益華控股有限公司

YI HUA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2213

2017

Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Chen Jianren
Mr. Fan Xinpei
Mr. Su Weibing
Mr. Lin Guangzheng
Mr. Chen Zhengtao
Mr. Leung Wai Kwan
Mr. Wei Chaoling
(Appointed on 17 July 2017)

Non-executive Director
Mr. Chen Daren

Independent non-executive Director
Mr. Sun Hong
Mr. Xu Yinzhou
Ms. Hung Wan Fong, Joanne
Ms. Lai Pou Lam, Mina

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 8A, 8th Floor
Wah Kit Commercial Centre
300-302 Des Voeux Road Central, Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Yihua Century Square Zhongshan 3rd Road
Zhongshan City, Guangdong Province the PRC

COMPANY SECRETARY

Mr. Tse Wing York, CPA

AUTHORISED REPRESENTATIVES

Mr. Fan Xinpei
Mr. Tse Wing York, CPA

AUDIT COMMITTEE

Ms. Hung Wan Fong, Joanne *(Chairman)*
Mr. Sun Hong
Mr. Xu Yinzhou

REMUNERATION COMMITTEE

Mr. Xu Yinzhou *(Chairman)*
Mr. Fan Xinpei
Mr. Sun Hong
Ms. Hung Wan Fong, Joanne

NOMINATION COMMITTEE

Mr. Chen Jianren *(Chairman)*
Mr. Sun Hong
Mr. Xu Yinzhou
Ms. Hung Wan Fong, Joanne

REGISTERED OFFICE

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKS

The PRC:
Industrial and Commercial Bank of China

Hong Kong:
The Hongkong and Shanghai Banking Corporation Limited
Industrial And Commercial Bank of China (Asia) Limited
The Bank of East Asia, Limited

AUDITOR

PricewaterhouseCoopers

INTERNAL CONTROL ADVISER

Baker Tilly Hong Kong Risk Assurance Limited

LEGAL ADVISERS TO THE COMPANY

As to the PRC law
JunZeJun Law Offices

COMPANY WEBSITE

www.yihua.com.cn

STOCK CODE

2213

FINANCIAL HIGHLIGHTS AND SUMMARY

Operating results	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
Revenue	713,951	710,146	655,277	582,598	**754,312**
Operating profit	27,104	45,927	40,145	121,434	**47,769**
Profit/(loss) for the year from continuing operations	14,663	29,066	20,531	73,908	**(9,789)**
Profit/(loss) for the year	16,667	29,066	20,531	73,908	**(9,789)**
Total comprehensive income/(loss) attributable to owners of the Company	15,051	27,054	26,478	71,935	**(3,335)**
Total comprehensive income/(loss) attributable to owners of the Company from continuing operations	14,069	27,054	26,478	71,935	**(3,335)**
Earnings/(losses) per share attributable to owners of the Company	0.0548 (note 1)	0.0270 (restated, note 2)	0.0191 (restated, note 2)	0.0730 (restated, note 2)	**(0.0115)**
Earnings/(losses) per share attributable to owners of the Company from continuing operations	0.0512 (note 1)	0.0270 (restated, (note 2)	0.0191 (restated, (note 2)	0.0730 (restated, note 2)	**(0.0115)**
Consolidated balance sheet summary					
Non-current assets	234,478	355,584	455,214	792,010	**1,032,694**
Current assets	458,702	375,425	360,013	772,850	**1,232,214**
Total assets	693,180	731,009	815,227	1,564,860	**2,264,908**
Non-current liabilities	11,677	35,300	54,720	333,042	**487,671**
Current liabilities	548,478	533,618	516,546	928,950	**1,508,120**
Total liabilities	560,155	568,918	571,266	1,261,992	**1,995,791**
Net assets	133,025	162,091	243,961	302,868	**269,117**
Equity attributable to owners of the Company	132,304	159,358	239,867	297,401	**261,625**
Non-controlling interest	721	2,733	4,094	5,467	**7,492**
Total equity	133,025	162,091	243,961	302,868	**269,117**

Note 1: Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares in issue during the year ended 31 December 2013 used in the basic earnings per share calculation is determined on the assumption that an aggregate 270,000,000 shares with par value of HK$0.01 each issued upon the completion of the Group reorganisation and the capitalisation issue had been in issue prior to the incorporation of the Company, which is the same assumption for the basic earnings per share calculation for the three years ended 31 December 2010, 2011 and 2012.

Note 2: The weighted average of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2014, 2015 and 2016 has been retrospectively adjusted for the effect of the bonus issue, scrip dividend scheme and share subdivision of the Company as disclosed in note 14 and note 28.

CHAIRMAN'S STATEMENT

INDUSTRY REVIEW

The Chinese economy recorded a Gross Domestic Product growth rate of 6.9% in 2017, exceeding the target of 6.5% and the previous year's growth rate of 6.7%. Accompanying with the retail and catering sales growth of 10.2% year-on-year, the traditional retails industry is improving.

In view of this, the Group has adjusted the operating business of certain existing stores in 2017, expanded experience consumption elements such as introducing food and beverage, entertainment, and other tenants so as to attract more shoppers. Also, the Group reduced the areas of self-operation for supermarket and electrical appliance segments and leased out these areas to the suppliers for operation. By taken the above measure, our revenue of department store segment turnaround the decreasing trend and recorded a slight increase over the year. Moreover, the gross profit for supermarket and electrical appliance segments recorded an increase over the year.

BUSINESS REVIEW

For the year ended 31 December 2017, the Group's revenue was approximately RMB754.3 million, representing an increase of approximately 29.5% over the last year. Gross profit (revenue less purchases of and changes in inventories and constructions of and changes in completed properties held for sale) was

CHAIRMAN'S STATEMENT

approximately RMB312.3 million, representing a slight decrease of 0.8% over the last year. Operating profit was approximately RMB47.8 million, representing a decrease of 60.6% over the last year. Loss attributable to owners of the Company was approximately RMB11.5 million, compared to a profit attributable to owners of the Company was approximately RMB73.2 million last year.

Expanding Experiential Business

The Group continued to increase the proportion of entertainment and catering segments such as food and beverage, children's education and fitness centers in its department stores during 2017. By introducing more experiential business, the Group has successfully increased the shoppers traffic and boosted the rental income.

New business of convenience stores

During 2017, the Group has focused its resources to open convenience stores. For the year ended 31 December 2017, the Group has opened 5 convenience stores in the cities where the Group has stores in presence. The Group considered that convenience stores business is one of the Group's key growth engines in the coming two years. The characteristics of convenience store are flexible, long operation hour, operation area is small and operation cost is low which can supplement our supermarkets' deficiencies. Our convenience stores have two operation models, one is direct-operate stores, another is franchised stores. It is expected that the franchised model will be our main development direction for convenience stores business.

CHAIRMAN'S STATEMENT

Completion of the acquisition of the entire equity interest in Yunfu Tairui Baisheng Real Estate Development Company Limited ("Yunfu Baisheng")

On 28 June 2017, the Group completed the acquisition of Yunfu Baisheng, a company principally engaged in real estate development and management. As at the date of completion, Yunfu Baisheng is undertaking two property projects located at Yunfu City, Guangdong Province, the PRC. For the property project A, there are one residential unit, 89 parking lots and 26 commercial units which are held for sale. For property project B, a total of 553 residential apartments, 672 parking lots and a shopping complex with a gross floor area of approximately 20,420 square meters are ready for sale and commence operation. As at 31 December 2017, almost all residential apartments have been sold. After the sales of the residential apartments and part of the commercial complex, the remaining areas of the commercial complex will be used for operation of a shopping mall. The shopping mall is expected to be opened in July 2018.

Game Console business

The Group's 49% held associate, Subor Cultural Development Company Limited (formerly known as Zhongshan Subor Cultural Industry Company Limited) (the "JV Company"), has been cooperating with Advanced Micro Devices, Inc. ("AMD") to develop a semi-custom system-on-chip ("SOC") solely for the use of the JV Company's game console products. The SOC has been under trial test and expected to have the initial production in the third quarter of 2018.

AMD is a multinational semiconductor company incorporated with limited liability in Delaware, the United States of America. To the best of the Directors' knowledge, information and belief, AMD is one of the worldwide leading suppliers of semiconductor products whose main products include microprocessors, graphics processors and embedded processors for servers, workstations and personal computers, and embedded systems applications etc., and it is the supplier of game console chips for Sony and Microsoft.

CHAIRMAN'S STATEMENT

The Group has been actively exploring other business opportunities in order to diversify the existing business of the Group and to explore new markets with significant growth potential. The game console business represents a good opportunity for the Group to expand its business portfolio, diversify its income sources and possibly enhance its financial performance.

OUTLOOK AND PROSPECTS

Looking forward, we are confident about the long-term prospect of the retail business in China.

In order to cope with the ever-changing in retail market, the Group will continue to transform its department store business model into a shopping mall business model.

We will upgrade certain stores, increase the area for catering and entertainment tenants. The Group plans to open a shopping mall in Yunfu City, Guangdong Province in July 2018. We will continue to analyze retail trends and develop the strategies to address these trends across all aspects of our business. Furthermore, the Group remains positive about its business operations in China and is excited by many new business opportunities available at the moment.

Given the steady growth of economy and increasing purchasing power in China, the influence of consumption on the economic development of China will gradually strengthen. Targeting at increasing customer flow, the Group will swiftly change the structure of the place of operations according to market changes while expanding sales and enhancing cost savings with a view to exceeding the annual targets of results performance.

CHAIRMAN'S STATEMENT

In addition to consolidating and expanding its existing retail business, the Group will start with the places where the outlets are located and step up efforts in expanding the convenience store business in the cities where these outlets are located. As the Group has set foot in these regions, the Group is well versed about the local consumption market, thus enjoying comparative advantages in terms of logistics, distribution and human resources.

Apart from strengthening its principal businesses and focusing its resources on developing the convenience store business, the Group will continue to seek opportunities as appropriate to secure properties in prime locations at below market prices so as to generate attractive investment returns to the Group.

Appreciation

On behalf of the Board, I would like to extend my gratitude to our management team, our customers, our business associates and all of our fellow staff members for their continued support and dedication to the Group. The Group will respond to the future challenges with flexibility so as to maximise the return on investment for shareholders.

Chen Jianren
Chairman

29 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2017, the Group recorded a revenue of approximately RMB754.3 million, representing an increase of approximately 29.5% or approximately RMB171.7 million year on year.

The following table sets forth a breakdown of the Group's revenue for the two years ended 31 December 2017 and 2016.

	Year ended 31 December														
	2017								2016						
	Department store segment RMB'000	Supermarket segment RMB'000	Electrical appliances segment RMB'000	Furniture segment RMB'000	Consulting service segment RMB'000	Property investment segment RMB'000	Property development segment RMB'000	Total RMB'000	Department store segment RMB'000	Supermarket segment RMB'000	Electrical appliances segment RMB'000	Furniture segment RMB'000	Consulting service segment RMB'000	Property investment segment RMB'000	Total RMB'000
Direct sales of goods	857	170,766	47,988	51	-	-	-	219,662	2,672	222,535	83,234	20	-	-	308,461
Commission income from concessionaire sales	152,166	12,263	6,253	-	-	-	-	170,682	151,805	11,836	7,648	-	-	-	171,289
Management fee and service income from operations	35,294	9,199	4,288	366	-	-	-	49,147	34,255	11,688	4,711	-	-	-	50,654
Rental income	27,639	11,659	650	1,844	-	2,044	-	43,836	22,153	5,864	1,304	2,100	-	905	32,326
Consulting service income	-	-	-	-	7,805	-	-	7,805	-	-	-	-	19,868	-	19,868
Sales of properties	-	-	-	-	-	-	263,180	263,180	-	-	-	-	-	-	-
	215,956	203,887	59,179	2,261	7,805	2,044	263,180	754,312	210,885	251,923	96,897	2,120	19,868	905	582,598

Direct sales of goods

For the year ended 31 December 2017, our revenue from direct sales was approximately RMB219.7 million, representing a decrease of approximately RMB88.8 million or approximately 28.8%, from approximately RMB308.5 million for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

The decrease was mainly due to the decrease in revenue in supermarket segment and electrical appliances segment by 23.3% and 42.3%, respectively. The decrease in both segments was mainly due to the shift of business model from self-operation to lease the areas to the suppliers. With the intensify competition from the online shopping, the business of the supermarket and electrical appliances segment has been deteriorated over the past few years. In order to combat this situation, the Group reduced the operation areas and leased out these areas to the supplier and receives a rental income.

Commission income from concessionaire sales

For the year ended 31 December 2017, our revenue from concessionaire sales was approximately RMB170.7 million, representing a slight decrease of approximately RMB0.6 million, or approximately 0.4%, from approximately RMB171.3 million for the year ended 31 December 2016.

Management fee and service income from operations

For the year ended 31 December 2017, the management fee and service income from operations were approximately RMB49.1 million, representing a slight decrease of approximately RMB1.6 million, or approximately 3.0%, from approximately RMB50.7 million for the year ended 31 December 2016.

Rental income

For the year ended 31 December 2017, our revenue from rental income was approximately RMB43.8 million, representing a significant increase of approximately RMB11.5 million, or approximately 35.6%, from approximately RMB32.3 million for the year ended 31 December 2016. The increase was mainly attributable to (i) the transformation of self-operation business to fixed rental income; and (ii) the rental income generated from the investment properties.

