknesses in the control procedures.

The following key processes are used to identify, evaluate and manage the Group's significant risks:

- (1) the Board and the Audit Committee set up the targets for risk management;
- (2) internal control department identifies the risks, which may potentially impact the normal operation of the Company, and analyses the and evaluates the significance of such risks;
- (3) the management, internal control and various departments assess the adequacy of existing controls, determine and adopt plans to mitigate the risks;
- (4) the management monitors the risk mitigation activities; and
- (5) reports regularly to the Board and the Audit Committee.

The Company has adopted policies and procedures for assessing the effectiveness of the risk management and internal control systems, and requiring the management to provide confirmation to the Board periodically on the effectiveness of the systems. The Board has also established a set of reporting procedures, whereby employees, customers, suppliers and other cooperative partners can report any actual or suspected occurrence of misconduct involving the Group, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner.

The Company strictly regulates the handling and dissemination of inside information to ensure such information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

During the Reporting Period, the management and internal control department have performed extensive assessments on special risks faced by the Group and conducted a review on the effectiveness of the risk management and internal control systems of the Group. The Board and the Audit Committee were not aware of any areas of concern that would have material impact on the Group's financial position or operating results, and considered the risk management and internal control systems to be generally effective and adequate, including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting and financial reporting functions.

CORPORATE GOVERNANCE REPORT

NON-COMPETITION UNDERTAKING

Each of Mr. Bai Xuankui, Mr. Bai Guohua, Ms. Cheng Guilian, White Dynasty Holdings Limited and White Empire (PTC) Limited (the “**Controlling Shareholders**”) had entered into a Deed of Non-competition in favour of the Company. During the period from the date of signing the Deed of Non-competition until 31 December 2017, the Company or the Controlling Shareholders did not make any recommendation for any project or New Business Opportunity related to the Restricted Business. For definitions of “**Deed of Non-competition**”, “**Restricted Business**” and “**New Business Opportunity**”, please refer to the Prospectus.

All the Controlling Shareholders have confirmed in writing with the Company that they have complied with the undertakings under the Deed of Non-competition during the year ended 31 December 2017.

The independent non-executive Directors have also reviewed the compliance with the undertakings under the Deed of Non-competition by the Controlling Shareholders during the year ended 31 December 2017 and confirmed that there was no breach of undertakings in the Deed of Non-competition by any of the Controlling Shareholders.

AUDITOR'S FEES

For the year ended 31 December 2017, the audit services fees payable to its external auditor, Ernst & Young, amounted to RMB1.8 million. No non-audit services fee was incurred.

COMPANY SECRETARY

To maintain sound corporate governance and ensure the compliance with the Listing Rules and applicable Hong Kong laws, the Company engaged Ms. Ng Wing Shan, the assistant vice president of SW Corporate Services Group Limited (company secretarial services provider), to act as the company secretary of the Company, and her primary contact person at the Company is Mr. Bai Guohua, an executive Director.

According to the requirements of Rule 3.29 of the Listing Rules, Ms. Ng Wing Shan took no less than 15 hours of relevant professional training during the year.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' COMMUNICATIONS AND INVESTOR RELATIONS

The Company believes that effective communication with shareholders is very important for strengthening investor relations and allowing investors to understand the Group's business, performance and strategy. The Company is also convinced of the importance of timely and non-selective disclosure of Company information for shareholders and investors to make informed investment decisions.

The annual general meeting of the Company provides opportunities for shareholders to communicate with the Directors directly. Chairman of the Board and chairmen of each Board committee will attend the annual general meeting and answer questions raised by the shareholders. The external auditor will also attend the annual general meeting and answer questions regarding audit work, preparation of auditor's report and its content, accounting policies and independence of auditor.

To promote effective communication, the Company has adopted the shareholders' communication policy, with a view to establishing relationship and communication between the Company and its shareholders. A website (www.chen-xing.cn) is also established. The Company shall post on its website updated information related to its business operations and development, financial information, corporate governance practices and other information for the review of the public.

SHAREHOLDERS' RIGHTS

For the protection of shareholders' benefits and rights, the Company shall propose separate resolutions for each question (including the election of each Director) at a general meeting.

All resolutions proposed at a general meeting shall be voted on by poll according to the Listing Rules, the results of which shall be posted on the websites of the Stock Exchange and the Company after the date of the general meeting in due course.

CORPORATE GOVERNANCE REPORT

CONVENING OF EXTRAORDINARY GENERAL MEETING AND THE PROPOSAL OF RESOLUTIONS

Pursuant to Article 58 of the Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (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. The procedures for shareholders to convene an extraordinary general meeting are set out in the document entitled "Procedures for Shareholders to Convene a General Meeting", which is posted on the Company's website.

The Articles of Association and the laws of the Cayman Islands do not stipulate the procedures for shareholders to propose resolutions at annual general meetings. Should the shareholders wish to propose resolutions, they may refer to the "Procedures for Shareholders to Convene a General Meeting".

Regarding the procedures for nomination of Directors, please refer to "Procedures for Shareholders to Nominate Candidates for Directors" posted on the website of the Company for details.

ENQUIRY TO THE BOARD

Shareholders may send by email to the Company's email address (cx fz@chen-xing.cn) or by post to the Company's China Office (18 Anning Street, Yuci District, Jinzhong City, Shanxi Province, China) or the Hong Kong principal place of business (18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong) to raise enquiries regarding the Company to the Board.

AMENDMENT TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

The Company has not made any amendments to the Company's memorandum and articles of association during the Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT ESG REPORT

The Environmental, Social and Governance Report (the “**ESG Report**”) for Chen Xing Development Holdings Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**” and “**we**”) was published. As a cooperate citizen, the Group fully implemented the concept of sustainable development. The Group highly values social responsibilities and prioritizes the needs of stakeholders. The ESG Report elaborates on the various work undertaken by the Group in fulfilling the principle of sustainable development and its social and governance performance in 2017.

The scope of ESG Report

The ESG report presents our performance in the environmental and social aspects of our business in the reporting period from 1 January to 31 December 2017, including the Key Performance Indicators (“**KPIs**”) in environmental and social aspects for the headquarters in Jinzhong City in Shanxi Province and its subsidiary in Taiyuan City, named Chenxing Real Estate Development Co., Ltd Taiyuan Branch Office (Taiyuan Project). The Group will make continual effort in reviewing its performance in environmental and social aspects, and consider expanding the scope of the ESG Report in the future. For the information on our corporate governance, please refer to the *Corporate Governance Report* of this annual report.

ESG Reporting Guidelines

The ESG report was prepared in accordance with the *Environmental, Social and Governance Reporting Guide* set out in Appendix 27 to the *Rules Governing the Listing of Securities* on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholder Engagement

Our staff from different divisions was involved in the preparation of the ESG Report, which helps us recognize our current performance in the environmental and social aspects. The data collected highlights not only the Group's sustainable initiatives in the environmental and social aspects during 2017, but also lays the foundation for formulating the Group's short-term and long-term sustainability development strategies.

Information and Feedback

For details of environmental and corporate governance, please refer to the official website of the Group ([http:// www.chen-xing.cn](http://www.chen-xing.cn)) and the annual report. Your opinions will be highly valued by the Group. If you have any advice or suggestions, please contact us by email: cx fz@chen-xing.cn.

OUR RESPONSIBILITY ON THE ENVIRONMENT AND SOCIETY

The Group was established in 1997 and was listed on the main board of the Stock Exchange in 2015. Over these years, the Group has been devoted to the development of residential and commercial properties. Our business has been expanded to business management, manufacturing and installation of doors and windows and property service. We believe in our business philosophy of "Customer-oriented Business, Honest Business Operation, Responsible Property Development, Harmonious Society Contribution" and provide high-quality products and services. We are persistent to maintain a high standard of business administration and to pursue stable and sustainable development.

The Group persists in shouldering the responsibility towards the environment and society and is committed to protecting the environment. In the meantime, we aim to develop with our employees and society. During the operation process, we consider both preserving the environment and ensuring safety as of vital importance. We hope to take the leading role in environmental protection among the industry. The development of the Group relies on the efforts of our staff, which we regard our staff as the most valuable asset. We strive for developing corporate culture by creating the atmosphere of "Sincerity, Credibility, Effort-making, Responsibility, Harmony and Integration" at the workplace. Meanwhile, we insist on bearing the responsibility towards the society. We constantly focus on residential development and we strive to provide residents with higher quality. We are determined to contribute to our community for a better living environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GREEN OPERATIONS

Environmental Management System

The Group strictly complies with the *Environmental Protection Law of the People's Republic of China* (《中華人民共和國環境保護法》) and *Regulations on Environmental Protection Management of Construction Projects* (《建設項目環境保護管理條例》), striving to prevent our construction projects from causing pollutions or environmental disruption. Also, we take up the responsibility to ensure the environmental quality during development management and to protect the living environment of our construction projects. Therefore, we set up the environmental management system with a leading group, and implement the system to individuals. We conduct full supervision, inspection, examination and evaluation to the comprehensive environmental improvement and protection work done by different departments, so as to ensure that the environmental protection policies of the Group are well-applied in our construction sites, residential properties and commercial properties.

The Group is fully involved in the environmental management of each construction project. During feasibility study, we hire qualified third-party companies to assess the environmental impacts caused by the construction projects. During the construction period, it is required to follow the rules on environmental improvement and protection at the construction sites. Upon the completion of the constructions, we check the environmental protection facilities according to the *Measures for the Inspection and Acceptance of Environmental Protection of Construction Projects* (《建設項目竣工環境保護驗收管理辦法》). The environmental management of the Group does not end with the completion of the constructions, which the concept of environmental protection is also reflected in our property management after construction.