Consulting service income

For the year ended 31 December 2017, the Group has entered agreements with four independent commercial complex operators and recorded a revenue of RMB7.8 million for the service provided, representing a decrease of approximately RMB12.1 million, or approximately 60.8%, from approximately RMB19.9 million for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

For the year ended 31 December 2017, our total gross profit were approximately RMB312.3 million, a decrease of approximately RMB2.5 million, or approximately 0.8%, from approximately RMB314.8 million for the year ended 31 December 2016. The gross profit margin for the years ended 31 December 2017 and 2016 was approximately 41.4% and approximately 54.0%, respectively, represented a decrease of approximately 12.6%. The decrease in our gross profit margin was partly due to the decrease in the consulting service income which has a higher gross profit margin.

Other income

For the year ended 31 December 2017, our other income was approximately RMB1.5 million, a decrease of approximately RMB1.8 million, from approximately RMB3.3 million for the year ended 31 December 2016. The amount represents the one-off government grant received or receivable and amortisation of government grant related to assets.

Gain from bargain purchase

For the year ended 31 December 2017, the gain from bargain purchase represents the fair value of the net identifiable assets in excess of the consideration given, which was derived from the acquisition of the entire equity interest in Yunfu Baisheng on 28 June 2017. The gain from bargain purchase is a non-recurrent item.

Fair value gain on investment properties

The fair value gain on investment properties represented the increase in fair value of investment properties. Following the completion of acquisition of Yunfu Baisheng, the Group classified certain areas of the commercial complex as investment properties for leasing purpose which can generate a stable rental income.

MANAGEMENT DISCUSSION AND ANALYSIS

Other (losses)/gains – net

For the year ended 31 December 2017, our other losses were approximately RMB2.5 million as compared to the other gain of approximately RMB5.7 million for the year ended 31 December 2016.

Purchases of and changes in inventories

For the year ended 31 December 2017, the purchases of and changes in inventories was approximately RMB187.3 million, representing a decrease of approximately RMB80.5 million, or approximately 30.1%, from approximately RMB267.8 million for the year ended 31 December 2016. The decrease was mainly due to the transformation of self-operation of supermarket and electrical appliance segments to leasing the areas to supplies for operation.

Constructions of and changes in completed properties held for sale

The amount represents the cost of properties recognised in association with the sales of properties recognised for the year ended 31 December 2017. The properties were under Zhaoqing Hualai Property Development Company Limited, which was acquired in 2016, and Yunfu Baisheng which was acquired in 2017.

Employee benefit expenses

For the year ended 31 December 2017, our employee benefit expenses were approximately RMB97.9 million, a decrease of approximately RMB4.5 million, or approximately 4.4%, from approximately RMB102.4 million for the year ended 31 December 2016. The decrease was due to the decrease of number of employees as a result of the streamline of stores.

Depreciation and amortisation

For the year ended 31 December 2017, our depreciation and amortisation were approximately RMB27.8 million, a decrease of approximately RMB2.5 million, or approximately 8.3%, from approximately RMB30.3 million for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Provision for impairment of property, plant and equipment

During the year ended 31 December 2017, the Group conducted impairment assessment on the property, plant and equipment, and identified the recoverable amounts cannot recover the carrying value of the property, plant and equipment for certain retail stores. A provision for impairment on property, plant and equipment with an amount of RMB17.1 million was recognised during the year ended 31 December 2017.

Operating lease rental expenses and property management fee

For the year ended 31 December 2017, our operating lease rental expenses and property management fee was approximately RMB132.4 million, an increase of approximately RMB10.3 million, or approximately 8.4%, from approximately RMB122.1 million for the year ended 31 December 2016. This increase was primarily due to more areas was used in our department store's operation.

Other operating expenses

For the year ended 31 December 2017, the other operating expenses were approximately RMB111.3 million, an increase of approximately RMB15.6 million, or approximately 16.3%, from approximately RMB95.7 million for the year ended 31 December 2016.

The increase was mainly attributable to the several marketing expenses in relation to the promotion of properties which located in Zhaoqing City and Yunfu City with an amount of approximately RMB24.1 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance expenses – net

For the year ended 31 December 2017, our net finance expenses was approximately RMB39.4 million, an increase of approximately RMB18.7 million, or approximately 90.3%, from approximately RMB20.7 million for the year ended 31 December 2016. The increase was mainly attributable to the increase in bank and other borrowings during the year ended 31 December 2017.

Share of loss of an associate

For the year ended 31 December 2017, the share of loss of an associate was approximately RMB5.4 million, an increase of approximately RMB3.4 million, or approximately 170.0%, from approximately RMB2.0 million for the year ended 31 December 2016.

Income tax expenses

The income tax expenses were approximately RMB12.7 million for the year ended 31 December 2017, representing a decrease of approximately RMB12.1 million, or approximately 48.8%, from approximately RMB24.8 million for the year ended 31 December 2016. The significant decrease was attributable to the decrease in deferred tax liabilities.

Net (loss)/profit for the year

For the year ended 31 December 2017, the net loss for the year was approximately RMB9.8 million as compared to the net profit of approximately RMB73.9 million for the year ended 31 December 2016.

(Loss)/profit attributable to owners of the Company

For the year ended 31 December 2017, the loss attributable to owners of the Company was approximately RMB11.5 million, as compared to the profit attributable to the owners of the Company approximately RMB73.2 million for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group mainly relies on two sources of liquidity, which are (i) cash flow generated from its operating activities as a primary source of liquidity and; (ii) standby general banking facilities.

The Group's cash and cash equivalents and the near cash instruments (including restricted cash and term deposits) stood at approximately RMB253.9 million and approximately RMB202.6 million as at 31 December 2017 and 2016, respectively. The outstanding borrowings of the Group amounted to approximately RMB718.6 million as at 31 December 2017.

As at 31 December 2017 and 2016, total current assets of the Group amounted to approximately RMB1,232.2 million and approximately RMB772.9 million, respectively, whereas total current liabilities amounted to approximately RMB1,508.1 million and approximately RMB929.0 million, respectively, which resulted in a net current liabilities position of approximately RMB275.9 million and approximately RMB156.1 million, respectively as at 31 December 2017 and 2016.

Gearing ratio

As at 31 December 2017 and 2016, the gearing ratios were approximately 267.0% and 163.6%, respectively. The gearing ratio is calculated as total borrowings divided by total equity as at the balance sheet dates.

Pledge of assets

As at 31 December 2017, certain investment properties, properties under development and completed properties held for sale of the Group with an aggregate carrying amount of RMB509.4 million (31 December 2016: RMB515.5 million) were pledged as collateral for the Group's borrowings.

Employees

As at 31 December 2017, total number of employees for the Group was 1,445 (31 December 2016: 1,517). The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary, incentives and bonus scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent liabilities

On 5 September 2016, the Company provided a financial guarantee in favour of AMD. Pursuant to which the Company agreed to guarantee in favour of AMD, in proportion to the equity interests in the JV Company held by the Group, certain payment obligations of the JV Company under an agreement entered into by the JV Company and AMD on the same day, with a maximum of US$10 million (equivalent to approximately RMB65.3 million).

Foreign exchange exposure

The Group conducted its business operations in the PRC and its revenues and expenses were denominated in RMB. Except for certain cash and bank balances, other receivables, other payables and borrowings denominated in Hong Kong dollar or United States dollar or Australian dollar, there is limited exposure for the foreign exchange risk.

Material Acquisition, Disposal and Significant Investment

During the year ended 31 December 2017, the Group acquired the entire equity interest in Yunfu Baisheng with the consideration up to RMB71,000,000. Details of the acquisition are set out in the announcement of the Company dated 28 June 2017.

Save as disclosed above, the Group did not have any other significant investments and disposals during the year ended 31 December 2017.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: HK$0.05 per ordinary share).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN AND EXECUTIVE DIRECTORS

Mr. Chen Jianren (陳健仁), aged 64, is an executive Director, chairman, chairman of the nomination committee of the Company. Mr. Chen is the founder of our Group. He is responsible for the formulation of the overall strategy and setting of business direction of our Group. He was also appointed as the director and general manager of Guangdong Yihua Group Investment Company Limited (廣東益華集團投資有限公司) ("**Yihua Investment**") since 2005. Prior to joining Yihua Investment, he was the director of Zhongshan Yihua Group Company Limited (中山市怡華集團有限公司) from 1987 to 2002 and the director and general manager of Zhongshan King Hotel (中山市京華酒店) in 1985. Mr. Chen has approximately 30 years of experience in corporate management. As a director of certain members of Yihua Investment and its subsidiaries (collectively, "**Yihua Investment Group**"), Mr. Chen has extensive experience in the tertiary industry particularly in regards to property development.

Mr. Chen is the brother of Mr. Chen Daren, a non-executive Director and a controlling Shareholder of the company ("**Shareholder**").

Mr. Fan Xinpei (范新培), aged 63, is an executive Director, chief executive officer, member of the remuneration committee of the Company. Mr. Fan is responsible for our overall development and strategic plans and the formulation and implementation of our operational plans. He is also responsible for our new development projects, the opening and location of our new stores and formulating our business and organisational structure. Mr. Fan joined our Group since the establishment of Guangdong Yihua Department Store Limited ("**Guangdong Yihua**") and was appointed as president of Guangdong Yihua since May 1995. Prior to joining our Group, Mr. Fan worked in Zhongshan Yihua Group Company Limited (中山市怡華集團有限公司) as vice president from 1987 to 1995. He was elected as the Standing Committee Member of the 10th session of the Zhongshan Municipal People's Political Consultative Conference (政協中山市第十屆委員會常委), the Representative of the 14th session of the Zhongshan Municipal People's Congress (中山市人大代表), Vice-Chairman of Council of China Chain-Store and Franchise Association of Guangdong Province (廣東省連鎖經營協會理事會副會長) in March 2012, Vice-Chairman of Zhongshan City Business Association (中山市商業行業協會理事會常務副會長) in March 2005, Chairman of Zhongshan Commerce Circulation Association (中山市商貿流通協會會長) in August 2009. He was also awarded as National Working Model of Commercial System (全國商務系統勞動模範) by Ministry of Commerce, PRC in January 2008.

Mr. Su Weibing (蘇偉兵), aged 59, is an executive Director of the Company. Mr. Su is responsible for the business expansion and operation of Yihua shopping mall and the development of Hihua's global convenience store business. At the same time, he is responsible for Hihua's imported products supply chain integration and the overall operation and planning of brands under strategic cooperation. He joined our Group in 1995 and was appointed as our vice president of Guangdong Yihua in 2001. Prior to joining us, Mr. Su has gained extensive experience while being a director and the general manager of First Department Store Limited (百貨一商店股份有限公司) in Tongliao, Inner Mongolia, the PRC.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lin Guangzheng (林光正), aged 58, is an executive Director of the Company. Mr. Lin is responsible for the investment and development department. He served in Guangdong Yihua as an office manager and assistant president from July 1995 to June 1997 and has worked as assistant president from July 1997 to November 2000. He was appointed as the vice president of Guangdong Yihua in December 2000.

Mr. Chen Zhentao (陳正陶), aged 34, is an executive Director of the Company. Mr. Chen is responsible for the overall operation and planning of the department store section, electronic appliance section, supermarket section and finance of the Group. Before joining to our company, Mr. Chen has more than 4 years of hands-on experience in international finance. Mr. Chen is currently the vice president of Guangdong Yihua Group Investment Company Limited (廣東益華集團投資有限公司) and was the vice-president, the assistant to the general manager and the manager of administrative department of Zhenjiang Hualong Plaza Properties Company Limited (鎮江華龍廣場置業有限公司) from May 2012 to May 2014, from May 2011 to May 2012 and from January 2010 to April 2011 respectively. He graduated from Aston University with a bachelor degree in Managerial and Administrative Studies in 2007.

Mr. Chen Zhengtao is the son of Mr. Chen Jiaren, the chairman of the Board and an executive Director, and the nephew of Mr. Chen Daren, the controlling shareholder of the Company and a non-executive Director.

Mr. Leung Wai Kwan (梁維君), aged 54, is an executive Director of the Company, was appointed as an independent non-executive Director on 12 November 2013 and has been re-designated as an executive Director with effect from 20 June 2016. Prior to the re-designation, Mr. Leung was the chairman of the audit committee and a member of each of the audit committee, the remuneration committee and the nomination committee of the Company.

He was also an executive director of two companies listed on the Stock Exchange, namely New Smart Energy Group Limited (Stock code: 91) from October 1999 to June 2005 and China Mining Resources Group Limited (Stock code: 340) from May 2000 to June 2004. Mr. Leung is currently an executive director of a company listed on the Stock Exchange, he was appointed as an executive director of Ding He Mining Holdings Limited (previously named as "CVM Minerals Limited") (Stock code: 705) since September 2010 and is the chief executive officer of this company. His duties for the aforesaid company listed on the Stock Exchange included implementation of internal control measures within the company, ensuring transactions complied with relevant accounting standards, analysing financial statements for a listed company and preparing and reviewing the annual report.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wei Chaoling (魏超靈), aged 40, has more than fifteen years of experience in real estate project development and management in the PRC. Prior to joining the Group, Mr. Wei worked in certain private companies and was mainly responsible for the acquisition, development and operation of businesses involving commercial development, commercial estate and real estate projects. Mr. Wei is (i) a director of Yitailihua Investment Group (Hong Kong) Limited (香港益泰利華投資集團有限公司) ("Yitailihua Investment Group"), a 30% shareholder of Yihua Wanguo Commercial Technology Limited (益華萬果商業科技有限公司) which is a non wholly-owned subsidiary of the Company; (ii) a director and shareholder of 中山益泰利華投資有限公司 (Zhongshan Yitailihua Investment Limited#), the holding company of Yitailihua Investment Group; (iii) a director of 肇慶益華商業投資有限公司(Zhaoqing Yihua Commerce Investment Co., Ltd#), an indirect non wholly-owned subsidiary of the Company; (iv) a director of 廣東益華商業發展有限公司(Guangdong Yihua Commerce Limited#), an indirect non wholly-owned subsidiary of the Company; (v) a director of 肇慶市華萊置業發展有限公司 (Zhaoqing Hualai Property Development Company Limited#), an indirect non wholly-owned subsidiary of the Company; (vi) a director of 山東益華商業發展有限公司 (Shangdong Yihua Commerce Development Limited#), an indirect non wholly-owned subsidiary of the Company; and (vii) a director of 廣東益華粵東產業城發展有限公司(Guangdong Yihua (Eastern Guaugdong) Industrial City Development Company Limited#), an indirect non wholly-owned subsidiary of the Company.

NON-EXECUTIVE DIRECTOR

Mr. Chen Daren (陳達仁), aged 62, is a non-executive Director of the Company. Mr. Chen has been the director of Yihua Investment and also the executive director of Guangdong Yucca Hotel Management Co. Ltd. (廣東逸豪酒店管理有限公司) since 2004. Mr. Chen has extensive experience in corporate management. As the deputy general manager of Yihua Investment, Mr. Chen has extensive experience in the tertiary industry and principally involved in the businesses relating to hotels, food and beverages and entertainment of Yihua Investment. He is responsible for the overall development and strategic plans of this area in Yihua Investment Group.

Mr. Chen Daren is a controlling Shareholder and brother of Mr. Chen, an executive Director and the chairman of our Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Hong (孫洪), aged 69, is an independent non-executive Director, member of the audit committee, member of the remuneration committee and member of the nomination committee of the Company. He was appointed as the chairman of Guangdong Chain Operations Association (廣東省連鎖經營協會會長) from March 2012 to March 2015, and was appointed as council member of the China Chain Store and Franchise Association (中國連鎖經營協會常務理事) in December 1998 and the honorary president of Guangdong Chamber of Daily Used Chemicals (廣東省日化商會榮譽會長) in 2011. He has been the committee member of the Advisory Committee in Economic Decision-making and Promotion of Shunde District (順德區(經濟促進)經濟決策諮詢委員會) from October 2011 to December 2013. He was elected as a member of the expert committee of Guangdong Consumer Council (廣東省消費者委員會專家委員會委員) from March 2012 to March 2015. On 19 August 2015, he was appointed as and is currently an independent non-executive director of China Shun Ke Long Holdings Limited, a company listed on the Stock Exchange (stock code: 974).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

He studied political economics in the Beijing College of Commerce (北京商業學院) in 1978 and obtained a graduation certificate in December 1978. In 2011, Mr. Sun was appointed as an Adjunct Professor in the College of Business in the City University of Hong Kong from January 2011 to December 2012.

Mr. Xu Yinzhou (徐印州), aged 71, is an independent non-executive Director, chairman of the remuneration committee, member of the nomination committee and member of the audit committee of the Company. He was the assistant dean in Guangdong University of Business Studies (廣東商學院副院長) between 2001 and 2007. Mr. Xu has been elected as the Policy Adviser in the second session of the policy advisory committee of the Guangzhou Municipal Government Office (廣州市人民政府第二屆決策諮詢專家) with effective from March 2010.

Mr. Xu graduated from Chemistry studies in Peking University (北京大學) in March 1970 and Trade Economics in Renmin University of China (中國人民大學) in July 1984, and is qualified as Professor in commerce and economics as accredited by Department of Personnel of Guangdong Province (廣東省人事廳) in December 1995 and tutor in business administration as accredited by Commerce School of Jinan University (暨南大學廣東商學院) in December 2003. He was also appointed as the vice president of the Guangdong Economic Society (廣東經濟學會副會長) in December 2005.

Ms. Hung Wan Fong, Joanne (洪緼舫), aged 44, is an independent non-executive Director, chairman of the audit committee, member of the audit committee, member of the nomination committee and member of the remuneration committee of the Company. Ms Hung has about 20 years of experiences in audit and assurance. Ms Hung is currently a director of an international accounting firm, where she focuses on serving listed companies over a wide variety of industries. Ms. Hung has also been involved in various transaction support assignments including initial public offerings, capital market transactions and financial due diligence in acquisitions of companies. Prior to joining the current position, Ms. Hung worked in various international accounting firms in Hong Kong. Ms. Hung graduated from the City University of Hong Kong with a bachelor degree of Accountancy in 1996. Ms. Hung is a practicing certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Ms. Lai Pou Lam, Mina (黎莆琳), aged 63, is an independent non-executive Director. Prior to joining our group, Ms Lai was formerly a Senior Manager (Leasing & Management) of Hang Lung Properties Limited, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (Stock code: 101), and had worked with Hang Lung Properties Limited for more than 20 years. Prior to joining Hang Lung Properties Limited, she was the General Manager of China Hong Kong Trade Centre Limited, where she was responsible for the setting up of China Hong Kong Trade Centre in Rotterdam, the Netherlands, which provided marketing and trade support services to Hong Kong and Chinese businesses in Europe. Ms. Lai holds a Master of Business Administration degree from the University of Leicester in the United Kingdom.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Wang Guping (王古坪), aged 52, was appointed as our assistant president of Guangdong Yihua in February 2003 and she is also the deputy general manager of the investment and development department since January 2014. She is responsible for internal control management of our Group and a member of the internal control committee.

Mr. Deng Zhipeng (鄧志鵬), aged 38, was appointed as general manager of Guangdong Yihua Commerce Limited and Yihua Wanguo Commerce Limited since 2014. He is responsible for the development, merger and acquisition, and operation of the composite real estate (real estate, commercial property, and industrial cities) business of the Company and developing its convenience store operations under the brand name of Wanguo. Before joining the Company, Mr. Deng was the general manager for development for southern China of Red Star Macalline Group Corporation Ltd. (Stock code: 1528) from 2009 to 2013. Before that, Mr. Deng had been the manager of the development departments of China Resources Vanguard Co., Ltd. and Carrefour China from 2002 to 2009.

COMPANY SECRETARY

Mr. Tse Wing York (謝永鑰), aged 38, is our company secretary and chief financial controller. Mr. Tse joined our Group in March 2012. Mr. Tse has over seven years of experience in auditing and financial management. Prior to joining our Group, Mr. Tse worked in ShineWing (HK) CPA Limited (a certified public accounting firm) between July 2004 and September 2010 and left as an audit manager. From 3 October 2011 to 7 May 2013, Mr. Tse was the company secretary of Inno- Tech Holdings Limited, a company listed on the Stock Exchange (Stock code: 8202). Mr. Tse graduated from Lingnan University with a bachelor's degree in business administration in 2004. Mr. Tse is a member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The board of the directors of (the "**Board**") our Company and its subsidiaries (the "**Group**") is pleased to present this Corporate Governance Report for the year ended 31 December 2017.

The Company is committed to enhancing corporate governance and transparency of the Group by applying the principles in the code provisions of the Code on Corporate Governance Practices (the "**Code**") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. The Company has complied with the code provisions in the Code for the year ended 31 December 2017.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "**Model Code**") as the code of practice for carrying out securities transactions by the Directors. After specific enquiry with all Directors, the Company confirmed that all Directors have fully complied with the relevant standards stipulated in the Model Code throughout the year. However, one non-compliance incident was noted after the year end, where Jaguar Asian Limited ("**Jaguar Asian**"), a company wholly-owned by Mr. Chen Daren, a non-executive Director, charged 541,722,412 shares of the Company held by it in favour of an independent third party (the "**Chargee**") on 13 February 2018 as security for a loan advanced by the Chargee to Jaguar Asian during the black-out period without notification to the chairman of the Company, in breach of the requirements of Rules A.3(a)(i) and B.8 of the Model Code.

The Company has paid due regard to the aforementioned non-compliance incident and in order to prevent the occurrence of similar incidents, the management of the Company has immediately taken steps to remind all Directors of the dealing restriction during the black-out period as well as the requirements under the Model Code. The Company has also organised, and all Directors has attended, a training conducted by a professional law firm to reinforce the Directors' knowledge and awareness of the requirements and procedures under the Model Code, as well as other requirements and restrictions regarding dealings in shares by directors.

BOARD OF DIRECTORS

During the year ended 31 December 2017 and up to the date of this report, the Board comprises seven executive Directors, one non-executive Director and four independent non-executive Directors.

Composition of the Board
Executive Directors

Name	Other positions in the Company
Mr. Chen Jianren	Chairman of the Board Chairman of the Nomination Committee
Mr. Fan Xinpei	Chief Executive Officer Member of the Remuneration Committee
Mr. Su Weibing	–
Mr. Lin Guangzheng	–
Mr. Chen Zhengtao	–
Mr. Leung Wai Kwan	–
Mr. Wei Chaoling *(Appointed on 17 July 2017)*	–

CORPORATE GOVERNANCE REPORT

Non-executive Director

Name	Other positions in the Company
Mr. Chen Daren	–

Independent non-executive Directors

Name	Other positions in the Company
Mr. Sun Hong	Member of Audit Committee Member of Remuneration Committee Member of Nomination Committee
Mr. Xu Yinzhou	Member of Audit Committee Chairman of Remuneration Committee Member of Nomination Committee
Ms. Hung Wan Fong, Joanne	Chairman of Audit Committee Member of Remuneration Committee Member of Nomination Committee
Ms. Lai Pou Lam, Mina	–

Responsibility of the Board

The principal functions of the Board are to consider and approve the business strategies, financial objectives, annual budget, investment proposals and overseeing the Group's compliance with statutory and regulatory obligations, ensuring proper internal control, and supervision of management in accordance with the rules governing the meeting of the Board, articles of association of the Company ("**Articles of Association**") and rules governing the meeting of Shareholders.

The day-to-day operations of the Group are delegated to the management of the Group. The Chairman is responsible for the orderly conduct and operation of the Board and the formulation of the overall strategy and setting of business direction of the Group while the executive Directors are responsible for the daily operation of the Group.

Board meetings

Regular Board meetings are held no less than four times a year. In respect of regular board meetings, an agenda and accompanying board papers are sent in full to all Directors in a timely manner and at least three days before the intended date of a board or board committee meeting. Adequate information related to the issues are also supplied for the board and its committee to make decisions which is for the best interests of the Group. Notice of at least fourteen days is given to all Directors and all Directors have an opportunity to attend. The Directors who cannot attend in person might participate through other electronic means of communications. Senior management executives may, from time to time, be invited to attend the board meeting for making presentation and/or answering any queries that may be raised by the Board.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2017, the Company had held four Board meetings and the attendance records are set out below:

Name	**Meetings attended/ Number of meetings held**
Mr. Chen Jianren	4/4
Mr. Fan Xinpei	4/4
Mr. Su Weibing	4/4
Mr. Lin Guangzheng	4/4
Mr. Chen Zhengtao	4/4
Mr. Leung Wai Kwan	4/4
Mr. Wei Chaoling *(Appointed on 17 July 2017)*	2/4
Mr. Chen Daren	4/4
Mr. Sun Hong	4/4
Mr. Xu Yinzhou	4/4
Ms. Hung Wan Fong, Joanne	4/4
Ms. Lai Pou Lam, Mina	4/4

There is no financial, business, family or other material relationships among members of the Board except that Mr. Chen Jianren is the brother of Mr. Chen Daren, and Mr. Chen Zhengtao is the son of Mr. Chen Jianren and the nephew of Mr. Chen Daren.

Independence of the independent non-executive Directors

The Company has received confirmation from each of the independent non-executive Directors regarding his independence pursuant to the requirements of Rule 3.13 of the Listing Rules. Based on these confirmations, the Board considers that each of the independent non-executive Directors to be independent.

Appointment and re-election of Directors

Pursuant to the Articles of Association, Directors shall be elected at general meetings with a term of office of no more than three years and may be re-appointed. The Company has implemented a set of effective procedures for the appointment of new Directors. Nomination of new Directors shall be first considered by the nomination committee whose recommendations will then be put forward to the Board for consideration. All newly nominated Directors are subject to election and approval at general meetings.

Board diversity policy

The board diversity policy of the company sets out the objectives and principles regarding board diversity for the benefits of achieving the Company's strategic objectives with a view of having a balanced diversity of both skills and experience and of perspective. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and/or length of service. The ultimate decision will be based on merit and candidates will be considered against measurable objectives, taking into account the Company's business and needs.

CORPORATE GOVERNANCE REPORT

Directors' remuneration

The remuneration committee of the Company makes recommendations to the Board on the remuneration packages of the Directors and senior management personnel. It is the Company's policy that the remuneration package of each Director and senior management personnel shall be determined by taking reference to, inter alia, their duties, responsibilities, seniority, experiences and qualifications and the prevailing market practice.

Directors' continuing professional development

To ensure Director's contribution to the Board remains informed and relevant, the Company encourages Directors to participate in continuous professional development to develop and refresh their knowledge and skills and understanding of the business and markets in which the Group operates. The Company would provide a comprehensive induction package covering the summary of the responsibilities and obligations of a director of a Hong Kong listed company, the Company's constitutional documents and the Guides on Directors' Duties issued by the Hong Kong Companies Registry to each newly appointed director to ensure he/she to have sufficient awareness of good corporate governance practices.