Air Pollutants Control

The major air pollutants emitted from the Group's construction projects include dust, transportation dust and vehicle exhaust gas. The Group complies with the laws and regulations regarding air pollutants emission. For dust control, the contractors are required to store all powder materials in bags, to cover them or put them in sheds. Besides powder materials, relevant measures are implemented on materials being piled up outdoors, including construction waste and cement. Measures include setting up fences, spraying water regularly and cleaning up promptly to prevent dust from spreading with wind. Furthermore, pre-mixed concrete is used in Taiyuan Project in order to avoid dust pollution during the mixing. New dust-retardant covers, which can resist flame and water at the same time, are used instead of tradition green covers. Dust monitoring device was installed in Taiyuan project. Data of the device was collected and analyzed by Taiyuan Administration of Work Safety. We do not have the right to obtain the data. If the emissions of dust in the construction site exceeded the national limit, we will deal with the problem in a timely manner. For transportation dust control, apart from spraying water on roads regularly, we also require all vehicles entering or leaving the construction sites to be covered with tarpaulin sheets. In order to purify the workplace and the construction sites, we plant in green areas. For exhaust gas from vehicles, regular maintenance and checks of vehicles are carried out to ensure its efficiency and no engines are idled so as to avoid the waste of fuel and reduce the emission of exhaust gas. Apart from requiring the contractors of the construction projects to follow these rules, we also hire project supervision companies for regular on-site inspection and supervision.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water Quality Control

The major wastewater discharged during the Group's operation includes sewage and construction wastewater. In accordance with relevant laws and regulations, we discharge the sewage to the municipal drainage pipe system instead of the unauthorized ways. Before the commencement of construction, we apply for the wastewater discharge permission according to the relevant regulations of the local environment authorities, and require the contractors to control the wastewater produced in the construction sites to ensure the wastewater discharged conforms to the requirements of *Integrated Wastewater Discharge Standard* [《污水綜合排放標準》](GB8978-1996). In order to minimize water pollution, the contractors are required to set up drainage system and discharge only processed wastewater in accordance with the regulations. For instance, wastewater with sediment must be precipitated before discharging to the municipal drainage pipe system, and wastewater produced by cleaning mixers is reused after sedimentation. Grease trap is installed in temporary canteens of construction sites, and thus wastewater passed through the grease traps before being discharged to the municipal drainage pipe.

Noise Control

The Group strives to reduce noise produced during the construction progress. We strictly control the noise produced during different construction stages in accordance with the *Law of the People's Republic of China on the Prevention and Control of Pollution from Environmental Noise* [《中華人民共和國環境噪聲污染防治法》]. Thus, apart from choosing the mechanical equipment with good environmental protection performance and low noise, we also carrying out maintenance and regular check for different devices and vehicles to ensure the efficiency and to lower the noise produced by the mechanical devices. Throughout the construction progress, the contractors are prohibited to throw the steel tools during setting up, removing, handling, or repairing, and are required to use steel pipe straighteners and machines for repairing steel molds so as to reduce the noise produced by manual labours. For the design of the construction sites, we put up construction hoardings around the sites before the commencement of construction, place the mechanical devices producing loud noise together, and implement noise isolation measures to all fixed devices producing noise so as to lower the construction noise. We understand that both the contractors and subcontractors are responsible for noise control. Therefore, we require the subcontractors to implement noise control measures, such as maintenance of tanker trucks and concrete pumps, trainings for the operators, etc.

Waste Disposal

We strictly comply with the laws and regulations regarding waste disposal. Solid waste is divided into recyclable and non-recyclable categories. Besides, we collect and handle the non-hazardous construction waste produced from the construction projects as required by the local environment authorities. Storage area for construction waste is set up in sites of the Taiyuan Project in order to categorizes the waste. Watery waste is stored in barrels and transported and disposed in accordance with local regulations, while waste from high heights is stored in mobile sealed trash cans and is forbidden to discard garbage from

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

height to prevent dust pollution. To reduce office waste, following measures are carried out, for instance, reusing envelopes, files and other stationeries, and reducing the use of non-recyclable products, etc.

The hazardous waste generated during the operations of Taiyuan Project is handled by the contractors, thus Taiyuan Project does not have relevant statistics. Contractors are required to separate hazardous waste from general waste, and mark the locations and containers that store the hazardous waste to avoid mixing up. On the other hand, due to the potential risk of storing hazardous waste, it is required to abide strictly by the safety regulations for flammable and explosive substances at all storage locations. Hazardous waste is transported to the hazardous waste storage facilities and the anti-pollution measure are carried out during transportation to prevent environmental contamination. We also clean the storage locations and the transportation facilities of the hazardous waste thoroughly.

Energy Conservation

Throughout these years, we have actively worked on energy conservation. Contractors are required to follow the principle of “Conservation of Electricity, Control the Use of Coal and Oil”.

Our determination of energy conservation is reflected in our operations. Computers in office are set to energy-saving mode when they are not in use. Staffs are reminded to switch off unnecessary electronic devices, lights and electrical appliances. In order to improve energy efficiency, we choose electronic devices and lights with high energy efficiency, install motion sensor light in an areas with less commonly use, and clean the light appliances and the filters of air conditioning system regularly. In addition, we coordinate with the design of the office for the effect of energy conservation. To avoid the waste of energy, we divide the office into different areas with independent sets of lights, while the employees can use the lighting system according to their needs. Water-cooled air conditioning system is used and door and window seals are installed to prevent the leakage of cool air. To make continual improvement in the effect of energy conservation, we record the electricity consumption regularly and carry out corresponding improvement measures in a timely manner when necessary.

Apart from energy conservation, we actively reduce carbon emissions of transportation. The Group optimizes the routes for transportation and preferred local procurements to reduce carbon emissions during transportation. Furthermore, video conference is preferred to avoid unnecessary business trip. For the unavoidable business trip, direct flights are arranged to reduce carbon emissions. Efficient management of our vehicle team helps fulfilling our commitment of reducing carbon emissions. Apart from using vehicles with high emission standards, we also ask the drivers to comply with the regulation and switch off idling vehicles.

Besides the implementation of various energy conservation measures in our operations, energy-saving elements are included in our project design as well. For example, for the urban redevelopment scheme in Nanbeiliubao (南北六堡), we had conceived different energy-saving measures in the design stage. We have chosen energy-saving heating, ventilation and air conditioning (“HVAC”) products and high-quality and efficient thermal insulation materials to meet the requirements of energy conservation. For lighting system, lighting appliances with high efficiency are chosen and automatic lighting device is installed in the staircase. Moreover, solar energy is used in water heating system to replace fossil fuels in this project.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Resources Conservation

We always adhere to the principle of conserving resources in our projects and operation. In the construction sites of Taiyuan Project, water used to clean vehicles is collected in sedimentation tank and will be used in dust control after sedimentation for water conservation. Moreover, we take various water-saving measures in our daily operation. Water conservation signs are posted in washrooms to remind our employees to save water by turning the faucets off after using. We also use dual flush toilets for different needs. To avoid water leakage, we check the water meter regularly, carry out pipeline leak detection and fix the faucets with leakage at once.

Apart from water saving, we also strive to reduce the use of paper and to achieve a paperless office. We make good use of the internet, such as Office Automation (OA) system, Numerical Control (NC) system and Wechat enterprise account to reduce paper usage. Employees can carry out internal management like approving contracts, payments, expenses reimbursement via the OA system. The NC system serves as the platform for sharing data among different departments, such as sharing the financial records of buying or selling properties between the finance department and the sales department, which can greatly reduce the use of paper throughout the entire financial process. Besides, employees can take leave or arrange meetings or other schedules via the administrative program of our Wechat enterprise account. To raise the paper-saving awareness of employees, signs were posted near printers as a reminder to choose double-sided printing or use reusable paper.

CARE FOR EMPLOYEES

Employee Rights

The Group standardizes its employment policy by strictly complying with the laws and regulations like the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》). During recruitment, we offer interview opportunities to every applicant who meets our entry requirements, regardless of their gender, race, age, etc. The Group follows strictly to the *Provisions on the Prohibition of Using Child Labour* (《禁止使用童工的規定》) promulgated by the State Council of the People's Republic of China, which avoid employment of child labour by checking their identity cards. We do not allow forced labour and would not force our employees to work overtime or leaving work on time. The Group implements standard working hour policy according to the national law. All full-time and part-time employees are working no longer than eight hours a day and less than forty hours a week. Besides the basic wages, we offer employees with performance-related pay based on the result of monthly and annual appraisals. We also provide employees with wage for seniority which encourages long-term service of the employees. For termination of employment, the employee's wage will be paid on time according to the employment contract and the national law.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employee Welfare

Acting in compliance with the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》) and other relevant rules and regulations, the Group provides the employees with endowment insurance, medical insurance, work-related injury insurance, unemployment insurance, childbirth insurance and housing provident fund. Employees are entitled to different statutory holidays, including festival holiday, annual leave, wedding leave, compassionate leave and maternity leave, etc. to ensure the adequate rest time for employees. We provide not only allowances for working under the high temperature as required by the national rule, but also allowances to those employees who work under the low temperature. We offer allowances in Mid-Autumn Festival and Chinese New Year, to share the festive joy with employees. To protect the health of our employees, we arrange regular body check for our employees.

In addition, we organize events for employees from time to time. In the year, in order to enrich employees' lives, improve employees' health, enhance team building and inculcate determined and aggressive spirit into employees, "Chenxing Cup" - table-tennis competition was held. Besides, "Chenxing 2017 Outdoor Training" was held to improve team cohesion, competitive awareness and service awareness. The mode of training is different from normal training. The training is completely "actual combat", including setting rules and allowing participants to combat freely. The organization skill of the employees is improved through the training. Through diverse activities and unique mechanism, employees' passion for participation was awakened.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Career Planning for Employees

We aim at achieving the goal of making the most of the talents, satisfying the need of the Group and the individual development of employees, enhancing the core competencies of both the Group and individual employees, and improving the business performance. Therefore, we set clear career path for our employees. We respect the will of each employee towards their career development. They can develop a career ladder or switch to a different one. When there is a job vacancy, we will first consider an internal transfer to give opportunities for all employees. When we promote an employee, we consider thoroughly the employee's personal quality, ability and performance at work. Employees are promoted according to a clear career ladder except those who made outstanding contributions to the Group or those who are highly talented may be offered with higher ranking positions. To maintain employees' quality of work, we set up a leadership optimization system to analyze leaders' performance in a fair and scientific way. We carry out monthly and annual appraisals with employees and assess their performance in a scientific way. We concern our employees' needs and development in a long run. We promote or demote an employee according to their assessment result as well.