Directors are also provided with monthly performance updates of the Group, and information such as performance and key operational highlights to enable the Board as a whole as well as each Director to discharge their duties. For the financial year ended 31 December 2017, all Directors have participated in appropriate continuous professional development and provided the Company with their records of training. A summary of training records provided by the current Directors is as follows:

Name of Directors	Reading articles, newspaper, journal and/or updates	Attending trainings and/or seminars
Executive Directors		
Mr. Chen Jianren	✓	✓
Mr. Fan Xinpei	✓	✓
Mr. Su Weibing	✓	✓
Mr. Lin Guangzheng	✓	✓
Mr. Chen Zhengtao	✓	✓
Mr. Leung Wai Kwan	✓	✓
Mr. Wei Chaoling	✓	✓
Non-executive Director		
Mr. Chen Daren	✓	✓
Independent non-executive Directors		
Mr. Sun Hong	✓	✓
Mr. Xu Yinzhou	✓	✓
Ms. Hung Wan Fong, Joanne	✓	✓
Ms. Lai Pou Lam, Mina	✓	✓

During the year, the Company secretary had received no less than 15 hours of relevant professional training.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles and duties of the Chairman and the Chief Executive Officer (CEO) of the Company are segregated and are carried out by different individuals.

The Chairman of the Board, Mr. Chen Jianren, is responsible for the formulation of the overall strategy and setting of business direction of our Group. Mr. Fan Xinpei, CEO of the Company, is responsible for assisting in formulation of overall strategy and day-to-day management and execution of Company's strategies.

REMUNERATION COMMITTEE

The Remuneration Committee comprises four members namely, Mr. Xu Yinzhou (Chairman and independent non-executive Director), Mr. Fan Xinpei (executive Director), Mr. Sun Hong (independent non-executive Director) and Ms. Hung Wan Fong, Joanne (independent non-executive Director).

The role and function of the Remuneration Committee are set out in its terms of reference. Primary terms include recommendations to the Board on policy and structure of remuneration of the Directors and senior management, determination of the remuneration packages of each Director and member of the senior management, ensuring that no Directors or any of their associates are involved in deciding their own remuneration packages and review and approval of performance-based remuneration by reference to corporate goals and objectives and compensation arrangements relating to dismissal or removal of Directors.

During the year ended 31 December 2017, the Remuneration Committee had held one Remuneration Committee meeting and the attendance records are set out below:

Name	**Meetings attended/ Total number of meetings held**
Mr. Xu Yinzhou *(Chairman)*	1/1
Mr. Fan Xinpei	1/1
Mr. Sun Hong	1/1
Ms. Hung Wan Fong, Joanne	1/1

Set out below is the summary of work of the Remuneration Committee in the financial year ended 31 December 2017:

– reviewed the remuneration policy of the Directors and the senior management for 2017; and

– reviewed the remuneration of the executive Directors, non-executive Directors and the independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee comprises three members namely, Ms. Hung Wan Fong, Joanne (Chairman and independent non-executive Director), Mr. Xu Yinzhou (independent non-executive Director) and Mr. Sun Hong (independent non-executive Director).

During the year ended 31 December 2017, the Audit Committee held two meetings. The members of Audit Committee reviewed and discussed the Group's audited financial statements for the year ended 31 December 2017 with the external auditor of the Company. They were of the opinion that these financial statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made. Additional meetings may also be held by the Audit Committee from time to time to discuss special projects or other issues which it considers necessary. The external auditor of the Company may request a meeting of the Audit Committee to be convened if they consider that is necessary.

The main duties of the Audit Committee are as follows:

- To consider the appointment of the external auditors, the audit fee, and any question of resignation or dismissal.

- To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.

- To develop and implement policy on the engagement of external auditors to supply nonaudit services.

- To discuss with management about the scope and quality of systems of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.

The following is the attendance record of the committee meetings held by the Audit Committee.

Name	Meetings attended/ Total number of meetings held
Ms. Hung Wan Fong, Joanne *(Chairman)*	2/2
Mr. Sun Hong	2/2
Mr. Xu Yinzhou	2/2

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Nomination Committee comprises four members namely, Mr. Chen Jianren (Chairman and executive Director), Mr. Xu Yinzhou (independent non-executive Director), Mr. Sun Hong (independent non-executive Director) and Ms. Hung Wan Fong, Joanne (independent non-executive Director).

The role and function of the Nomination Committee are set out in its terms of reference. Primary terms include review and supervision of the structure, size and diversity of the Board, developing the procedures for identifying and assessing the biographical details of and evaluating candidates for directorship, making recommendations to the Board on the selection of nominated directorship and matters related to appointment or re-appointment of Directors.

Before a prospective Director's name is formally proposed, the opinions of the existing Directors (including the independent non-executive Directors) are sought. The selection criteria of the qualified candidates are mainly based on assessments of their qualifications, experiences and expertise as well as the requirements under the Listing Rules. The Nomination Committee selects and recommends candidates for directorship with regards to balancing skills and experiences appropriate to the Group's businesses.

During the year ended 31 December 2017, the Nomination Committee held one meeting. The members of Nomination Committee reviewed and discussed the current structure, size and composition of the Board.

The following is the attendance record of the committee meeting held by the nomination committee.

Name	**Meeting attended/ Total number of meetings held**
Mr. Chen Jianren *(Chairman)*	1/1
Mr. Xu Yinzhou	1/1
Mr. Sun Hong	1/1
Ms. Hung Wan Fong, Joanne	1/1

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

Total fee for services, being provided by external auditors – PricewaterhouseCoopers, relating to the audit of the Group's financial statements for the year ended 31 December 2017 is approximately RMB2.95 million.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

The corporate governance functions are performed by the Board.

The Company adopted paragraph D.3.1 of the Code as the duties of the Board in performing its corporate governance functions.

During the year ended 31 December 2017, the Board has performed the following duties in respect of its corporate governance functions:

a. reviewing the Company's policies and practices on corporate governance;

b. reviewing and monitoring the training and continuous professional development of Directors and senior management;

c. reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements;

d. reviewing and monitoring the code of conduct applicable to employees; and

e. reviewing the Company's compliance with the code of disclosure in the Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is its duty to monitor the risk management and internal control systems of the Group on an ongoing basis and review their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year, the Board, through the Audit Committee, conducted an annual review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate. In this respect, the Audit Committee communicates any material issues to the Board.

During the year, the Group appointed Baker Tilly Hong Kong Risk Assurance Limited ("**Baker Tilly**") to:

- assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and

- independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems.

CORPORATE GOVERNANCE REPORT

The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended by Baker Tilly to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. Based on the findings and recommendations of Baker Tilly as well as the comments of the Audit Committee, the Board considered the internal control and risk management systems effective and adequate.

The Group has established internal control procedures for the handling and dissemination of inside information in order to comply with Chapter 13 of the Listing Rules as well as Part XIVA of the Securities and Futures Ordinance. The internal control mechanism includes information flow and reporting processes, confidentiality arrangements, disclosure procedures, and staff training arrangements, etc.

Our Enterprise Risk Management Framework

The Group established its enterprise risk management framework in 2017. While the Board has the overall responsibility to ensure that sound and effective internal controls are maintained, management is responsible for designing and implementing an internal control system to manage all kinds of risks faced by the Group.

Through the risk identification and assessment processes, risks are identified, assessed, prioritized and allocated treatments. Our risk management framework follows the COSO Enterprise Risk Management – Integrated Framework, which allows the Board and management to manage the risks of the Group effectively. The Board receives regular reports through the Audit Committee that oversights risk management and internal audit functions.

Principal Risks

In the Year of 2017, the following principal risks of the Group were identified and classified into strategic risks, operational risks, financial risks and compliance risks.

Risk Areas	Principal Risks
Strategic Risks	Competition risk; reputation risk; risk where corporate strategies do not align with management; macroeconomic risk
Operational Risks	Product liability risk; risk of business disruption due to complaints; leakage of sensitive information risk; risk of cash management; recruitment of inexperienced staff; unauthorized expenses
Financial Risks	Liquidity risk, interest rate risk, foreign exchange risk, profit risk
Compliance Risks	Risk of non-compliance with ordinances related to employment; change of listing rules and relevant company regulations and ordinances

CORPORATE GOVERNANCE REPORT

Our Risk Control Mechanism

The Group adopts a "three lines of defence" corporate governance structure with operational management and controls performed by operations management, coupled with risk management monitoring carried out by the finance and compliance team and independent internal audit outsourced to and conducted by Baker Tilly. The Group maintains a risk register to keep track of all identified major risks of the Group. The risk register provides the Board, the Audit Committee, and management with a profile of its major risks and records management's action taken to mitigate the relevant risks. Each risk is evaluated at least annually based on its likelihood of occurrence and potential impact upon the Group. The risk register is updated by management as the risk owners with addition of new risks and/or removal of existing risks, if applicable, at least annually, after the annual risk evaluation has been performed. This review process can ensure that the Group proactively manages the risks faced by it in the sense that all risk owners have access to the risk register and are aware of and alert to those risks in their area of responsibility so that they can take follow-up action in an efficient manner.

Our risk management activities are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensure that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

The Company will continue to engage external independent professionals to review the Group's system of internal controls and risk management annually and further enhance the Group's internal control and risk management systems as appropriate.

The directors and the internal audit of the Group have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the directors and the internal audit of the Group will continue to review at least annually the need for an internal audit function.

CORPORATE GOVERNANCE REPORT

On going compliance of non-compliance incidents

As stated in the Prospectus, the Company shall disclose the compliance status of certain noncompliance events in its annual report, which details are set out below:

(i) Employee theft

The Audit Committee had reviewed the report issued by the Internal Control Adviser in relation to the findings on the effectiveness of the financial management (including cash) cycle. Based on the evaluation report of the Internal Control Adviser, the Audit Committee is of the view that recommended measures of the Internal Control Adviser are effectively implemented.

(ii) Prevention of bribery and anti-money laundering

During the year ended 31 December 2017, the Group continues to enforce the policies on prevent bribery and anti-money laundering activities in connection with the issuance of Consumption Cards. After considering the compliance records and review results of the internal control committee, the Audit Committee is satisfied that, those measures continued to be effectively implemented.

(iii) Update on registration status of existing leases without building ownership certificates

As set out in the Prospectus, our Jiangmen store, Tai'an (Longtan) store as well as a portion (6,590 square metres) of our Guzhen store are respectively located in premises which form part of a larger development project with different parts in various stages of development, for which building ownership certificate will only be obtained upon completion of the whole project and the building ownership certificate will be applied for after the final acceptance process and other procedures. As at 29 March 2018, being the date of this report, those projects are not completely constructed or there are certain processes and procedures still outstanding to apply for building ownership certificates. Having considered the status based on information from the landlord and applicable regulations, the independent non-executive Directors are of the view that the delay in registration of the relevant building ownership certificates is not due to either parties to the lease agreements acting in breach of the relevant laws and regulations. Furthermore, the landlord of the Guzhen store notified the Company that it is unlikely that building ownership certificate will be obtained prior to expiration of the lease term on 30 November 2017. The Directors have therefore decided not to renew the relevant portion of the Guzhen lease upon its expiration.

As disclosed on page 189 of the Prospectus, pursuant to《最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋》(Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Cases about Disputes over Lease Contracts on Urban Buildings), the People's Court of the PRC generally recognised the validity of a lease agreement where the landlord has obtained the construction work planning permit and the building construction had complied with the terms set forth in the construction work planning permit. As all of the subject leased properties have the construction work planning permit and the respective landlords had been verified as the legal owners and considering advice from PRC counsel that the relevant landlords have the right to lease the premises to us and the lease agreements are valid and enforceable, our Directors considered that the subject leases without building ownership certificates will not pose a material risk on the operation of our stores.

CORPORATE GOVERNANCE REPORT

PERFORMANCE OF DEED OF NON-COMPETITION UNDERTAKING

On 19 November 2013, Mr. Chen Daren, the controlling Shareholder as well as certain executive Directors and members of the senior management interested in the shares of the Company (the "**Shares**"), being Mr. Chen Jianren, Mr. Fan Xinpei, Mr. Su Weibing and Mr. Lin Guangzheng (the "**Covenantors**") have entered into the deed of non-competition in favour of our Company (the "**Deed of Non-competition**"), whereby each of the Covenantors undertakes with the Company that for so long as the Shares remain listed in the Stock Exchange and the Covenantors, individually or collectively with their associates (as defined in Chapter 1 of the Listing Rules), are, directly or indirectly, interested in not less than 30% of the Shares in issue, or are otherwise regarded as Controlling Shareholders, each of the Covenantors, shall and shall procure that their respective associates shall:

(a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of our Group or be in competition with our Group in any business activities which our Group may undertake in the future save for the holding (by him/her/it and/or his/her/its associates) of not more than 5% shareholding interests in any company listed on the Stock Exchange or any other stock exchange;

(b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and staff members of our Group; and

(c) keep our Directors informed of any matters of potential conflicts of interest between the Covenantors (including their associates) and our Group.

In addition, each of the Covenantors jointly and severally, irrevocably and unconditionally, undertakes with our Company that if any new business opportunity relating to any products and/or services of our Group ("**New Business Opportunity**") is made available to the Conventors or their respective associates, he/she/it shall direct the New Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the New Business Opportunity. None of the Covenantors and their respective associates will pursue the New Business Opportunity until our Group decides not to pursue the New Business Opportunity because of commercial reasons.