Career Development for Employees

In order to enhance professional quality and work ethics of our employees, to raise their service awareness and service level, to boost the cohesion, attractiveness, centripetal force and combatant power of the Group, to reduce errors at work, to increase efficiency at work, we cultivate talents for the Group. Along with the development of the Group, we put emphasis on training for new employees. Through new employees training, we promote the history of the Group, the organizational structure, the corporate culture and personnel policies, and increase employees' organization ability, communication skills, team spirit, etc. We help strengthening organizational discipline so that employees can adapt to the new environment and the corporate culture as soon as possible. Each department is asked to hold departmental and positional training for new employees so that they can get used to the new working environment as soon as possible and increase their efficiency at work. In order to push the employees' development further and to enrich their professional knowledge, we hold internal training according to departmental needs, while the Group pays for external training expenses. Other than professional and technical training, we also improve management skill of the middle and senior levels. Training includes seven habits of highly effective people, executive power, leadership, comprehensive budget management, etc.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PROTECTION FOR EMPLOYEES' HEALTH AND SAFETY

Safety Production System

For the implementation of the *Law of the People's Republic of China on Work Safety* (《中華人民共和國安全法》) and achieving the Group's project development safety objectives of "Safety First, Precaution Crucial", contractors are required to investigate and verify all the major hazards before construction. They are required to establish relevant management plans, safety inspection system and a well-developed production safety responsibility system for the projects. Safety production responsibility system is directly linked to economic benefits. With clear reward and penalty scheme, management personnel is motivated to create safe and civilized construction sites. The safety inspection is an important part of the safety production system. Contractors are required to organize daily, professional and seasonal safety inspection on a regular basis, in order to eliminate different potential safety hazards and avoid safety incidents. The Group hires supervision companies to supervise production safety during construction work. They constantly inspect the safety measures of construction sites and report to the construction contractors promptly for any potential safety risk discovered. The Group organizes monthly safety inspection with the supervision companies and the construction contractors according to the national mandatory *Construction Safety Inspection Standard* (《建築施工安全檢查標準》) (JGJ59-99) and the construction site standard as required by local business managing departments. All safety inspections and safety measures are recorded systematically as the records serve as the major evidence for any safety issues and the reference for the prevention of any safety incidents. In respect of having a prompt response to any safety issues to avoid casualties, economic loss and lowering corporate production risk, we have an emergency plan to minimize the risk brought by any incidents.

Protective measures

We understand that there are lots of potential hazards in construction sites. We, therefore, identify sources of hazards, assess risks and provide specific protective measures for our employees. For instance, every layer of external scaffolding was scaffold trestle, ensuring no gap between the scaffolding and the building and dense-mesh vertical safety nets are sealed. Apart from the implementation of safety measures, construction schedule will be different in various seasons, in order to reduce seasonal hazards. We provide our employees with different protective equipment according to their job natures. To ensure the measures are effective to provide our employees with a safe working environment, we run safety tests in the working environment on a regular basis and implement measures to deal with potential hazardous factors. For example, we provide body check for employees who are exposed to occupational hazards, to ensure their health condition is suitable for their position at work.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Publicity and Education

We understand that the safety of our employees rely heavily on the protective measures we provided and the measures taken to reduce the hazardous factors. On the other hand, knowledge of the employees is also crucial. We ensure construction workers to understand all related rules and safety policies through safety meeting, slideshow presentation, and examinations etc. All new workers are required to receive three-level safety training. And workers are required to receive training if they change their positions or jobs. Through training, we hope workers understand our safety objectives, "Safety First, Precaution Crucial, Comprehensive Management". The development contractors should carry out safety activities before work every working day, thus workers understand hazards of construction and procedures of the work, basic safety knowledge, code of conduct, special protective measures for different projects, to ensure that all the construction workers on site comply strictly with the related rules and safety policies. Contractors are also responsible for teaching the construction workers the correct way to use their personal occupational protective equipment. They should educate the construction workers about occupational diseases and push the idea of using protective equipment forward. For professional technicians, like electricians, contractors have to make sure the technicians are certified and bring along with related licenses while working. Besides training for the construction workers, contractors are required to post operating procedures and policies, as well as the safety warning signs, in the construction sites.

COMMITMENT TO CLIENTS AND SUPPLIERS

Suppliers Management

Development of the Group relies on the service provided by suppliers, including supervision companies, construction contractors, suppliers of materials, etc. In order to develop together with the suppliers, we set strict standards for the selection of suppliers. We have clear tendering procedures with fairness, justice and transparency. In the initial selection process, aside from surveying and recording the basic information and business nature of the suppliers, we require suppliers to provide a series of qualification documents to check the qualification of suppliers to reduce risks caused by them. Besides checking the basic documents, the assessment system also includes extra requirements. For example, we consider whether the suppliers are certified with ISO9001 Quality Management System or experienced in similar projects. We aim to ensure suppliers are devoted in different areas, for instance, maintaining product quality, protecting the environment, conserving energy and reducing emissions and ensuring work safety and employees' health. Besides considering suppliers' qualification, experience and the equipment provided for projects or products, we also consider the suppliers' ability to fulfill their responsibilities pursuant to the laws and regulations. We do not only evaluate suppliers in the selection process, we also do follow-up evaluation to qualified suppliers regularly and reassess them. For instance, we do quality assurance or on-site inspection to suppliers of materials and evaluate the management standards of supervision companies, quality of supervising engineers and the working condition in construction sites.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Valuing Clients

Product quality is one of our major concerns as we aim at providing the best quality products to our clients. For development projects, in order to ensure the quality and safety of the properties, we carry out inspection at different construction stages, base on the standards like the *Code for Acceptance of Construction Quality of Underground Waterproof* (《地下防水工程質量驗收規範》) (GB50208-2002), *Unified Standard for Constructional Quality Acceptance of Building Engineering* (《建築工程施工質量驗收統一標準》) (GB50300-2001) and *Steel for the Reinforcement of Concrete* (《鋼筋混凝土用鋼》) (GB1499-2007). We employ construction contractors and supervision companies to regularly check the construction quality. Subsequently, to assure the quality of properties, we arrange on-site managers to inspect the information of quality management gathered by construction contractors and supervision companies. To ensure that the quality of properties meets the requirement of the clients, members of the Group's customer service department, engineering department, supervision companies and construction contractors carry out building inspection with the clients. We modify the projects according to the result of the inspection. We value the quality of the properties as well as the early stage property management. To ensure clients a sustained, nice and comfortable environment, we require the property management companies to set up policies on the use of public facilities and venue, environmental hygiene, maintenance of properties, etc. We know that clients' opinions help us improve, thus we set up a comprehensive complaints mechanism. Our customer service officers are responsible for handling and following up complaints from clients, and to make sure cases are settled effectively. We take an active role to get clients' opinions through customers satisfaction officers. The officers interview the clients regularly to see whether clients are satisfied with our service. Moreover, we collect customers' advice and opinions through different channels like Wechat and suggestion boxes.

Maintaining Business Ethics

Aiming at providing accurate and clear information to customers through advertisement, we require our partner advertizing agencies to comply strictly with the *Advertising Law of the People's Republic of China* (《中華人民共和國廣告法》) and *Provisions on the Release of Real Estate Advertisement* (《房地廣告發布規定》). Besides, in order to protect the privacy of our clients, business partners and employees, the Group complies with the related laws and regulations, and sets confidentiality guidelines with employees, suppliers and fore period property management companies. We sign the confidentiality agreement with employees to ensure the trade secrets and clients' information will not be leaked. Our contract officers are responsible for managing files regarding sales contracts. Moreover, we strengthen the security system of the financial department, which limits the assess right of employees in order to further protect the clients' information. When working with a third-party company, we sign the confidentiality agreement listing all its obligations. The third-party company is prohibited to leak any information related to the project or the undisclosed information of the product by any means, except when requested by national decree or the authority concerned. For fore period property management companies, we require them to store their property records and information with security management. They are required to carry out security check on the rooms storing clients' information constantly. The fore period property management company is obliged to hand over the property records and information to the Group and the owners' committee, according to the related regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Anti-corruption

In respect of achieving the Group's management goals, to strengthen the probity environment at workplace, to prevent and reduce any kind of illegal economic activities, to comply strictly with the laws and regulations related to anti-corruption, such as, the *Criminal Law of the People's Republic of China* (《中華人民共和國刑法》), the Group strives to prevent corruption in different aspects. We start with supervising and educating our employees about anti-corruption and occupational ethics. Employees are prohibited to accept any kind of advantage, including gifts, bribes, the sum of money, offered by any related parties of the Group. Employees, their families and friends are not allowed to attend any kind of entertainment activities, including the provision of food or drink, travel, which may affect the duties of employees. For purchasing and tendering, families and friends of our employees are not allowed to take part in any kind of economic activities related to the Group's business operation like supplying equipment or subcontracting. Employees are required to sign the integrity agreement and comply with the above guidelines strictly.

CARE FOR SOCIETY

As an ethical social enterprise, the Group is devoted to providing a high-quality living environment for the citizens, to serve and care for the community by making every effort. The Group continuously cooperates with non-governmental organizations (NGOs) and other enterprises, which are willing to shoulder corporate social responsibility, to work for the well being of the community. In the year, we begin "Chenxing, your buddy" programme to encourage our employees to care for others. Our programme carried out activities to care for children and elderly and inject hope for the future of the country. Furthermore, we donated food to Jinzhong Children's Welfare Institute, and brought love of society to the children.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

KEY PERFORMANCE INDICATORS

Environmental Indicators	2017
Air Pollutants	
Emissions of Nitrogen Oxide (Kg)	30
Emissions of Sulphur Dioxide (Kg)	0.65
Emissions of particulates (Kg)	2
Greenhouse Gases	
Total amount of greenhouse gases emitted (tons)	5,404
Total amount of greenhouse gases emitted per square metre of floor area (tons/m ²)	0.55
Direct emissions (Scope 1) (tons)	123
Indirect emissions (Scope 2) (tons)	5,219
Other indirect emissions (Scope 3) (tons)	62
Total amount of greenhouse gases reduced by planting trees (tons)	102
Wastes	
Total amount of non-hazardous waste produced (tons)	64
Total amount of non-hazardous waste per square metre of floor area (Kg/m ²)	6.45
Construction waste recycled and reused(tons)	327
Metals (such as rebar) (tons)	90
Papers and cardboard packaging (tons)	230
Plastic (tons)	7
Waste piles (tons)	40
Resources Consumption	
Total energy consumption (MWh)	7,108
Total energy consumption per floor area (MWh/m ²)	0.72
Consumption of non-renewable fuels (MWh)	514
Energy bought for electricity consumption and heating (MWh)	6,594
Total water consumption (m ³)	73,664
Total water consumption per square metre of floor area (m ³ /m ²)	7.46

INDEPENDENT AUDITOR'S REPORT



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To the shareholders of **Chen Xing Development Holdings Limited**
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Chen Xing Development Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 246 to 334, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
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Net realisable value of properties under development and completed properties held for sale

As at 31 December 2017, the Group's properties under development and completed properties held for sale amounted to RMB3,704,874,000 and RMB1,333,444,000, respectively, which represented in aggregate 72.2% of the total assets of the Group. The assessment of whether the carrying values of the properties were higher than their net realisable values, and consequently, whether a provision to reduce the carrying values was required, was made by management through the application of judgement and the use of subjective assumptions such as the expected selling prices, the costs of completion of properties under development and the costs to be incurred in selling the properties based on prevailing market conditions.

We evaluated the basis for the provision assessment by understanding the assumptions used to determine the net realisable values of properties under development and completed properties held for sale. We evaluated the assumptions used by checking, on a sample basis, the selling prices of properties to latest sale transactions and reviewing the pre-sale status of other projects in the same location to evaluate the saleability. We also assessed the costs to complete or sell the properties by reviewing budgets and contractor agreements signed for other similar projects.

The Group's disclosures about the provision for properties under development and completed properties held for sale are included in notes 2.4, 3, 7, 15 and 19 to the financial statements, which also explain the accounting policies and management's accounting estimates.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
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Valuation of investment properties

As at 31 December 2017, the Group's investment properties amounted to RMB163,000,000 and were measured at fair value. It is the Group's policy to have investment property valuations performed by an independent professional valuer at least once a year, to assist management in the fair valuation process. The valuations of the investment properties were highly dependent on estimates such as current and future market rents, yields and future maintenance costs, which were subject to uncertainty and might materially differ from the actual results.

The Group's disclosures about the valuation of investment properties are included in notes 2.4, 3 and 14 to the financial statements, which also explain the accounting policies and management's accounting estimates.

We evaluated the objectivity of the valuation process and expertise of the independent professional valuer. We involved our internal valuation specialists to assist in evaluating the applied methods, the underlying assumptions and parameters adopted in the valuation of investment properties performed by management and the independent professional valuer. We assessed the property-related data used as inputs for the valuations by checking to existing rental agreements, the rates of rent quoted for similar properties and the occupancy rates of the properties. We also reviewed the related disclosures in the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of buildings and prepaid land lease payments</i>	
<p>As the carrying amount of the net assets of the Group was higher than the market capitalisation of the Company as at 31 December 2017, the Group performed impairment tests on its buildings and prepaid land lease payments with carrying values of RMB53,364,000 and RMB1,374,000, respectively. These impairment tests involved significant estimation and judgements around assumptions used, including current and future market rents, yields, future maintenance costs and available data from market transactions of similar assets. Management determined that no provision for impairment of buildings and land lease payments was required.</p>	<p>We evaluated management's identification of indicators of impairment. We assessed the inputs used for the estimation of recoverable amounts by comparing to rentals quoted for similar assets and observable prices from market transactions. We also involved our internal valuation specialists to assist in evaluating the methodology used, and the underlying assumptions and parameters adopted by management to estimate the recoverable amounts of the buildings and prepaid land lease payments.</p>
<p>The Group's disclosures about the impairment testing of non-financial assets, which included buildings and prepaid land lease payments, are included in notes 2.4 and 3 to the financial statements, which explain the accounting policies and management's accounting estimates.</p>	

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Directors' Report, the Corporate Governance Report and the Environmental, Social and Governance Report, which are expected to be made available to us after that date.

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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Statement, the Directors' Report, the Corporate Governance Report and the Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

Responsibilities of the directors for the consolidated financial statements

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	1,076,685	1,081,989
Cost of sales		(700,354)	(745,308)
Gross profit		376,331	336,681
Other income and gains	5	25,673	10,248
Selling and distribution expenses		(46,611)	(58,879)
Administrative expenses		(45,190)	(38,104)
Other expenses		(7,356)	(9,823)
Finance costs	6	(6,806)	(3,763)
PROFIT BEFORE TAX	7	296,041	236,360
Income tax expense	10	(116,473)	(89,398)
PROFIT FOR THE YEAR		179,568	146,962
Attributable to:			
Owners of the parent		170,519	151,832
Non-controlling interests		9,049	(4,870)
		179,568	146,962
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
— For profit for the year	12	RMB0.34	RMB0.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR	179,568	146,962
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(3,129)	3,518
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(3,129)	3,518
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(3,129)	3,518
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	176,439	150,480
Attributable to:		
Owners of the parent	167,390	155,350
Non-controlling interests	9,049	(4,870)
	176,439	150,480

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	65,471	69,560
Investment properties	14	163,000	164,000
Properties under development	15	546,057	143,861
Intangible assets	17	300	630
Deferred tax assets	27	173,179	103,040
Prepaid land lease payments	16	1,374	1,419
Prepayments for land use rights		416,300	—
Prepayments for property, plant and equipment		6,086	—
Total non-current assets		1,371,767	482,510
CURRENT ASSETS			
Properties under development	15	3,158,817	3,805,980
Completed properties held for sale	19	1,333,444	1,046,771
Inventories	18	2,160	2,044
Prepayments, deposits and other receivables	20	468,564	205,818
Tax recoverable		57,310	17,673
Available-for-sale investments	21	173,610	493,810
Pledged deposits	22	22,305	14,323
Restricted bank balance	22	103,839	—
Cash and cash equivalents	22	282,513	290,594
Total current assets		5,602,562	5,877,013
CURRENT LIABILITIES			
Trade payables	23	753,398	1,109,982
Other payables, deposits received and accruals	24	1,665,188	1,509,194
Advances from customers	25	2,889,441	2,249,277
Interest-bearing bank borrowings	26	151,000	241,000
Due to related parties	35(c)	1,717	567
Due to a director	35(c)	87	93
Tax payable	10	101,054	132,433
Total current liabilities		5,561,885	5,242,546
NET CURRENT ASSETS		40,677	634,467
TOTAL ASSETS LESS CURRENT LIABILITIES		1,412,444	1,116,977

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		1,412,444	1,116,977
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	295,000	40,000
Deferred tax liabilities	27	9,740	14,942
Total non-current liabilities		304,740	54,942
NET ASSETS		1,107,704	1,062,035
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	4,003	4,003
Reserves	29	1,015,118	978,498
		1,019,121	982,501
Non-controlling interests		88,583	79,534
TOTAL EQUITY		1,107,704	1,062,035

Bai Xuankui
Director

Bai Wukui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent									
	Share capital RMB'000 (note 28)	Share premium	Capital reserves	Statutory surplus reserve	Asset revaluation reserve	Exchange fluctuation reserve	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 28)	(note 28)							
At 1 January 2016	4,003	219,418	101,849	101,233	23,331	10,235	578,807	1,038,876	84,404	1,123,280
Profit for the year	—	—	—	—	—	—	151,832	151,832	(4,870)	146,962
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	3,518	—	3,518	—	3,518
Total comprehensive income for the year	—	—	—	—	—	3,518	151,832	155,350	(4,870)	150,480
Transfer to statutory reserves	—	—	—	1,341	—	—	(1,341)	—	—	—
Final 2015 dividend declared	—	—	—	—	—	—	(211,725)	(211,725)	—	(211,725)
At 31 December 2016	4,003	219,418*	101,849*	102,574*	23,331*	13,753*	517,573*	982,501	79,534	1,062,035

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent									
	Share capital	Share premium	Capital reserves	Statutory surplus reserve	Asset revaluation reserve	Exchange fluctuation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 28)	(note 28)								
At 1 January 2017	4,003	219,418	101,849	102,574	23,331	13,753	517,573	982,501	79,534	1,062,035
Profit for the year	—	—	—	—	—	—	170,519	170,519	9,049	179,568
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	(3,129)	—	(3,129)	—	(3,129)
Total comprehensive income for the year	—	—	—	—	—	(3,129)	170,519	167,390	9,049	176,439
Transfer to statutory reserves	—	—	—	7,308	—	—	(7,308)	—	—	—
Final 2016 dividend declared	—	—	—	—	—	—	(130,770)	(130,770)	—	(130,770)
At 31 December 2017	4,003	219,418*	101,849*	109,882*	23,331*	10,624*	550,014*	1,019,121	88,583	1,107,704

* These reserve accounts comprise the consolidated reserves of RMB1,015,118,000 at 31 December 2017 (2016: RMB978,498,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		296,041	236,360
Adjustments for:			
Depreciation	13	9,114	8,064
Amortisation of intangible assets	17	307	348
Amortisation of prepaid land lease payments	16	45	45
Income from available-for-sale investments	5	(13,929)	(2,543)
Finance costs	6	6,806	3,763
Changes in fair value of investment properties	14	1,000	(3,000)
Interest income	5	(1,369)	(2,151)
		298,015	240,886
Decrease/(increase) in properties under development		265,701	(69,540)
Increase in completed properties held for sale		(286,673)	(476,861)
(Increase)/decrease in inventories		(116)	227
(Increase)/decrease in prepayments, deposits and other receivables		(679,047)	171,511
Decrease in an amount due from a related party		—	159
(Increase)/decrease in pledged deposits		(7,982)	27,836
Increase in restricted bank balance		(103,839)	—
(Decrease)/increase in trade payables		(356,584)	118,798
Increase in advances from customers		640,164	560,204
Increase in other payables, deposits received and accruals		156,231	372,443
Decrease in provision		—	(7,213)
Increase in an amount due to a director		—	8
Increase in an amount due to related parties		1,150	567
		(72,980)	939,025
Cash (used in)/generated from operations		(72,980)	939,025
Tax paid		(247,830)	(107,937)
		(320,810)	831,088
Net cash flows (used in)/ from operating activities		(320,810)	831,088

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and construction in progress		(11,092)	(11,797)
Purchases of intangible assets		—	(267)
Acquisition of non-controlling interests		—	(40,620)
Purchases of available-for-sale investments		(1,793,730)	(1,155,000)
Sales of available-for-sale investments		2,113,930	753,090
Income from available-for-sale investments		13,929	2,543
Interest received		1,369	2,151
Net cash flows from/(used in) investing activities		324,406	(449,900)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		496,000	128,000
Repayment of bank loans		(331,000)	(509,000)
Repayment of a loan from a related party		—	(80,000)
Dividends paid		(130,770)	(211,725)
Tax paid on financing activities		(15,000)	—
Interest paid		(27,772)	(38,602)
Net cash flows used in financing activities		(8,542)	(711,327)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		290,594	617,215
Effect of foreign exchange rate changes, net		(3,135)	3,518
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	282,513	290,594

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 3 November 2014. The registered office address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the year, the Group was principally engaged in property development.