The Company has received confirmation letters from each of the Covenantors confirming that, during the year 2017, they have not violated the terms under the Deed of Non-Competition Undertaking. The independent non-executive Directors had reviewed and confirmed that the Covenantors have complied with the provisions of the deed and the deed has been enforced by the Company in accordance with its terms.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare accounts of the Group and other financial disclosures required under the Listing Rules and the management will provide information and explanation to the Board to enable it to make informed assessments of the financial and other decisions.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to develop and maintain continuing relationships and effective communications with its Shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

1. The annual general meeting provides a forum for the Shareholders to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address Shareholders' queries;

2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for convening extraordinary general meetings and putting forward proposals are included in the annual report to the Shareholders to facilitate enforcement of Shareholders' rights; and

3. The Shareholders can visit the Company's website at www.yihua.com.cn to learn the general background of the Company and its activities, which enable the general public to have a better understanding of the Group.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meetings and putting forward proposals

Pursuant to Article 64 of the Articles of Association, extraordinary general meetings can be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may put forward their enquiries to the Board by addressing them to the Company Secretary by mail to the principal place of business in Hong Kong of the Company at Unit 8A, 8/F Wah Kit Commercial Centre, 300-302 Des Voeux Road Central, Hong Kong.

CHANGES IN CONSTITUTION DOCUMENTS

There is no change in the constitutional documents of the Company during the year 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The board of directors of the Company (the "**Board**") and its subsidiaries (the "**Group**") hereby presents its ESG report ("**ESG Report**") for the year ended 31 December 2017. The ESG Report is prepared in accordance with the requirements contained in Appendix 27 "Environmental, Social and Governance ("**ESG**") Reporting Guide" ("**ESG Reporting Guide**") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The information disclosed in this report is derived from the statistics and analysis results of the internal departments of the Group.

ESG PHILOSOPHY

The Group considers that sustainable development is one of the core values of the Group, and incorporates the concept of sustainable development into business operations to create long-term value for employees, customers, business partners, shareholders, investors and the community.

ORGANIZATIONAL STRUCTURE

The Board is responsible for our ESG strategy and reporting, including evaluating and determining our ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The ESG working group is set up by appointing the management and employees of various functional departments in the Group. By reviewing the operation of the Group and internal discussion, they identify relevant ESG issues and assess the importance of the issues to our business and stakeholders.

According to the general disclosure requirements of the ESG Reporting Guide, the identified major ESG issues have been included in this ESG Report which aims to disclose the ESG performance of the Group's operations in a balanced way.

RELATIONSHIPS WITH STAKEHOLDERS

For the Group, the development of the enterprise is based on a people-centred basis. All people related to the organization, including employees, customers, business partners and suppliers, creditors, shareholders and potential investors, local governments, and the communities, are all important to and influence the Company. We believe that communicating with stakeholders will help us to better develop our business strategies in response to their needs. This will at the same time allow us to anticipate risks and support the stable and healthy development of our business and the community and continue to develop mutually beneficial relationships with the stakeholders through different channels and promote sustainable development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL

As part of corporate responsibility, the Group assumes responsibility for environmental protection and is fully aware of the importance of sustainable environmental development to achieving its business sustainability. Due to the nature of its businesses, the Group will not have a significant impact on the environment and will not produce substantial harmful pollutants. The Group strictly complies with the relevant laws and regulations such as the Environmental Protection Law of the People's Republic of China (《中國人民共和國環境保護法》), the Prevention and Control of Environmental Noise Pollution Law of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》), and the Prevention and Control of Environmental Pollution by Solid Waste Law of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》). The Group continuously keeps track of the latest national and regional environmental protection ordinances, actively responds to national environmental policies, and will take steps to closely monitor and manage our environmental impact.

A1 EMISSIONS

The major environmental issues from daily operation include greenhouse gas emissions generated from electricity consumption, water consumption and waste water, solid waste and indoor air quality. The Group has developed a number of energy-saving measures to help reduce greenhouse gas emissions as further described in the next section "Use of Resources".

A1.1 Emission types and relevant emission data

	Key performance indicator kg
Pollutants	
Emission data of gas fuel consumption	
NO_X	588,313
SO_X	61
Emission data of vehicles	
NO_X	1,073,870
SO_X	2,873
Particulates	102,614

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A1.2 Gross emission of greenhouse gases

	Key performance indicator CO_2 equivalent tonnes
Scope 1 – Greenhouse gas emissions and reductions	1.099
Scope 2 – Indirect greenhouse gas emissions from energy combustion	39,208
Scope 3 – Other indirect greenhouse gas emissions	793
Gross greenhouse gas emissions (Scopes 1-3 total)	41,100

A1.3 Gross hazardous wastes produced

	Key performance indicator
Gross hazardous wastes	0.5 tonne
Hazardous waste density	0.0006 tonne/RMB1 million of revenue

A1.4 Gross non-hazardous wastes produced

	Key performance indicator
Gross non-hazardous wastes	17.5 tonnes
Non-hazardous waste density	0.0232 tonne/RMB1 million of revenue

A2 USE OF RESOURCES

The Group promotes energy saving in accordance with the Law of the People's Republic of China on Conserving Energy (《中華人民共和國節約能源法》). Relevant departments carry out regular review and adopt targeted energy saving and water saving measures to enhance resource utilisation rate and protect and save the environment so as to promote the comprehensive coordination and sustainable development of the economy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2.1 Direct and/or indirect energy by type (gross consumption)	Key performance indicator
Gross energy consumption	49,611MWh
Energy consumption density	65.7971MWh/ RMB1 million of revenue

A2.2 Gross water consumption and density	Key performance indicator
Gross water consumption	421kl
Gross water density	0.5584kl/ RMB1 million of revenue

A2.3 and A2.4 Energy use and water use efficiency programme and achievements

In order to reduce energy consumption and improve energy conservation management and implement green operations and green office practices, we have taken the following energy-saving measures:

Lighting

We are actively turning the lighting system into LED lighting, and now more than 50% of the premises are using LED lighting instead. In our department stores, we use more natural light near the entrance and the atrium, and thus shorten the time the lights are on during the day. In the evening, the lights are switched on at a fixed time, and the time of switching on and off lights is adjusted with reference to how bright it is outside. On the outside of our department stores, outdoor lighting and sign lights are installed with timers. The time of switching on and off lights is adjusted according to seasonal changes. We use natural light more to shorten the time the lights are on. In our warehouses and offices, staff are required to switch lights off when they are not used.

Air-conditioning and refrigeration equipment

The central air-conditioning is pre-set to switch on automatically to control the indoor temperature. When there are relatively fewer shoppers, the temperature of the air-conditioning will be adjusted in order to save energy. The mesh filters of the air-conditioning units are regularly cleaned and maintained to improve ventilation so as to reduce energy consumption. Air curtains are installed at the entrances of the department stores to reduce the escape of cooled air. When the department stores are closed, the screens of the refrigeration equipment in our supermarkets are drawn down to retain its chilling effect.

Raw materials management

The Group endeavors to adopt materials recycling measures as much as possible with respect to the operation of raw materials to ensure the environmental standards are met. We will actively recycle the raw materials of construction including cement fillers, site fences, scaffolding and timber used in the construction sites as much as possible to control and minimise the damage to the natural environment with a view to maintaining balance between the take and give of nature.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Other measures to reduce electricity use

The environmentally-friendly option of the printers is pre-selected so that they automatically switch to the energy-saving mode when idle. To further control our electricity requirements, we have provided guidance to employees to set electronic equipment at the energy-saving mode.

We also encourage employees to wear suitable clothes at the temperature of the office.

Using environmentally-friendly bags

Customers and employees are mobilized to protect the environment and save energy by promoting the reduced use of plastic bags and recommending them to bring their own shopping bags and use environmentally-friendly bags more.

Reducing paper use

Customers are actively encouraged to reduce the use of wrapping paper, and staff are encouraged to use environmentally-friendly paper as office paper and try to use both sides of a piece of paper or reuse used paper as far as possible to reduce paper use.

Water

In order to promote water conservation, promotional signs for water conservation are posted in public areas such as office areas and toilets. The pipelines and water supply facilities are regularly maintained and repaired to reduce leakage. Also, sensors are installed to provide the required amount of water and flush water so as to save water.

The treatment of wastewater is in strict compliance with the local laws and regulations where sewage shall be processed at the urban sewage treatment facilities before discharge.

Solid waste treatment

All solid wastes are transported by cleaning companies to designated garbage collection stations for processing.

A2.5	Gross packaging materials used in finished products	Key performance indicator
	Gross packaging materials used	0.1 tonne
	Density of packaging materials used	0.0001 tonne/RMB1 million of revenue

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A3 THE ENVIRONMENT AND NATURAL RESOURCES

Due to the nature of its businesses, other than the above in relation to emissions and use of resources, the Group does not have a significant direct impact on the environment and natural resources in its operations. Yet, we have implemented the following environmental protection measures:

Ambient noise

A central public announcement system is used in our department stores. The volume of background music in our department stores is controlled within national standards. There are daily inspections to ensure that the volume of the public announcement system in our department stores is appropriate. The use of loudspeakers and loud promotion are prohibited when selling products at counters. Staff are not allowed to and customers are promptly reminded not to speak loudly in the department stores so as to reduce and control ambient noise.

Indoor air quality

The air-conditioning units in the department stores are regularly cleaned and disinfected, and the indoor air quality is tested so that staff and customers can work and shop in a safe environment.

Construction project noise

To minimise the noise of construction projects, the Group has taken the following relief measures in the process as appropriate and regularly carried out noise monitoring of each project to ensure the noise level is in line with the statutory and contract requirements, including:

1. Carry out strategic work planning to minimise or avoid noisy activities during noise sensitive hours;
2. Avoid simultaneous operation of multiple noisy equipment;
3. Take appropriate sealing and sound-proofing measures;
4. Strategically place machinery and equipment to reduce noise disturbances;
5. Use quiet and less noisy equipment in the sites where sensitivity to noise is high;
6. Arrange noisy tasks in the day time as much as possible and carry out less noisy construction work at night time.

Construction site measures

The Group has taken various environmental measures to minimise and avoid impacts on the environment or natural resources. Fences are built in all construction sites to contain dust and surface runoff arising from construction and avoid any adverse effect on the surrounding air quality. The Group sprays water on the piles that easily cause dust and any unpaved major paths of transportation. To avoid contamination of waters in the surrounding area, the Group has set up a temporary sewage collection treatment station according to the technical specifications and the features of the project such that the sewage is directed to public pipelines. As to the building design of the residential community, we endeavor to minimise the damage to local cultural artifacts, natural water systems, wetlands and other conservation zones as part of our efforts of environmental protection.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Management of business vehicles

The Group has been strengthening business vehicle management, optimizing vehicle utilization, and reducing the use of vehicles. The vehicles are regularly maintained to reduce carbon dioxide emission and extend its vehicle life. At the same time, employees are arranged to travel by public transport as far as possible when they go out for business.

B. SOCIAL

B1 EMPLOYMENT

The Group regards employees as the primary stakeholders in enterprise development. It attaches great importance to injecting into enterprise management more institutional design features that embody the value and dignity of labor and has built a set of humanized human resource management rules. The Group identifies and absorbs talents, and will not treat them differently because of gender, age, race, religion, or disability, so as to give equal opportunities to everybody. We give the post to those who are competent.

The particulars of the staff's pay and leave system, attendance system, working environment and conditions, standards of behaviour and services, benefits system, and complaint system are included in the Staff Manual for employees' reference, which is regularly reviewed. The Group encourages all employees to freely express their views so that they understand their own rights and obligations.

Summary of employment key performance indicators:

During the reporting period, the majority of the full-time staff of the Group worked in China and a few of them worked in Hong Kong. All of the employees who left worked in China.

		Unit	2017	2016
B1.1	**Total no. of full-time staff**	No. of staff	1,445	1,517
	By gender			
	Female	No. of staff	938	998
	Male	No. of staff	507	519
	By position			
	General staff	No. of staff	1,196	1,264
	Supervisors or above	No. of staff	249	253
	By age			
	18-30	%	22.1	25.1
	31-60	%	77.2	74.4
	Above 60	%	0.7	0.5

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B1.2 Employee turnover	Unit	2017	2016
Employee turnover	%	57.0	51.8
By gender			
Female	%	33.5	28.3
Male	%	23.5	23.5
By age			
18-30	%	25.3	32.0
31-60	%	31.6	19.1
Above 60	%	0.1	0.7

B2 HEALTH AND SAFETY

Occupational health

To safeguard the occupational health and safety of the employees, the Group complies with the relevant local laws and regulations of China and Hong Kong and strives to provide employees with a safe, healthy, and comfortable working environment. These efforts include arranging body checks for all staff, regular safety inspection of drinking equipment, air-conditioning, and circuits, regular disinfestation and dust removal, and more. As to staff who work outdoor under high temperature, cool drinks, heat stroke medicine and various cooling measures are prepared and adopted to ensure work safety.

Safety and emergency management

The Group has formulated the safety rules and emergency management system to ensure that staff can execute the relevant emergency proposal in case of emergency in a timely manner. Emergency equipment and supplies are equipped to prevent escalation of emergency. The Group in particular requests that the staff must comply with the safety code in the Staff Manual and the provisions of the Fire Safety Management Code. The Group regularly holds fire drills and conducts training in relation to knowledge of safety, fire prevention, and fire extinguishment for all staff to raise their awareness of safety and fire prevention. They will learn how to use fire-fighting equipment such as fire extinguishers and fire hydrants and learn emergency protection measures to protect themselves from injuries in case there is an accident.

During the reporting period, there was no work related casualty and the number of days lost due to workplace injury was 185 days.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B3 DEVELOPMENT AND TRAINING

Training Activities

The success of the Company and the quality of its services depends to a large extent on the importance attached to staff training. We continuously raise staff quality through staff training in various forms, including expert lectures, external learning and internal training. New staff members are given special training to help them to get to know the Company as soon as possible and to adapt to their positions. Current staff are providing with annual training specifically related to the their position, and improving skills and career development. This will not only allow employees to fully display their personal talents in their areas of work. Meanwhile, they can also plan their personal development, so that employees can continue to explore their own potential and achieve their personal career development goals as the Company progresses steadily. Directors and senior management receive professional training so that they understand the latest company law, regulatory policies, corporate governance, financial management, market trends, and other information.