In the opinion of the directors, the ultimate controlling shareholders of the Group are Mr. Bai Xuankui and Mr. Bai Guohua.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chen Xing Investments Limited	British Virgin Islands	US\$10,000	100%	—	Investment holding
Chen Xing International Holdings Limited	Hong Kong	HK\$100	—	100%	Investment holding
Jinzhong Chen Xing Hui Technology And Trade Company Limited*	People's Republic of China/ Mainland China	RMB1,000,000	—	100%	Investment holding
Chenxing Real Estate Development Co., Ltd. ("Chen Xing")**	People's Republic of China/ Mainland China	RMB204,000,000	—	100%	Development and sale of properties
Sichuan Chenxing Real Estate Development Co., Limited ("Chen Xing Sichuan")**	People's Republic of China/ Mainland China	RMB100,000,000	—	83.89%	Development and sale of properties
Jinzhong Chenxing Commercial Management Co., Limited**	People's Republic of China/ Mainland China	RMB1,000,000	—	100%	Property leasing

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Jinzhong City Yuci Chenxing Doors & Windows Co., Ltd.**	People's Republic of China/ Mainland China	RMB1,500,000	—	100%	Manufacture and installation of windows
Shanxi Chenxing Property Services Co., Limited**	People's Republic of China/ Mainland China	RMB6,000,000	—	100%	Property management
Jinzhong Development Zone Real Estate Development Co., Ltd.**	People's Republic of China/ Mainland China	RMB100,000,000	—	51%	Development and sale of properties
Wuzhishan Chenxing Real Estate Development Co., Limited**	People's Republic of China/ Mainland China	RMB90,280,000	—	100%	Development and sale of properties
Hainan DeGao Investment Co., Ltd. ("Hainan Degao") **	People's Republic of China/ Mainland China	RMB10,000,000	—	100%	Development and sale of properties
Hainan Youshenghongtuo Real Estate Development Co., Ltd.**	People's Republic of China/ Mainland China	RMB10,000,000	—	100%	Development and sale of properties
Shanxi Chenxing Zhida Trading Co., Ltd.**	People's Republic of China/ Mainland China	RMB10,000,000	—	100%	Sale of construction materials
Shanxi Chenxing Zhicheng Construction Engineering Co., Ltd.**	People's Republic of China/ Mainland China	RMB50,000,000	—	100%	Property construction

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Jinzhong Chenxing Yijun Real Estate Development Co., Limited**	People's Republic of China/ Mainland China	RMB100,000,000	—	100%	Development and sale of properties
Jinzhong Chenxing Shiguang Zhicheng Real Estate Development Co., Limited**	People's Republic of China/ Mainland China	RMB50,000,000	—	100%	Development and sale of properties

* The entity is registered as a wholly-foreign-owned enterprise under PRC law.

** These entities are limited liability enterprises established under PRC law.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 CHANGES IN ACCOUNTING POLICES AND DISCLOSURES

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

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in <i>Annual Improvements to HKFRSs 2014–2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12</i>

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 33 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts¹</i>
HKFRS 9	<i>Financial Instruments¹</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation²</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers¹</i>
HKFRS 16	<i>Leases²</i>
HKFRS 17	<i>Insurance Contracts³</i>
Annual Improvements 2014–2016 Cycle	<i>Amendments to HKFRS 1 and HKAS 28¹</i>
included in Annual Improvements 2015–2017 Cycle	<i>Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23²</i>

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement²</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures²</i>
Amendments to HKAS 40	<i>Transfers of Investment Property¹</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration¹</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments²</i>

- 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 1 January 2021
- 4 No mandatory effective date yet determined but available for adoption

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. The expected impacts arising from the adoption of HKFRS 9 relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value.

Upon adoption of HKFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The Group has assessed that the investments in certain financial assets issued by licensed financial institutions in Mainland China as at 31 December 2017, that are currently classified as available-for-sale investments, would not pass the contractual cash flow characteristics test in HKFRS 9 and will be reclassified as financial assets at fair value through profit or loss.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group expects that the impact on the Group's financial position and results of operations upon the adoption of HKFRS 9 will not be material.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018.

During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15 and did not anticipate a material impact on timing of revenue recognised by the Group. However, application of HKFRS 15 may have impacts on the following areas:

(a) Sales commission and stamp duty

The Group pays commission to the sales agents and stamp duties to the tax bureaus when agreement for sale and purchase is signed with property buyer. Following the adoption of HKFRS 15, incremental costs of obtaining a contract, including sales commission and stamp duty, if recoverable, are capitalised as an asset and shall be amortised on a systematic basis that is consistent with the transfer of the related property to the customer. Currently, the Group expensed off the sales commission and stamp duty associated with obtaining agreement for sale and purchase with property buyer. Accordingly, the Group expects the recognition of an asset would result in an increase of opening retained profits as at 1 January 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) Financing component for sale of completed properties

HKFRS 15 requires property developers to account for the financing component in a contract separately from revenue if the financing effects are significant, subject to a practical expedient where the period between the payment and delivery of properties will be less than one year. Currently, it is expected that the length of time between the payment and delivery of properties of the Group's projects will exceed one year. Accordingly, the financing component is considered to be significant. The amount of the financing component is estimated at the contract inception and the payment plan is confirmed by the property purchaser by using a discount rate that would be reflected in a separate financing transaction between the Group and the customer reflecting the credit characteristics of the Group as well as any collateral or security provided. Interest expense is recognised only to the extent that a contract liability (receipts in advance) is recognised in accounting for the contract with the customer. The Group expects an adjustment to reduce the current year opening retained profits with a corresponding increase in receipts in advance.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16, issued in May 2016, replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption, and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 31 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB405,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

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

When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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

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

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

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

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

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

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

Impairment of non-financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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

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

Buildings	1.90%–19%
Motor vehicles	9.50%–19.40%
Machinery and equipment	9.50%–19.40%
Computer and office equipment	9.50%–32.33%

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

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

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

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

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from completed properties held for sale to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

The Group determines whether completed properties held for sale would be transferred to investment properties when, and only when, there is a change in use, evidenced by the following criteria: (a) the Group has prepared a business plan that reflects the future rental income generated by the property and this is supported with evidence that there is demand for rental space; (b) the Group can demonstrate that it has the resources, including the necessary financing or capital, to hold and manage an investment property; (c) the change in use is legally permissible; (d) if the property must be further developed for the change in use, and the development has commenced; and (e) change in use is approved by a board resolution.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Properties under development

Properties under development are intended to be held for sale after completion. On completion, the properties are transferred to completed properties held for sale. Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless they will not be realised in the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated in the statement of financial position at the lower of cost and net realisable value. Cost is determined by an apportionment of the total costs of land and buildings attributable to the unsold properties. Net realisable value takes into account the price ultimately expected to be realised, less estimated costs to be incurred in selling the properties.

Allocation of property development costs

Land costs are allocated to each unit according to their respective saleable gross floor areas ("GFA") to the total saleable GFA. Construction costs relating to units were identified and allocated specifically. Common construction costs have been allocated according to the saleable GFA similar to land costs.

Intangible assets (other than goodwill)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest earned whilst holding the available-for-sale financial investments is reported as interest income and is recognised in the statement of profit or loss as other income and gains in accordance with the policy set out for "Revenue recognition" below.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Available-for-sale financial investments *(continued)*

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets, if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

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

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

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial investments *(continued)*

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, as appropriate.

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

The Group's financial liabilities include trade and other payables, amounts due to directors and related parties and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

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

Income tax

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

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

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

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge

Revenue recognition

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

(a) Sale of completed properties

Revenue from the sale of properties is recognised when the risks and rewards of the properties are transferred to the purchasers. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities.

(b) Property leasing income

Revenue derived from the leasing of the Group's properties is recognised on a time proportion basis over the lease terms.

(c) Interest income

Revenue is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 14% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging from 4.75% to 5.23% has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 11 to the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency because the Group's principal operations are carried out in Mainland China. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss.

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

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates ruling at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments — Group as lessor

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

Classification between investment properties and owner-occupied properties

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

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

Estimation of fair value of investment properties

Investment properties were revalued based on the appraised market value by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of the reporting period.

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

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties was RMB163,000,000 as at 31 December 2017 (2016: RMB164,000,000).

Net realisable value of properties under development and completed properties held for sale

The Group's properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Based on the Group's historical experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion of properties under development, and the costs to be incurred in selling the properties based on prevailing market conditions and by reference to the latest selling prices of properties sold in the ordinary course of business by the Group or other developers in the same location.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Net realisable value of properties under development and completed properties held for sale *(continued)*

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in a provision for properties under development and completed properties held for sale. Such provision requires the use of judgements and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the period in which such estimate is changed will be adjusted accordingly. The carrying amounts of properties under development and completed properties held for sale at 31 December 2017 were RMB3,704,874,000 (2016: RMB3,949,841,000) and RMB1,333,444,000 (2016: RMB1,046,771,000), respectively.

PRC land appreciation tax (“LAT”)

The Group is subject to LAT in the PRC. The provision for LAT is based on management’s best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculation and payments with the tax authorities for all its property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact on the LAT expenses and the related provision in the period in which the differences realise.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2017 was RMB17,000 (2016: RMB583,000). The amount of unrecognised tax losses at 31 December 2017 was RMB6,840,000 (2016: RMB1,064,000). Further details are included in note 27 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (other than properties under development and completed properties held for sale) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. As at 31 December 2017, the Company's market capitalisation was lower than the Group's net assets value which is an indicator of impairment for non-financial assets. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculations of the fair value less costs of disposal are based on current prices in an active market for similar non-financial assets and use assumptions that are mainly based on market conditions existing at the end of the reporting period. In the absence of current prices in an active market for similar non-financial assets, the Group estimates the expected future cash flows from the non-financial assets and chooses a suitable discount rate in order to calculate the present value of those cash flows.

The key assumptions used in the fair value less costs of disposal calculations include current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. Where the expectation is different from the original estimates, the carrying value and provision for such non-financial assets in the period in which such estimates are changed will be adjusted accordingly.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way.

Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and services and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

No geographical information is presented as the Group's revenue from the external customers is derived solely from its operations in Mainland China and no non-current assets of the Group are located outside Mainland China.

No information about major customers is presented as no sales to a single customer individually contributed to over 10% of the Group's revenue for the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents income from the sale of properties and lease of properties, net of business tax and other sales related taxes and discounts allowed.

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

	2017 RMB'000	2016 RMB'000
Revenue		
Sale of properties	1,094,019	1,130,392
Property leasing income	7,717	8,320
	1,101,736	1,138,712
Less: Business tax and government surcharges	(25,051)	(56,723)
	1,076,685	1,081,989
Other income		
Bank interest income	1,369	2,151
Income from available-for-sale investments	13,929	2,543
Gross rental income	5,313	2,282
Compensation income	4,315	—
Others	747	272
	25,673	7,248
Gains		
Fair value gains on investment properties	—	3,000
	25,673	10,248

NOTES TO FINANCIAL STATEMENTS

31 December 2017

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on bank loans	27,540	34,669
Interest on loans from a related party	—	2,405
Less: Interest capitalised	(20,734)	(33,311)
Total finance costs	6,806	3,763

7. PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of properties sold		700,325	744,825
Depreciation	13	9,114	8,064
Amortisation of intangible assets	17	307	348
Minimum lease payments under operating leases		345	741
Amortisation of prepaid land lease payments	16	45	45
Auditor's remuneration		1,780	1,700
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		10,891	10,414
Pension scheme contributions		165	1,326
Staff welfare expenses		1,600	1,682
		12,656	13,422
Impairment of other receivables	20	526	—
Changes in fair value of investment properties	14	1,000	(3,000)
Bank interest income		(1,369)	(2,151)
Income from available-for-sale investments		(13,929)	(2,543)
(Reversal of impairment)/impairment of completed properties held for sale	19	(335)	9,036

NOTES TO FINANCIAL STATEMENTS

31 December 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2017 RMB'000	2016 RMB'000
Fees	200	190
Other emoluments:		
Salaries, allowances and benefits in kind	1,231	1,413
Performance related bonuses	338	288
Pension scheme contributions	79	98
	1,648	1,799
	1,848	1,989

(a) Independent non-executive directors

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

	2017 RMB'000	2016 RMB'000
Mr. Gu Jiong	120	107
Mr. Tian Hua	40	43
Mr. Qiu Yongqing	40	40
	200	190

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors and the chief executive

Year ended 31 December 2017

Executive directors:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Mr. Bai Xuankui	—	542	108	—	650
Mr. Bai Wukui	—	507	106	30	643
Mr. Dong Shiguang	—	82	18	19	119
Mr. Bai Guohua	—	100	106	30	236
	—	1,231	338	79	1,648

NOTES TO FINANCIAL STATEMENTS

31 December 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors and the chief executive *(continued)*

Year ended 31 December 2016

Executive directors:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Mr. Bai Xuankui	—	542	108	—	650
Mr. Bai Wukui	—	507	108	31	646
Mr. Zhang Yongcheng ⁽¹⁾	—	61	—	12	73
Mr. Dong Shiguang	—	107	18	24	149
Mr. Bai Guohua	—	196	54	31	281
	—				
	—	1,413	288	98	1,799

(1) Mr. Zhang Yongcheng resigned on 8 June 2016.

Mr. Bai Wukui is the chief executive officer and an executive director of the Group.

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

The directors did not receive any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2016: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2016: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	617	682
Performance related bonuses	200	168
Pension scheme contributions	90	61
	907	911

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

	Number of employees	
	2017	2016
Nil to HK\$1,000,000	3	2

The five highest paid employees did not receive any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2016: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group's subsidiaries incorporated in the Cayman Islands and British Virgin Islands are not subject to any income tax. Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax is based on a tax rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the year (2016: Nil).

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

According to the requirements of the provisional regulations of the PRC on the land appreciation tax ("LAT") effective from 1 January 1994 onwards, and the detailed implementation rules on the provisional regulations of the PRC on LAT effective from 27 January 1995 onwards, all income from the sale or transfer of state-owned leasehold interests on land, buildings and their attached facilities in Mainland China is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for property sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

The Group has estimated, made and included in tax provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for LAT is calculated.

Major components of the Group's income tax expense are as follows:

	2017 RMB'000	2016 RMB'000
Current tax:		
Income tax charge	151,812	131,012
LAT	40,002	17,337
Deferred tax	(75,341)	(58,951)
Total tax charge for the year	116,473	89,398

NOTES TO FINANCIAL STATEMENTS

31 December 2017

10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	2017 RMB'000	2016 RMB'000
Profit before tax	296,041	236,360
Tax at the statutory tax rate	74,702	59,551
Provision for LAT	40,002	17,337
Tax effect of LAT provision	(10,001)	(4,334)
Effect of withholding tax at 10% on distributable profits of the Group's PRC subsidiaries	9,798	15,370
Expenses not deductible for tax	1,326	410
Tax losses not recognised	646	1,064
Tax charge at the Group's effective rate	116,473	89,398

Tax payable in the consolidated statement of financial position represents:

	2017 RMB'000	2016 RMB'000
Tax payable		
— PRC corporate income tax	86,606	96,061
— PRC LAT	14,448	36,372
	101,054	132,433

NOTES TO FINANCIAL STATEMENTS

31 December 2017

11. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Proposed final — HK20 cents (2016: HK30 cents) per ordinary share	83,590	134,175

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

A final dividend of HK30 cents per ordinary share for the year ended 31 December 2016 of RMB130,770,000 was approved by shareholders on 31 May 2017.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount for the year is based on profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 500,000,000 (2016: 500,000,000) in issue and issuable during the year, as adjusted to reflect the rights issue during the year.

The calculation of basic earnings per share based on:

	2017 RMB'000	2016 RMB'000
Earnings: Profit for the year attributable to ordinary equity holders of the parent	170,519	151,832

	2017 '000	2016 '000
Number of shares: Weighted average number of ordinary shares	500,000	500,000

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Machinery	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2017						
At 31 December 2016 and 1 January 2017:						
Cost	66,753	16,393	791	13,545	—	97,482
Accumulated depreciation	(9,348)	(8,448)	(660)	(9,466)	—	(27,922)
Net carrying amount	57,405	7,945	131	4,079	—	69,560
At 1 January 2017, net of accumulated depreciation	57,405	7,945	131	4,079	—	69,560
Additions	—	3,958	—	1,067	—	5,025
Depreciation provided during the year	(4,041)	(2,514)	(66)	(2,493)	—	(9,114)
At 31 December 2017, net of accumulated depreciation	53,364	9,389	65	2,653	—	65,471
At 31 December 2017:						
Cost	66,753	20,351	791	14,606	—	102,501
Accumulated depreciation	(13,389)	(10,962)	(726)	(11,953)	—	(37,030)
Net carrying amount	53,364	9,389	65	2,653	—	65,471

NOTES TO FINANCIAL STATEMENTS

31 December 2017

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings RMB'000	Motor vehicles RMB'000	Machinery RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016						
At 31 December 2015 and 1 January 2016:						
Cost	61,720	14,478	791	10,587	—	87,576
Accumulated depreciation	(6,264)	(5,934)	(594)	(7,066)	—	(19,858)
Net carrying amount	55,456	8,544	197	3,521	—	67,718
At 1 January 2016, net of accumulated depreciation						
	55,456	8,544	197	3,521	—	67,718
Additions	—	1,915	—	2,958	5,033	9,906
Transfers	5,033	—	—	—	(5,033)	—
Depreciation provided during the year	(3,084)	(2,514)	(66)	(2,400)	—	(8,064)
At 31 December 2016, net of accumulated depreciation	57,405	7,945	131	4,079	—	69,560
At 31 December 2016:						
Cost	66,753	16,393	791	13,545	—	97,482
Accumulated depreciation	(9,348)	(8,448)	(660)	(9,466)	—	(27,922)
Net carrying amount	57,405	7,945	131	4,079	—	69,560

At 31 December 2017, the Group's property, plant and equipment was pledged to secure bank loans granted to the Group is nil (2016: RMB42,483,000) (note 26).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

14. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	164,000	161,000
Net (loss)/gain from a fair value adjustment	(1,000)	3,000
Carrying amount at 31 December	163,000	164,000

The Group's investment properties consist of three commercial properties in China. The directors of the Company have determined that the investment properties consist of two classes of assets, i.e., retail and office, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2017 based on valuations performed by DTZ Debenham Tie Leung Limited ("DTZ"), an independent professionally qualified valuer, at RMB163,000,000 (2016: RMB164,000,000).

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31.

At 31 December 2017, the Group's investment properties with a carrying value of RMB55,000,000 (2016: RMB164,000,000) were pledged to secure bank loans granted to the Group (note 26).

Fair value hierarchy

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

	Fair value measurement as at 31 December 2017 using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Recurring fair value measurement for:				
Retail properties	—	—	119,000	119,000
Office properties	—	—	44,000	44,000
	—	—	163,000	163,000

NOTES TO FINANCIAL STATEMENTS

31 December 2017

14. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(continued)*

	Fair value measurement as at 31 December 2016 using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Recurring fair value measurement for:				
Retail properties	—	—	120,000	120,000
Office properties	—	—	44,000	44,000
	—	—	164,000	164,000

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

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

	Retail properties RMB'000	Office properties RMB'000
Carrying amount at 1 January 2016	118,000	43,000
Net gain from a fair value adjustment recognised in other income and gains in the statement of profit or loss	2,000	1,000
Carrying amount at 31 December 2016 and 1 January 2017	120,000	44,000
Net loss from a fair value adjustment recognised in other income and gains in the statement of profit or loss	(1,000)	—
Carrying amount at 31 December 2017	119,000	44,000

NOTES TO FINANCIAL STATEMENTS

31 December 2017

14. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(Continued)*

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

Investment properties	Valuation techniques	Significant unobservable inputs	Range of unobservable inputs	
			2017	2016
Retail properties	Income approach	Prevailing market rents	RMB22 to RMB123	RMB22 to RMB130
		Yield rate	7%	7%
Office properties	Income approach	Prevailing market rents	RMB72 to RMB119	RMB69 to RMB115
		Yield rate	7%	7%

Prevailing market rents are estimated based on recent letting transactions within the subject properties and other comparable properties. A significant increase (decrease) in the estimated rental value in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the yield rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by an opposite change in the yield rate.

NOTES TO FINANCIAL STATEMENTS

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15. PROPERTIES UNDER DEVELOPMENT

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	3,949,841	3,846,990
Additions	741,696	1,333,573
Transfer to completed properties held for sale (note 19)	(986,663)	(1,230,722)
Carrying amount at 31 December	3,704,874	3,949,841
Less: Current portion	(3,158,817)	(3,805,980)
Non-current portion	546,057	143,861

Properties under development expected to be recovered:

	2017 RMB'000	2016 RMB'000
Within one year	2,776,111	3,131,460
After one year	382,706	674,520
	3,158,817	3,805,980

At 31 December 2017, certain of the Group's properties under development with a carrying value of approximately RMB532,218,000 (2016: RMB817,238,000) were pledged to secure bank loans granted to the Group (note 26).

16. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	1,464	1,509
Recognised during the year	(45)	(45)
Carrying amount at 31 December	1,419	1,464
Less: Current portion included in prepayments, deposits and other receivables	(45)	(45)
Non-current portion	1,374	1,419

NOTES TO FINANCIAL STATEMENTS

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17. INTANGIBLE ASSETS

	Software RMB'000
31 December 2017	
Cost at 1 January 2017, net of accumulated amortisation	630
Disposal	(23)
Amortisation provided during the year	(307)
At 31 December 2017	300
At 31 December 2017:	
Cost	1,645
Accumulated amortisation	(1,345)
Net carrying amount	300
31 December 2016	
Cost at 1 January 2016, net of accumulated amortisation	711
Additions	267
Amortisation provided during the year	(348)
At 31 December 2016	630
At 31 December 2016:	
Cost	1,669
Accumulated amortisation	(1,039)
Net carrying amount	630

NOTES TO FINANCIAL STATEMENTS

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18. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	2,137	2,026
Low value consumables	23	18
	2,160	2,044

19. COMPLETED PROPERTIES HELD FOR SALE

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	1,046,771	569,910
Transfer from properties under development (note15)	986,663	1,230,722
Transfer to cost of properties sold	(700,325)	(744,825)
Reversal of impairment/(impairment) during the year	335	(9,036)
Carrying amount at 31 December	1,333,444	1,046,771

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments	41,131	14,168
Prepaid land lease payments	45	45
Deposits and other receivables	303,547	89,125
Other tax recoverable	124,367	102,480
	469,090	205,818
Impairment of other receivables	(526)	—
	468,564	205,818

NOTES TO FINANCIAL STATEMENTS

31 December 2017

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

Other receivables are unsecured and non-interest-bearing and have no fixed terms of repayment. The movements in provision for impairment of trade receivables are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of year	—	—
Impairment losses recognised	526	—
At end of year	526	—

21. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Unlisted investments, at fair value	173,610	493,810

Unlisted investments represented investments in certain financial assets issued by licensed financial institutions in Mainland China. The financial assets in the investments bore expected yield rates of 2.0% to 4.7% per annum upon maturity in the current year (2016: 2.1% to 3.9%).

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Total cash and bank balances, including pledged deposits	408,657	304,917
Less: Pledged deposits	(22,305)	(14,323)
Restricted bank balance	(103,839)	—
Cash and cash equivalents	282,513	290,594

NOTES TO FINANCIAL STATEMENTS

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22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

At 31 December 2017, the cash and bank balances of the Group denominated in RMB amounted to RMB406,690,000 (2016: RMB304,678,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Restricted bank balance represents the deposit in an escrow account set up at a bank by the Group for the acquisition of a 100% equity interest in Hainan Degao, from two third party individuals (the "Vendors"), which could only be used after the approval by the vendors.

At 31 December 2017, RMB950,000 (2016: Nil) in pledged deposits was frozen pursuant to two civil rulings issued by the Shanxi Province Superior People's Court.

23. TRADE PAYABLES

An ageing analysis of the trade payables, based on the payment due date, is as follows:

	2017 RMB'000	2016 RMB'000
Less than 1 year	516,617	876,859
1 to 2 years	106,127	90,328
2 to 3 years	24,509	97,748
3 to 4 years	63,665	7,584
4 to 5 years	5,957	510
Over 5 years	36,523	36,953
	753,398	1,109,982

Trade payables are unsecured and interest-free and are normally settled based on the progress of construction.

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24. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Payroll and welfare payable	6,611	7,970
Payables to government authority	34,583	18,004
Deposits related to sales of properties	10,986	3,069
Deposits related to construction	1,215	1,177
Sales commission payable	3,701	4,966
Payables to third parties	77,578	23,011
Interest payable	1,439	1,671
Advances from government		
— Phase I of Longtian Project ⁽¹⁾	1,520,675	1,436,308
— Beiliubao Project ⁽²⁾	3,926	3,926
— Others	—	1,267
Taxes payable other than corporate income tax	4,474	7,825
	1,665,188	1,509,194

(1) Represented payment from the management committee and Finance Commission of the Economic Technology Development District, Jinzhong as development costs for the construction of Phase I of Longtian Project, which would be paid to the suppliers.

(2) Represented payment from the Finance Commission of the Economic Technology Development District, Jinzhong as development costs for the construction of Beiliubao Project, which would be paid to the suppliers.

Other payables are unsecured, non-interest-bearing and repayable on demand.

25. ADVANCES FROM CUSTOMERS

Advances from customers represented the sales proceeds received from buyers in connection with the Group's pre-sale of properties at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

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26. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — secured	5.22	2018	46,000	5.22	2017	46,000
Current portion of long term bank loans — secured	5.23-5.70	2018	105,000	4.75-5.23	2017	195,000
			151,000			241,000
Non-current						
Bank loans — secured	5.23-5.70	2020	295,000	5.23	2018	40,000
			446,000			281,000

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans:		
Within one year or on demand	151,000	241,000
In the second year	135,000	40,000
In the third to fifth years, inclusive	160,000	—
	446,000	281,000

NOTES TO FINANCIAL STATEMENTS

31 December 2017

26. INTEREST-BEARING BANK BORROWINGS *(continued)*

Certain of the Group's bank loans are secured by:

- (i) mortgages over the Group's buildings, which had an aggregate carrying value at the end of the reporting period of nil (2016: RMB42,483,000) (note 13);
- (ii) mortgages over the Group's investment properties, which had an aggregate carrying value at the end of the reporting period of approximately RMB55,000,000 (2016: RMB164,000,000) (note 14); and
- (iii) mortgages over the Group's properties under development, which had an aggregate carrying value at the end of the reporting period of approximately RMB532,218,000 (2016: RMB817,238,000) (note 15).

In addition, Mr. Bai Xuankui, the director and the Company's controlling shareholder has guaranteed certain of the Group's bank loans up to RMB250,000,000 as at the end of the reporting period (2016: RMB75,000,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

27. DEFERRED TAX

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

Deferred tax liabilities

	Fair value adjustment arising from investment properties RMB'000	Withholding tax RMB'000	Gain on property revaluation RMB'000	Accrued LAT RMB'000	Total RMB'000
At 1 January 2016	25,165	24,983	7,777	—	57,925
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	750	(10,041)	—	—	(9,291)
Gross deferred tax liabilities at 31 December 2016 and 1 January 2017	25,915	14,942	7,777	—	48,634
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	(250)	(5,202)	—	2,011	(3,441)
Gross deferred tax liabilities at 31 December 2017	25,665	9,740	7,777	2,011	45,193

NOTES TO FINANCIAL STATEMENTS

31 December 2017

27. DEFERRED TAX (continued)

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

Deferred tax assets

	Prepaid accrued LAT RMB'000	Corporate income tax RMB'000	Tax losses RMB'000	Accrued payroll RMB'000	Unrealised profit attributable to the intra-group transactions RMB'000	Impairment of property held for sale RMB'000	Decelerated depreciation for tax purposes RMB'000	Impairment of other receivables RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2016	5,645	78,027	882	2,271	247	—	—	—	87,072
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	(412)	47,729	(299)	(243)	398	2,259	228	—	49,660
Gross deferred tax assets at 31 December 2016 and 1 January 2017	5,233	125,756	583	2,028	645	2,259	228	—	136,732
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	(5,233)	78,095	(566)	(263)	(409)	(349)	494	131	71,900
Gross deferred tax assets at 31 December 2017	—	203,851	17	1,765	236	1,910	722	131	208,632

NOTES TO FINANCIAL STATEMENTS

31 December 2017

27. DEFERRED TAX *(continued)*

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2017 RMB'000	2016 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	173,179	103,040
Net deferred tax liabilities recognised in the consolidated statement of financial position	(9,740)	(14,942)

Deferred tax assets have not been recognised in respect of the following item:

	2017 RMB'000	2016 RMB'000
Tax losses	6,840	1,064

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty/arrangement between Mainland China and the jurisdiction of the foreign investors and the foreign investors are the beneficial owners of the dividends. The Group is therefore liable to withholding taxes on dividends distributed by those foreign invested subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. For the Group, the applicable rate is 10%.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

27. DEFERRED TAX *(continued)*

Deferred tax liabilities are recognised based on the estimated dividend of RMB83,590,000 to be distributed from the distributable earnings of the year ended 31 December 2017 from the subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries established in Mainland China will distribute the remaining earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB460,887,000 as at 31 December 2017 (2016: RMB380,651,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. SHARE CAPITAL

	2017 RMB'000	2016 RMB'000
Issued and fully paid: 500,000,000 (2016: 500,000,000) ordinary shares)	4,003	4,003

A summary of movements in the Company's share capital and share premium is as follows:

	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	500,000,000	4,003	219,418	223,421

NOTES TO FINANCIAL STATEMENTS

31 December 2017

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 250 to 251 of the financial statements.

Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are registered in the PRC as domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Capital reserve

Capital reserve of the Group represents the aggregate amount of the paid-up capital of those companies comprising the Group prior to the incorporation of the Company.

On 12 September 2013, Sichuan Changxing (Holdings) Limited ("Sichuan Changxing") injected additional capital of RMB139,200,000 into Chen Xing Sichuan. Upon completion of the capital contribution, the shareholding of the Group in Chen Xing Sichuan decreased from 100% to 83.89%. The difference between the contributed amount of RMB139,200,000 net of tax of RMB1,375,000 and the share of net assets of Chen Xing Sichuan by Sichuan Changxing was recorded as capital reserve.

On 24 December 2014 and as part of the reorganisation, the Group acquired Chen Xing from the shareholders of Chen Xing at a cash consideration of RMB203,809,000 which was fully paid in January 2015.

30. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group are included in notes 13, 14, 15 and 26 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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31. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its investment properties (note 14) and office buildings under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally require the tenants to pay security deposits.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	7,044	7,813
In the second to ten years, inclusive	27,142	19,927
	34,186	27,740

As lessee

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

As at the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	324	323
In the second to fifth years, inclusive	81	405
	405	728

NOTES TO FINANCIAL STATEMENTS

31 December 2017

32. COMMITMENTS

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

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for: Property development activities	1,595,363	1,730,898

33. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings RMB'000
At 1 January 2017	281,000
Changes from financing cash flows	165,000
At 31 December 2017	446,000

34. CONTINGENT LIABILITIES

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

	2017 RMB'000	2016 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to the purchasers of the Group's properties	1,548,694	2,454,696

NOTES TO FINANCIAL STATEMENTS

31 December 2017

34. CONTINGENT LIABILITIES *(continued)*

The Group provided guarantees in respect of mortgage facilities granted by certain banks to the purchasers of the Group's completed properties held for sale. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to those banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee period commences from the date of grant of the relevant mortgage loan and ends at the execution of individual purchaser's collateral agreement.

The Group did not incur any material losses during the reporting period in respect of the guarantees provided for mortgage facilities granted to the purchasers of the Group's completed properties held for sale. The directors considered that in case of default on payments, the net realisable value of the related properties would be sufficient to repay the outstanding mortgage loans together with any accrued interest and penalty, and therefore no provision has been made in connection with the guarantees.