Healthy Living

The Group cares for our employees and firmly believes that the health and well-being of our employees is the foundation of the Group's success. The Group organizes a number of interesting activities for the staff, including trips, barbecues, picnics, fun sports day, and more, so that employees can stretch their bodies, develop their hobbies and relieve work stress.

B3.1	**Percentage of staff who have received training**	**Unit**	**2017**	**2016**
	By gender			
	Female	%	71.8	74.6
	Male	%	28.2	25.4

B3.2	**Average no. of training hours completed by each employee**	**Unit**	**2017**	**2016**
	By gender			
	Female	hr	5.3	4.4
	Male	hr	5.1	2.9
	By position			
	General staff	hr	5.2	4.1
	Supervisors or above	hr	4.8	2.5

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B4 LABOR STANDARDS

The Group strictly complies with all the labor laws and regulations of China and Hong Kong covering all aspects of employment and employee benefits and the Group does not employ child labor and prohibits forced labor. In our staff recruitment process, we carefully inspect the applicants' identity documents to ensure that the Group will not employ child labor. At the same time, the Group refuses to force an employee to work by means of violence, threat, or illegal restraint of liberty of the person.

During the reporting period, the Company did not have any instances of significant non-compliance in relation to the labor standards stipulated in the relevant laws and regulations.

B5 SUPPLY CHAIN MANAGEMENT

The Group is committed to maintaining a sustainable supply chain with its suppliers and contractors and actively works with them to control product quality and project construction processes based on standards regarding business ethics, the environment, and health and safety so as to guarantee service quality. When we choose suppliers and contractors to provide services, we will first screen the suppliers by assessing and investigating their technical capabilities, contract requirements, previous work experience with us and their credit, etc. and their performance is monitored to ensure that it meets the standards, contract terms, and quality requirements. As to new suppliers and contractors, we will also assess various screening factors including financial stability, quality, track record and those who satisfy our requirements on quality, progress, cost, environment and safety are classified as qualified suppliers/contractors. These qualified suppliers/contractors are recorded on an approved list for future procurement cooperation. If the results of the assessment of a supplier or contractor do not meet the requirements, the relevant supplier or contractor will be removed from the approved list.

We are confident that by complying with our procurement policy and procedures, we can establish and maintain long-term cooperation partnerships with our suppliers and contractors. At the same time, we purchase from local suppliers and contractors as far as possible considering from an environmental perspective so as to reduce pollutant emission during the course of transportation and encourage them to promote environmental protection measures and products.

B6 PRODUCT RESPONSIBILITY

The Group's procurement department has centralized management and control of suppliers and established a comprehensive procurement mechanism for managing and supervising the Group's supply chain processes. Efficient supply chain management has a monitoring effect on the cost control, quality, and sales of products. It ensures that product quality and project quality conforms to applicable laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In relation to product procurement, the Group will check whether the capacity, labelling, signs, and so on of the products are in line with national requirements, and will check the suppliers' "Record Form of Enter-Exit Inspection and Quarantine for Declaration Enterprise" (出入境檢驗檢疫報檢企業備案), "Record Filing and Registration of Foreign Trade Operators" (對外貿易經營者備案登記) and other relevant approval documents for imported products. If a product is found to have quality or intellectual property rights problems, the supervisor will be notified immediately and the goods will be removed from the shelves. The Group regularly reviews the suppliers' operation qualifications and scope of business and whether they have the corresponding agency authorization to safeguard and protect intellectual property rights. Suppliers with problems are immediately replaced, eliminated and reported to the relevant government departments.

In relation to project work, the Group will communicate with the customer and confirms the work plan before proceeding, and actively monitor and control the process and coordinates with the customer. During the construction phase, the Group will hold regular meetings with contractors and regularly inspects the site to manage product quality and avoid the occurrence of errors. The Group provides contractors or subcontractors with guidance and guidelines about the model of the prototype of the building and the sample before mass production or construction begins.

The Group is responsible for monitoring the dust and noise at construction sites and reviewing the environmental indicators of materials upon its entry. At the same time, the Group is responsible for directing the supervision company to carry out tests on pollutant contents or emissions produced before the use of renovation materials that may result in pollution to indoor environment, and supervising the tests on pollutant density of indoor environment before acceptance of project completion. The Group strictly reviews the construction proposals, quality control assurance measures and qualifications of sub-contractors and vendors submitted by contractors, and carries out inspection and random check on the quality of the construction sites.

During the reporting period, there was no product recall due to safety and health reasons.

Complaints about products and services

The Group attaches great importance to the views of customers and arranges specialized after-sales service to follow up customer questions and opinions. All complaints are handled promptly to ensure that the cases can be processed and the customers answered in the shortest possible time.

During the reporting period, there was no material complaint of products and services.

Protecting customer privacy

The Group attaches much importance to its relationship with customers, respects each customer's privacy. All customers' personal data are managed by assigned staff so as to ensure that customer data are not leaked in order to protect the privacy and security of each customer.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B7 ANTI-CORRUPTION

In order to maintain a fair, impartial and efficient operating and working environment, the Group upholds a high standard of operation integrity in the course of operation and does not allow any form of corruption and bribery. It strictly abides by the laws and regulations in relation to anti-corruption and anti-bribery in China and Hong Kong.

The Group has an Anti-corruption Code to regulate the behaviour of all departments and employees, and requires all suppliers to sign a "Sunshine Agreement" when they sign our contract, which requires both parties to restrain their employees to be honest and self-disciplined so as to put an end to all conducts of commercial bribery.

During the reporting period, there was no legal charge in relation to corruption.

B8 COMMUNITY INVESTMENT

We promote the community engagement of our member companies to the local communities in which they operate, and attach much importance to cultivating a sense of social responsibility among our employees and encourage them to make better contributions to our communities during and after work.

The Group's volunteer team actively participates in various community volunteer services and activities, including donation in money and in kind, charity sales, charity repairs of electrical appliances, visiting homes for the elderly, charity walks, giving blood to the Red Cross, and more as a way of caring for the local community.

DIRECTORS' REPORT

The directors of our Company (the "**Directors**") are pleased to report the audited consolidated financial statements of our Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are operation of department stores, property investment and property development in the PRC. The details of principal activities and other particulars of the subsidiaries are set out in note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of comprehensive income on pages 75 and 76.

BUSINESS REVIEW

The business review for the year and discussions on the future business development of the Group together with the description of the possible risks and uncertainties of the Group are contained in "Chairman's Statement" on pages 4 to 8 and "Management Discussion and Analysis" on pages 9 to 16 respectively. The "Financial Review" on pages 9 to 16 also includes an analysis of the Group's financial key performance indicators during the year. The descriptions of the financial risk management of the Group are set out in note 3 to the consolidated financial statements.

FINANCIAL HIGHLIGHTS AND SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 3 of the annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term sustainability of the environment and communities. The details of environmental policies and performance are set out in the Environment, Social and Governance Report on pages 35 to pages 46 of the annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

There was no incident of non-compliance with the relevant laws and regulations that had or would have significant impact by the Group for the year ended 31 December 2017.

DIRECTORS' REPORT

RELATIONSHIP WITH STAKEHOLDERS

The Group understands the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. During the year ended 31 December 2017, there were no material and significant dispute between the Group and its key stakeholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: HK$0.05 per ordinary share).

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers taken together were less than 30% of the Group's total sales for the year. The aggregate purchases attributable to the Group's five largest suppliers taken together were less then 30% of the Group's total purchases for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment are set out in note 15 to the consolidated financial statements.

INVESTMENT PROPERTY

During the year ended 31 December 2017, an owner-occupied property was transferred to investment property, details of the movement in investment property are set out in note 16 and note 39 to the consolidated financial statements.

SHARE CAPITAL

As at 10 May 2017, each of issued and unissued ordinary shares of par value of HK$0.01 each in the share capital of the Company was subdivided into two ordinary shares of par value of HK$0.005 each in the share of the Company. Details of the movements in the share capital of the Company are set out in note 28 to the consolidated financial statements.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the events after the balance sheet date of the Group are set out in note 44 to the consolidated financial statements.

DIRECTORS' REPORT

RESERVES OF THE COMPANY

Under the Cayman Islands law, the Company may pay dividends out of profit or its share premium account of the Company in accordance with the provisions of the Company's Articles of Association and provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as and when they fall due in the ordinary course of business.

As at 31 December 2017, the Company's share premium available for distribution amounted to approximately RMB91,562,000. Details of which are set out in note 42 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this report were:

Executive Directors
Mr. Chen Jianren *(Chairman)*
Mr. Fan Xinpei *(Chief Executive Officer)*
Mr. Su Weibing
Mr. Lin Guangzheng
Mr. Chen Zhengtao
Mr. Leung Wai Kwan
Mr. Wei Chaoling *(Appointed on 17 July 2017)*

Non-executive Director
Mr. Chen Daren

Independent Non-executive Directors
Mr. Sun Hong
Mr. Xu Yinzhou
Ms. Hung Wan Fong, Joanne
Ms. Lai Pou Lam, Mina

Biographical details of the Directors and senior management of the Group are set out in the section headed "Biographies of Directors and Senior Management".

DIRECTORS' REPORT

CHANGE IN INFORMATION OF DIRECTORS

The information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the last year's annual report were as follows:

(i) On 17 July 2017, Mr. Wei Chaoling has been appointed as executive Director.

(ii) The updated biographic details of the Directors are set out on pages 17 to 21 of the annual report.

Save as the above, there is no other information to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2017 are set out in note 31 to the consolidated financial statements.

COMMITMENTS

Details of the commitments of the Group are set out in note 37 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

A summary of the significant related party transactions which were conducted in the ordinary course of business are set out in note 40 to the consolidated financial statements.

The related party transactions mentioned in note 40 (a) (i) and (ii) were connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. Included in these transactions is an amount of RMB836,000 which were fully exempt from shareholders' approval, annual review and all disclosure requirements as all the applicable percentage ratios are less than 5% and the total consideration is less than HK$3,000,000 under Chapter 14A of the Listing Rules.

The related party transactions mentioned in note 40 (a) (iv) were not connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

The related party transactions mentioned in note 40 (a) (v) were connected transactions under Chapter 14A of the Listing Rules which were fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

The related party transactions mentioned in note 40 (a) (vi) were connected transactions under Chapter 14A of the Listing Rules. As one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the this transaction was higher than 25% but below 100%, they constituted major transactions of the Company and were subject to reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Apart from the above, the related party transactions mentioned in note 40 (a) (i) (ii) and (iii) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed under the headings "Continuing Connected Transactions" in this Directors' Report on pages 57 to 62 and "Related Parties and Significant Related Party Transactions" in note 40 to the financial statements, no Directors or controlling Shareholder or their respective associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group and to which the Company, its subsidiary, its fellow subsidiaries or its holding company was a party, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Up to the date of this report, none of the Directors have any beneficial interest in other businesses which constitute, either directly or indirectly, a competing business of the Group.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has any existing or proposed service contract with the Company or its subsidiary which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director is entitled to be indemnified out of the assets of the Company against all costs, changes, expenses, losses and liabilities which he may sustain or incur in or about the execution and/or discharge of his duties and/or the exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office, to the extent as permitted by laws.

DIRECTORS' REPORT

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

As of 31 December 2017, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) (i) 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 (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Company/ Name of associated corporation	Capacity/ Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Chen Daren	The Company	Interest in controlled corporation	541,722,412 (L) *(Note 3)*	54.00%
Mr. Fan Xinpei	The Company	Beneficial owner/ Interest in controlled corporation	90,076,177 (L) *(Note 4)*	8.98%
Mr. Lin Guangzheng	The Company	Beneficial owner	10,725,832 (L)	1.07%
Mr. Su Weibing	The Company	Beneficial owner	8,640,832 (L)	0.86%
Mr. Chen Daren	Jaguar Asian Limited ("**Jaguar Asian**")	Beneficial owner	1 (L) *(Note 3)*	100%

DIRECTORS' REPORT

Notes:

1. The letter "L" denotes long position in the shares, underlying shares and debentures of the Company or any of its associated corporations.

2. The approximate percentage of shareholding is calculated based on 1,003,157,915 shares in issue as at 31 December 2017.

3. Jaguar Asian is wholly-owned by Mr. Chen Daren, a non-executive Director. Mr. Chen Daren is deemed to be interested in the 541,722,412 Shares held by Jaguar Asian under the SFO.

4. 90,050,394 Shares and 25,783 Shares were held directly by Mr. Fan Xinpei and Eaglepass Developments Limited ("**Eaglepass Developments**") respectively. Eaglepass Developments is owned as to 15.66% and 84.34% by Mr. Lu Hanxing (a former Director who resigned on 4 May 2015) and Gain Profit Management Limited ("**Gain Profit**"), respectively. Gain Profit is wholly-owned by Zhongshan Yinglifeng Trading Developments Limited which is in turn owned as to 66.33%, 9.62%, 9.62%, 4.81%, 4.81% and 4.81% by Mr. Fan Xinpei, Mr. Lin Guangzheng (an executive Director), Mr. Su Weibing (an executive Director), Ms. Wang Guping, Ms. Zhang Rong and Mr. Luo Chengwen respectively. As such Mr. Fan Xinpei is deemed to be interested in the 25,783 Shares held by Eaglepass Developments under the SFO.