35. RELATED PARTY TRANSACTIONS

Details of the Group's principal related parties are as follows:

Name	Relationship
Mr. Bai Xuankui	Director, the ultimate controlling shareholder
Mr. Bai Wukui	Director, the chief executive officer of the Company
Mr. Bai Guohua	Director, the ultimate controlling shareholder
Shanxi Wanjia Property Service Co., Ltd. ("Shanxi Wanjia")	Company controlled by the daughter of Mr. Bai Xuankui
Shanxi Wanzhong Heating Co., Ltd. ("Shanxi Wanzhong")	Company controlled by the daughter of Mr. Bai Xuankui
Shanghai Xuanyu Investment Management Center ("Shanghai Xuanyu")	Company controlled by Mr. Bai Xuankui

NOTES TO FINANCIAL STATEMENTS

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35. RELATED PARTY TRANSACTIONS *(continued)*

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the reporting period:

	2017 RMB'000	2016 RMB'000
Repayment of loans from a related party Shanghai Xuanyu	—	80,000
Interest expense to a related party Shanghai Xuanyu	—	2,405
Refund of payment on behalf of a related party Shanxi Wanjia	—	(159)
Advance payment by a related party Shanxi Wanjia	(603)	—
Refund of advance payment by a related party Shanxi Wanjia	603	
Property management service from a related party Shanxi Wanjia	1,710	337
Heating service from a related party Shanxi Wanzhong	—	230

- (b) Other transactions with related parties:

Mr. Bai Xuankui has guaranteed certain of the Group's bank loans up to RMB250,000,000 (2016: RMB75,000,000) as at the end of the reporting period (note 26).

NOTES TO FINANCIAL STATEMENTS

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35. RELATED PARTY TRANSACTIONS *(continued)*

- (c) Outstanding balances with related parties:

The Group had the following significant balances with its related parties during the reporting period:

	Note	2017 RMB'000	2016 RMB'000
Due to a director Mr. Bai Guohua	(i)	87	93
Due to related parties Shanxi Wanjia	(i)	1,710	337
Shanxi Wanzhong	(i)	7	230
		1,717	567

Note:

- (i) The balances were repayable on demand, unsecured and interest-free.

- (d) Compensation of key management personnel of the Group:

	2017 RMB'000	2016 RMB'000
Short term employee benefits	2,514	2,991
Pension scheme contributions	199	221
Total compensation paid to key management personnel	2,713	3,212

Future details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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36. FINANCIAL INSTRUMENTS BY CATEGORY

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

2017

Financial assets

	Loans and receivables RMB'000	Available-for- sale financial assets RMB'000	Total RMB'000
Financial assets included in prepayments, deposits and other receivables	303,021	—	303,021
Available-for-sale investments	—	173,610	173,610
Pledged deposits	22,305	—	22,305
Cash and cash equivalents	282,513	—	282,513
Restricted bank balance	103,839	—	103,839
	711,678	173,610	885,288

2017

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	753,398
Financial liabilities included in other payables, deposits received and accruals	110,955
Interest-bearing bank borrowings	446,000
Due to related parties	1,717
Due to a director	87
	1,312,157

NOTES TO FINANCIAL STATEMENTS

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36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2016

Financial assets

	Loans and receivables RMB'000	Available-for- sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	493,810	493,810
Financial assets included in prepayments, deposits and other receivables	89,125	—	89,125
Cash and cash equivalents	290,594	—	290,594
Pledged deposits	14,323	—	14,323
	394,042	493,810	887,852

2016

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	1,109,982
Financial liabilities included in other payables, deposits received and accruals	44,083
Interest-bearing bank borrowings	281,000
Due to related parties	567
Due to a director	93
	1,435,725

NOTES TO FINANCIAL STATEMENTS

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37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables, deposits received and accruals, the current portion of interest-bearing bank borrowings, amounts due from/to a director and related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

Management has assessed that the fair values of the non-current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the fact that such borrowings were made between the Group and an independent third party financial institution based on prevailing market interest rates.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the board of directors. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors twice a year for interim and annual financial reporting.

The fair values of the available-for-sale investments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for available-for-sale investments as at the end of the reporting period was assessed to be insignificant.

NOTES TO FINANCIAL STATEMENTS

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37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments	—	173,610	—	173,610

As at 31 December 2016

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments	—	493,810	—	493,810

The Group did not have any financial liabilities measured at fair value as at the end of the reporting period.

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

NOTES TO FINANCIAL STATEMENTS

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly include cash and bank balances, pledged deposits, trade receivables and trade payables, which arise directly from its operations. The Group has other financial assets and liabilities such as interest-bearing bank borrowings, amount due to a director and related parties, other receivables and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. To keep the Group's exposure to these risks to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The chief financial officer reviews and agrees policies for managing each of these risks and they are summarised below:

Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings set out in note 26. The Group does not use derivative financial instruments to hedge interest rate risk. The Group manages its interest cost using variable rate bank borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2017		
RMB	0.5%	(2,230)
RMB	(0.5%)	2,230
2016		
RMB	0.5%	(1,405)
RMB	(0.5%)	1,405

NOTES TO FINANCIAL STATEMENTS

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in Hong Kong dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in HK\$ rate%	Increase/ (decrease) in profit before tax RMB'000
2017		
If RMB weakens against HK\$	5	877
If RMB strengthens against HK\$	(5)	(877)
2016		
If RMB weakens against HK\$	5	865
If RMB strengthens against HK\$	(5)	(865)

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations.

The Group has no concentrations of credit risk in view of its large number of customers. The Group did not record any significant bad debt losses during the reporting period.

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

NOTES TO FINANCIAL STATEMENTS

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. Cash flows are closely monitored on an ongoing basis.

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

Year ended 31 December 2017

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	35,912	280,627	169,612	486,151
Trade payables	753,398	—	—	—	753,398
Financial liabilities included in other payables, deposits received and accruals	110,955	—	—	—	110,955
Due to related parties	1,717	—	—	—	1,717
Due to a director	87	—	—	—	87
	866,157	35,912	280,627	169,612	1,352,308
Financial guarantees issued: Maximum amount guaranteed (note 34)	1,548,694	—	—	—	—

NOTES TO FINANCIAL STATEMENTS

31 December 2017

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk (continued)

Year ended 31 December 2016

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	3,559	173,875	118,610	296,044
Trade payables	1,109,982	—	—	—	1,109,982
Financial liabilities included in other payables, deposits received and accruals	44,083	—	—	—	44,083
Due to related parties	567	—	—	—	567
Due to a director	93	—	—	—	93
	1,154,725	3,559	173,875	118,610	1,450,769
Financial guarantees issued: Maximum amount guaranteed (note 34)	2,454,696	—	—	—	2,454,696

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is total debt divided by total equity. Total debt includes interest-bearing bank borrowings and amounts due to related parties. The gearing ratios as at the end of the reporting periods were as follows:

	2017 RMB'000	2016 RMB'000
Interest-bearing bank borrowings	446,000	281,000
Due to related parties	—	567
Total debt	446,000	281,567
Total equity	1,107,704	1,062,035
Gearing ratio	40.26%	26.51%

39. EVENT AFTER THE REPORTING PERIOD

On 31 January 2018, Jinzhong Chenxing Shiguang Zhicheng Real Estate Development Co., Ltd., a domestic subsidiary of the Group, signed the Land Use Rights Grant Contract with the Ministry of Land and Resources of Jinzhong City, acquiring a land parcel located in Jinzhong Economic and Technology Development District with a site area of 28,296.2 sq.m. for an aggregate grant consideration of RMB63,700,000.

On 31 January 2018, Jinzhong Chenxing Yijun Real Estate Development Co., Ltd., a domestic subsidiary of the Group, signed the Land Use Rights Grant Contracts with the Development District Branch of the Ministry of Land and Resources of Jinzhong City, acquiring four land parcels located in Jinzhong Development District with a total site area of 197,285.28 sq.m. for an aggregate grant consideration of RMB352,600,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary	836	895
Total non-current asset	836	895
CURRENT ASSETS		
Due from subsidiaries	228,643	229,895
Cash and cash equivalents	16,774	18,994
Total current assets	245,417	248,889
CURRENT LIABILITIES		
Due to a director	3	3
Due to subsidiaries	13,268	12,818
Total current liabilities	13,271	12,821
NET CURRENT ASSETS	232,146	236,068
TOTAL ASSETS LESS CURRENT LIABILITIES	232,982	236,963
NET ASSETS	232,982	236,963
EQUITY		
Share capital	4,003	4,003
Reserves (note)	228,979	232,960
TOTAL EQUITY	232,982	236,963

NOTES TO FINANCIAL STATEMENTS

31 December 2017

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

	Share premium account RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2016	219,418	10,211	(15,362)	214,267
Final 2015 dividend declared	—	—	(211,725)	(211,725)
Total comprehensive income for the year	—	—	226,876	226,876
Exchange differences on translation of foreign operations	—	3,542	—	3,542
At 31 December 2016	219,418	13,753	(211)	232,960
Final 2016 dividend declared	—	—	(130,770)	(130,770)
Total comprehensive income for the year	—	—	126,946	126,946
Exchange differences on translation of foreign operations	—	(157)	—	(157)
At 31 December 2017	219,418	13,596	4,035	228,979

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. The summary does not form part of the notes to financial statements.

Results

	Year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
REVENUE	1,076,685	1,081,989	966,213	825,888	303,200
Cost of sales	(700,354)	(745,308)	(684,824)	(587,443)	(219,920)
Gross profit	376,331	336,681	281,389	238,445	83,280
Other income and gains	25,673	10,248	292,871	5,528	1,795
Selling and distribution expenses	(46,611)	(58,879)	(47,420)	(38,655)	(18,590)
Administrative expenses	(45,190)	(38,104)	(60,778)	(36,301)	(23,670)
Other expenses	(7,356)	(9,823)	(19,553)	(224)	(753)
Finance costs	(6,806)	(3,763)	(6,894)	(2,161)	(5,753)
PROFIT BEFORE TAX	296,041	236,360	439,615	166,481	36,309
Income tax expense	(116,473)	(89,398)	(151,583)	(60,046)	(22,216)
PROFIT FOR THE YEAR	179,568	146,962	288,032	106,435	14,093
Attributable to:					
Owners of the parent	170,519	151,832	290,103	104,342	14,434
Non-controlling interests	9,049	(4,870)	(2,071)	2,093	(341)
	179,568	146,962	288,032	106,435	14,093

FIVE YEAR FINANCIAL SUMMARY

Assets, liabilities and non-controlling interests

	As at 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
TOTAL ASSETS	6,974,329	6,359,523	5,848,824	4,450,076	2,901,015
TOTAL LIABILITIES	(5,866,625)	(5,297,488)	(4,725,544)	(3,871,815)	(2,182,422)
NON-CONTROLLING INTERESTS	(88,583)	(79,534)	(84,404)	(86,475)	(35,575)
	1,019,121	982,051	1,038,876	491,786	683,018



CHEN XING