Save as disclosed above, as at 31 December 2017, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) 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 (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

PERSONS WHO HAVE AN INTERESTS OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 31 December 2017, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of interests	Number of Shares held *(Note 1)*	Approximate percentage of shareholding *(Note 2)*
Jaguar Asian Limited	Beneficial owner	541,722,412 (L)	54.00%
Gold-Face Finance Limited *(Note 3)*	Person having a security interest in shares	243,621,922 (L)	24.29%
Good Profit Development Ltd. *(Note 3)*	Interest in controlled corporation/Person having a security interest in shares	243,621,922 (L)	24.29%
Good Foundation Co. Ltd. *(Note 3)*	Interest in controlled corporation/Person having a security interest in shares	243,621,922 (L)	24.29%
Upbest Strategic Co. Ltd. *(Note 3)*	Interest in controlled corporation/Person having a security interest in shares	243,621,922 (L)	24.29%

DIRECTORS' REPORT

Name of Shareholder	Nature of interests	Number of Shares held *(Note 1)*	Approximate percentage of shareholding *(Note 2)*
Upbest Financial Holdings Limited *(Note 3)*	Interest in controlled corporation/Person having a security interest in shares	243,621,922 (L)	24.29%
Upbest Group Limited *(Note 3)*	Interest in controlled corporation/ Person having a security interest in shares	243,621,922 (L)	24.29%
CCAA Group Limited *(Note 3)*	Interest in controlled corporation/Person having a security interest in shares	243,621,922 (L)	24.29%
Cheng Kai Ming, Charles *(Note 3)*	Beneficiary of a trust (other than a discretionary interest)	243,621,922 (L)	24.29%
Cheng Wai Ling, Annie *(Note 3)*	Beneficiary of a trust (other than a discretionary interest)	243,621,922 (L)	24.29%
Cheng Wai Lun, Andrew *(Note 3)*	Beneficiary of a trust (other than a discretionary interest)	243,621,922 (L)	24.29%

DIRECTORS' REPORT

Notes:

1. The letter "L" denotes long position in the Shares.

2. The approximate percentage of shareholding is calculated based on 1,003,157,915 Shares in issue as at 31 December 2017.

3. According to the disclosure of interests forms of substantial Shareholders filed on 28 September 2017, Gold-Face Finance Limited is wholly-owned by Good Profit Development Ltd., which is in turn owned as to 50% and 50% by Good Foundation Co. Ltd. and Upbest Strategic Co. Ltd., respectively. Each of Good Foundation Co. Ltd. and Upbest Strategic Co. Ltd. is wholly-owned by Upbest Financial Holdings Limited, which is in turn wholly-owned by Upbest Group Limited. Upbest Group Limited is owned as to 73.65% by CCAA Group Limited, a trust of which Cheng Kai Ming, Charles, Cheng Wai Ling, Annie and Cheng Wai Lun, Andrew are beneficiaries.

Save as disclosed above, so far as is known to the Directors, as at 31 December 2017, no other persons had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. Chen Daren is the sole director of Jaguar Asian Limited. Save as disclosed above, as at 31 December 2017, none of the Directors held any directorship or had any employment in a company which has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had engaged in the following continuing connected transactions ("**CCTs**"), a summary of which is set out as follows:

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2017 RMB'000	Annual cap amount for the year ended 31 December 2017 RMB'000
I.	**CCTs subject to announcement and annual reporting**					
A.	**Expenditure Transactions: Hotel and Restaurant Agreement**					
1.	18 November 2015	Yihua Investment *(Note 1)*	Provision of services relating to hotel accommodations, restaurant dining and other related services by Yihua Investment and its subsidiaries	1 January 2016 to 31 December 2018	526	3,306
B.	**Revenue Transactions: Master Supply Agreement**					
1.	18 November 2015	Yihua Investment	Supply of goods, provision of services and utilities by the Group to Yihua Investment and its subsidiaries	1 January 2016 to 31 December 2018	1,376	5,070
C.	**Expenditure Transactions: Tenancy and Management Agreements**					
1.	1 July 2013	Yangjiang Honggao *(Note 2)*	Lease of a portion of Block 1 and 2 of a construction, No 318 Dongfeng 4th Road	1 July 2013 to 30 June 2028	1,582	3,030
2.	1 July 2013	Yangjiang Hongtu *(Note 3)*	Provision of property management services for a portion of Block 1 and 2 of a construction, No 318 Dongfeng 4th Road	1 July 2013 to 30 June 2028	4,919	6,058

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2017 RMB'000	Annual cap amount for the year ended 31 December 2017 RMB'000
II.	**CCTs subject to announcement, annual reporting and independent shareholders' approval**					
D.	**Expenditure Transactions: Tenancy and Management Agreements**					
1.	(1) 12 March 2013 and 18 November 2015 (item i and ii)	Guangdong Yihua Management *(Note 4) (Note 12)* (item i and ii)	Lease of properties situated at the following locations of West Wing of Yihua Commercial Center:	12 March 2013 to 31 December 2018 (item i and ii)	10,470	10,686
	(2) 16 December 2014 (item iii and iv)	Jinghua Century *(Note 5) (Note 12)* (item iii and iv)	(i) Levels 1 to 2; (ii) Levels 3 to 4; (iii) Level 5; and (iv) Unit 901 of Level 9	1 January 2015 to 31 December 2017 (item iii and iv)	2,986	2,986
2.	(1) 1 September 2012, as supplemented by an agreement dated 18 November 2015 (item i)	Jinghua Century (item i) *(Note 12)*	Lease of properties situated at the following locations of East Wing of Yihua Commercial Centre: (i) Levels 1 to 3;	(1) 1 September 2012 to 31 August 2022 (item i)	4,300	4,300
	(2) 16 December 2014 (item ii and iii)	Jinghua Century (item ii and iii) *(Note 12)*	(ii) Unit 201 of Level 2; and (iii) Unit 501 of Level 5 (iv) 150 car park lots situated at Level B2, Century Plaza	(2) 1 January 2015 to 31 December 2017 (item ii and iii)	716	1,022
	(3) 18 November 2015 (item iv)	Guangdong Yihua Management (item iv)		(3) 1 January 2016 to 31 December 2018 (item iv)	540	540
3.	16 December 2014	Yihua Plaza Corporation *(Note 6)*	No. 3 Chuangye Road, Zhongshan City	1 January 2015 to 31 December 2017	950	950

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2017 RMB'000	Annual cap amount for the year ended 31 December 2017 RMB'000
4.	(i) 10 August 2009 and 18 November 2015; 30 December 2016	Jinhui Century *(Note 7)*	Lease of properties located at: (i) Basement 1 and Levels 1 to 3 of Jinhui Century Square; (ii) Basement 1 of Jinhui Century Square; and an open area at 118 Yingbin Avenue	(i) 17 September 2009 to 16 September 2019; (ii) 1 January 2017 to 31 December 2018	27,108	28,663
5.	1 January 2010 and 18 November 2015	Guomao Hotel *(Note 8)*	Lease of properties located at: Portion of Level 3 of Section B of Zhongshan Guzhen International Hotel;	1 January 2010 to 31 December 2019	1,353	1,783
6.	1 June 2006 and 18 November 2015	Yihua Investment	Lease of properties located at Basement 1, Levels 1 and 2 of podium building, Levels 2 to 4 of annex building, No.118 Yingbin Avenue Road ("**JP Area**)	16 June 2006 to 25 July 2023	12,966	13,559
	20 September 2008 and 18 November 2015	Yucca Hotel *(Note 9)*	Lease of an additional area of 238 sq.m. at JP Area	22 September 2008 to 25 July 2023		
	18 November 2015	Yucca Hotel	Provision of property management services for main building and auxiliary building at JP Area	1 January 2016 to 31 December 2018		

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2017 RMB'000	Annual cap amount for the year ended 31 December 2017 RMB'000
7.	(i) 31 March 2014, as supplemented by the first supplemental agreement dated 13 May 2014 and the second supplemental agreement dated 20 May 2014	Zhenjiang Hualong *(Note 10)*	Lease of properties located at Levels 1 to 3 of Zhenjiang Yihua Plaza	20 June 2014 to 31 December 2017	10	4,820
		Jiangsu Yihua Plaza *(Note 11)*	Provision of property management services for level 1 to 3 of Zhenjiang Yihua Plaza	20 June 2014 to 31 December 2017		
	(ii) 18 November 2015	Guangdong Yihua Management *(Note 12)*	Lease of properties located at Units 907, 909 and 916 East Wing and unit 603 of West Wing of Yihua Commercial Center	1 January 2016 to 31 December 2018	679	757
8.	30 December 2016	Guangdong Yihua Management	Lease of properties located at Units 815, 912 of East Wing of Yihua Commercial Center	1 January 2017 to 31 December 2018	499	518
9.	30 December 2016	Guangdong Yihua Management *(Note 12)*	Lease of properties located at Units 503, 818 of East Wing of Yihua Commercial Center, and 7/F of West Wing of Yihua Commercial Center	1 January 2017 to 31 December 2018	3,226	3,226
			Lease of properties located at Unit 9A of West Wing of Yihua Commercial Center	1 March 2017 to 31 December 2018		
Aggregate amount for Tenancy and Management Agreements					65,803	73,810

DIRECTORS' REPORT

Notes:

1. Yihua Investment, is owned as to 49.6%, 28.22%, 11.09% and 11.09% by 中山市順益實業發展有限公司 (Zhongshan Shunyi Industrial Development Limited*) ("**Shunyi Industrial**"), Mr. Lu Hanxing (a former Director), Mr. Chen Daren (a Director and controlling Shareholder) and Mr. Chen Zhengtao (the nephew of Mr. Chen Daren and the son of Mr. Chen Jianren, a Director). Shunyi Industrial is owned as to 90% by Mr. Chen Daren, and the remaining 10% by Mr. Chen Zhengtao

2. 陽江宏高房地產發展有限公司(Yangjiang Honggao Real Estate Development Limited*) ("**Yangjiang Honggao**"), a company established in the PRC with limited liability, which is owned as to 50% by Yihua Investment and 50% by two independent third parties.

3. 陽江市宏圖物業管理有限公司(Yangjiang City Hongtu Property Management Limited Company*) ("**Yangjiang Hongtu**"), a company established in the PRC with limited liability, which is owned as to 50% by Yihua Investment and 50% by two independent third parties.

4. 廣東益華廣場管理有限公司(Guangdong Yihua Plaza Management Limited) ("**Guangdong Yihua Management**"), is owned as to 60% by Yihua Investment, 10% by Mr. Fan Xinpei (a Director and substantial Shareholder), 10% by Mr. Lu Hanxing (a former Director) and 10% by Mr. Chen Zhengtao a Director, nephew of Mr. Chen Daren (a Director and controlling Shareholder) and son of Mr. Chen Jianren (a Director).

5. 中山市京華世紀酒店有限公司(Zhongshan Jinghua Century Hotel Company Limited*) ("**Jinghua Century**"), a 80% owned subsidiary of Yihua Investment.

6. 中山市益華廣場實業有限公司(Zhongshan Yihua Plaza Industrial Corporation Limited*) ("**Yihua Plaza Corporation**"), which is owned as to 46.5% by Shunyi Industrial and 53.5% by Canton Concord Enterprises Limited ("**Canton Concord**"). Canton Concord is owned as to 2% by Mr. Chen Zhengtao and 98% by Higson Holdings Limited, a company wholly-owned by Mr. Chan Kuong lan, brother of Mr, Chen and Mr. Chen Jianren.

7. 江門市金匯世紀廣場物業管理有限公司(Jiangmen Jinhui Century Century Square Property Management Company Limited*) ("**Jinhui Century**"), is owned as to 90% by Shunyi Industrial, which is in turn owned as to 90% by Mr. Chen Daren (a Director and controlling Shareholder).

8. 中山市古鎮國貿大酒店有限公司(Zhongshan Guzhen Gumao Hotel Company Limited*) ("**Guomao Hotel**"), a 64% owned subsidiary of Yihua Investment.

9. 江門市逸豪酒店有限公司(Jiangmen Yucca Hotel Company Limited*) ("**Yucca Hotel**"), a 55% owned subsidiary of Yihua Investment and as to 45% by Mr. Chen Daren.

10. 鎮江華龍廣場置業有限公司(Zhenjiang Hualong Plaza Properties Co. Ltd.) ("**Zhenjiang Hualong**"), a company established in the PRC with limited liability, which is owned as to 63.47% by Yihua Investment and as to 36.53% by China Land International Investments Limited ("**China Land International**"). China Land International, a company incorporated in Hong Kong with limited liability, which is owned as to 65% by Mr. Chan Kuong Ian (陳廣仁), a brother of Mr. Chen Daren and Mr. Chen Jianren, as to 35% to two individuals.

11. 江蘇益華廣場管理有限公司("**Jiangsu Yihua Plaza**"), a company established in the PRC with limited liability, is owned as to 22.78% by Yihua Investment and as to 77.22% by China Land International.

12. The lessor was changed to Guangdong Yihua Group Investment Company Limited since 1 June 2017.

DIRECTORS' REPORT

The independent non-executive Directors have reviewed the continuing connected transactions mentioned above and have confirmed that the continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the continuing connected transactions during the year and confirmed that these transactions:

(i) were approved by the Board;

(ii) were in accordance with the pricing policies of the Company;

(iii) had been entered into in accordance with the relevant agreements governing the transactions; and

(iv) have not exceeded the caps stated in the respective Prospectus and announcements.

SHARE OPTION SCHEME

The Company has conditionally adopted its pre-IPO share option scheme on 12 November 2013 (the "**Scheme**"). The purpose of the Scheme is to attract and retain the best quality personnel for the development of the Group's businesses; to provide additional incentives to the employees; to provide eligible participants (as defined in the Scheme) ("**Eligible Participants**") with the opportunity to acquire proprietary interests in the Company; and to promote the long term financial success of the Group by aligning the interests of grantees to the Shareholders. Under the Scheme, the Board shall be entitled at any time (except for the period as defined under the Listing Rules whereby price sensitive event or a price sensitive matter has been the subject of a decision) within 10 years commencing on the date of adoption of the Scheme to make an offer for the grant of an option to any Eligible Participant (including any employee, officer or director, whether executive or non-executive, of the Group), and any consultant, adviser, supplier, customer or subcontractor of the Group or any other person determined by the Board as appropriate.

The shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the Shares in issue from time to time. The maximum number of shares available for issue under options which may be granted under the Scheme and any other schemes of the Company must not in aggregate exceed 10% of the Shares in issue immediately following the commencement of dealings in the Shares on the Stock Exchange, being 36,000,000 shares. The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the Shares in issue, such further grant shall be subject to separate approval by the Shareholders in general meeting with the relevant grantee and his associates abstaining from voting.

DIRECTORS' REPORT

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option but the subscription price shall not be less than the highest of (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the offer date which must be a business day for trading of securities on the Stock Exchange ("**Business Day**"); (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five Business Days immediately preceding the offer date; and (iii) the nominal value of a Share. HK$1.00 is payable by the grantee to the Company on acceptance of the offer of the option. The period within which the Shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

For the year ended 31 December 2017, no option has been granted or agreed to be granted under the Scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is sufficient public float as required by the Listing Rules.

AUDITORS

The financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers. A resolution for their re-appointment as auditors of the Company for the ensuing year will be proposed at the forthcoming annual general meeting.

DIRECTORS' REPORT

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 19 June 2018 to Friday, 22 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for Shareholders to attend and vote at the AGM, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday 15 June 2018.

On behalf of the Board

Mr. Chen Jianren
Chairman

29 March 2018

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

To the Shareholders of Yi Hua Holdings Limited
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Yi Hua Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 75 to 184, which comprise:

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

Our opinion

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

INDEPENDENT AUDITOR'S REPORT

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Assessment on working capital sufficiency

- Valuation of investment properties ("**IP**"), owner-occupied properties ("**OOP**"), properties under development ("**PUD**") and completed properties held for sale ("**PHS**")

- Impairment of retail store assets included in property, plant and equipment ("**Store Assets**")

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment on working capital sufficiency	
Refer to note 1.1 in the consolidated financial statements. As at 31 December 2017, the current liabilities of the Group exceeded its current assets by approximately RMB275,906,000. In addition, the Group expected to incur significant cash outflows for the due borrowings, capital expenditure for the development projects as well as the construction projects. Therefore, management prepared a cash flow forecast for the year ending 31 December 2018 to assess its working capital sufficiency. The key assumptions used in the forecast included: – Revenue growth rates and cash collection from customers – Operating expenses ratio to revenue – Capital expenditure – Sources of financing We focused on this area because management exercised significant judgements in estimating the future outcomes of events or condition in the assessment.	We obtained management's monthly budgets and forecasts of the Group for the twelve months ending 31 December 2018 and relevant supporting documents. The procedures we performed to evaluate the assessment included: – understood management's business plan for the coming year; – compared the actual operating results of the Group for the year ended 31 December 2017 against the forecast made in prior year, to consider whether the forecast had been subject to management bias; – we challenged the key assumptions for: i. Revenue growth rates and cash collection from customers: – For sales of properties: compared the historical sales price and sales progress of the acquired properties in the same plot of land, compared the present sales price of other property developers in nearby locations, compared with the subsequent property sales performance in January to March 2018, and compared cash collection from customers with the Group's historical records; – For direct sales of goods, commission income from concessionaire sales and management fee and service income from operations: compared with the Group's historical performance in the recent three years;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
	– For rental income: checked to lease agreements for the rental income from hotel and commercial units. ii. Operating expenses ratio to revenue: compared with the Group's historical performance in the recent three years; iii. Capital expenditure: compared the costs to be incurred and the construction progress with the approved budgets, actual construction costs of a comparable project and relevant supporting documents, including construction contracts signed for property, plant and equipment, investment properties and properties under development; iv. Sources of financing: we reviewed the supporting documents related to management's financing plans, including debt agreements and banking facilities contracts. We interviewed the bank credit officers to corroborate management's assessment. – performed sensitivity test analysis over the key estimates such as forecasted revenue growth rates and refinancing plans to assess the potential impact of a range of possible outcomes; and – considered whether the disclosures relating to going concern included in the consolidated financial statements were adequate. We found, based on our audit work, that management's judgements made in assessing the working capital sufficiency were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of IP, OOP, PUD and PHS	
Refer to note 4.1(c) and (d), note 15, note 16, note 20, note 21 and note 39 to the consolidated financial statements. The Group initially recognised its IP, OOP, PUD and PHS acquired through business combination at fair value. Subsequently, IP was then measured at fair value while OOP, PUD and PHS were measured at cost, i.e. its initially recognised amount at the acquisition date plus the subsequent costs incurred. During the year ended 31 December 2017, the Group recognised bargain purchase gains on business combination which were mainly resulted from revaluation gains of acquired properties. Bargain purchase gains were from the business combination of Yunfu Tairui Baisheng Real Estate Development Co., Ltd. ("**Yunfu Baisheng**") as at 28 June 2017, amounted to RMB61,263,000; and	In assessing the appropriateness of management's valuation of IP, OOP, PUD and PHS, we: – evaluated the independent external valuers' competence, capabilities and objectivity; – obtained the independent external valuers' reports, and checked the accuracy and relevance of the source data used in the reports; – involved our internal valuation specialist to assess the appropriateness of valuation methodologies adopted and the key inputs, including interest rates, fair market rents, fair market prices by comparing with our internally developed benchmarks, which were based on knowledge of the property industry; for the fair market rents and fair market prices, we also compared to the lease agreements or pre-sales contracts signed;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
The year end fair value revaluation gains on IP, including two hotels, a piece of industrial land, commercial units and parking spaces, amounted to RMB74,715,000. Independent external valuations were obtained for IP, OOP, PUD and PHS at the acquisition date and IP at year end in order to support management's estimates on the fair value at the date of acquisition and at year end. Fair values of these properties were derived based on the below approach: – residual approach for IP, OOP and PUD acquired through the business combination of Yunfu Baisheng as at 28 June 2017; – income approach for one hotel, the first to fourth floors of the another hotel, commercial units at year end; and – market approach for PHS acquired through the business combination of Yunfu Baisheng as at 28 June 2017, the fifth to twenty-second floors of one hotel, a piece of industrial land and parking spaces at year end. The valuations were dependent on certain key inputs that required significant management's estimate, including interest rates, fair market rents and fair market prices. The valuation of IP and OOP under construction and PUD were also dependent on the estimated construction costs to complete. We focused on this area due to the material balances and the significant management's estimates exercised in determining the fair values on the dates of acquisitions and at year end.	– for the fair value of industrial land, we compared to the latest transaction price of similar land use rights through the government website; and – compared the estimated completion costs to the approved budgets and the relevant supporting documents, including signed contracts for the IP and OOP under construction and PUD. We found the above key assumptions were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of Store Assets	
Refer to note 4.1(f) and note 15 to the consolidated financial statements. As at 31 December 2017, the Group's Store Assets amounted to RMB340,671,000 with an impairment provision of RMB45,653,000. The PRC retail market continued to evolve, with customers' purchasing habits adapting to include convenience store and online offerings. The retail market was very competitive. As a result, retail stores of the Group incurred losses during the year which was an indicator of impairment. Management considered each store to be a cash generating unit ("**CGU**") and had calculated the value in use of each CGU as its recoverable amount, which was considered higher than its fair value less cost to sell. The value in use was based on discounted future cash flow forecasts over which the management made judgements on certain key inputs, including forecasted sales growth rate, operating expenses ratio to sales, capital expenditure to be incurred during the forecast period and discount rates. We focused on this area as the assessment includes certain key inputs which required significant management's estimates.	We have obtained management's impairment assessments of each CGU and performed the following procedures: – checked the mathematical accuracy of each CGU's calculation sheet; – understood from management the business plan for the coming year; – compared the forecasted sales growth rate and operating expenses ratio to sales with the historical performance in the recent three years; – understood from management the nature and amounts of committed capital expenditure, compared the costs to be incurred to the approved budgets and the relevant supporting documents, including construction contracts signed for property, plant and equipment; – assessed the discount rates applied to the impairment reviews for each store by comparing to our internal benchmark data; and – performed sensitivity test analysis over the forecasted sales growth rate. We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- 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

- 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ho, Chiu Yin, Ivan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2017	2016
Revenue	5	**754,312**	582,598
Other income	6	**1,479**	3,276
Gain from bargain purchase	38	**61,263**	104,965
Fair value gain on investment properties	16	**74,715**	71,786
Other (losses)/gains – net	7	**(2,512)**	5,721
Purchases of and changes in inventories	22	**(187,319)**	(267,823)
Constructions of and changes in completed properties held for sale	21	**(254,737)**	–
Employee benefit expenses	10	**(97,869)**	(102,389)
Depreciation and amortisation		**(27,806)**	(30,290)
Provision for impairment of assets	8	**(30,115)**	(28,558)
Operating lease rental expense and property management fee		**(132,362)**	(122,109)
Other operating expenses	9	**(111,280)**	(95,743)
Operating profit		**47,769**	121,434
Finance income		**1,317**	3,951
Finance expenses		**(40,684)**	(24,646)
Finance expenses – net	11	**(39,367)**	(20,695)
Share of loss of an associate	17	**(5,448)**	(1,990)
Profit before income tax		**2,954**	98,749
Income tax expenses	12	**(12,743)**	(24,841)
(Loss)/profit for the year		**(9,789)**	73,908
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation gains arising from transfer of property, plant and equipment to investment properties		**8,167**	–
Items that may be reclassified to profit or loss			
Change in value of available-for-sale financial assets		**–**	(1,250)
Other comprehensive income for the year, net of tax		**8,167**	(1,250)
Total comprehensive (loss)/income for the year		**(1,622)**	72,658

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2017	2016
(Loss)/profit attributable to:			
– Owners of the Company		**(11,502)**	73,185
– Non-controlling interests		**1,713**	723
		(9,789)	73,908
Total comprehensive (loss)/income attributable to:			
– Owners of the Company		**(3,335)**	71,935
– Non-controlling interests		**1,713**	723
		(1,622)	72,658

	Note	Year ended 31 December 2017	2016
Basic and diluted (losses)/earnings per share (expressed in RMB per share)	14	**(0.0115)**	0.0730

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

(All amounts expressed in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2017**	2016
ASSETS			
Non-current assets			
Property, plant and equipment	15, 39	**173,031**	175,470
Investment properties	16, 39	**740,610**	496,235
Computer software		**3,162**	2,249
Investment in an associate	17	**41,562**	13,010
Deferred income tax assets	18	**9,205**	3,319
Deferred assets	19	**2,894**	2,138
Prepayments and other receivables	23	**49,860**	68,235
Amounts due from related parties	40(b)	**1,370**	1,386
Restricted cash	24	**11,000**	–
Term deposits	25	**–**	29,968
Total non-current assets		**1,032,694**	792,010
Current assets			
Properties under development	20, 39	**457,568**	376,872
Completed properties held for sale	21, 39	**126,034**	–
Inventories	22	**43,273**	59,344
Trade receivables, prepayments and other receivables	23	**169,974**	89,902
Tax prepayments		**40,305**	12,739
Amounts due from related parties	40(b)	**107,544**	61,389
Restricted cash	24	**92,527**	32,437
Term deposits	25	**59,750**	10
Cash and cash equivalents	26	**90,639**	140,157
		1,187,614	772,850
Assets classified as held for sale	27	**44,600**	–
Total current assets		**1,232,214**	772,850
Total assets		**2,264,908**	1,564,860
EQUITY			
Equity attributable to owners of the Company			
Share capital	28	**3,956**	3,925
Other reserves	29	**136,310**	159,577
Retained earnings		**121,359**	133,899
		261,625	297,401
Non-controlling interests		**7,492**	5,467
Total equity		**269,117**	302,868

CONSOLIDATED BALANCE SHEET

(All amounts expressed in RMB thousands unless otherwise stated)

	Note	As at 31 December **2017**	2016
LIABILITIES			
Non-current liabilities			
Borrowings	31	**230,974**	166,792
Deferred income tax liabilities	18	**166,335**	102,834
Deferred revenue	32	**1,546**	1,717
Other payables	30	**88,816**	61,699
Total non-current liabilities		**487,671**	333,042
Current liabilities			
Trade and other payables	30	**655,750**	327,333
Amounts due to related parties	40(b)	**16,996**	10,352
Deferred revenue	32	**3,880**	5,157
Advances from customers		**57,983**	112,759
Receipt in advance on sale of properties		**282,307**	137,633
Current income tax liabilities		**699**	6,904
Borrowings	31	**487,650**	328,812
Provision for a legal claim	38	**2,855**	–
Total current liabilities		**1,508,120**	928,950
Total liabilities		**1,995,791**	1,261,992
Total equity and liabilities		**2,264,908**	1,564,860

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 75 to 184 were approved by the Board of Directors on 29 March 2018 and were signed on its behalf.

Fan Xinpei **Chen Zhengtao**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in RMB thousands unless otherwise stated)

	Attributable to the owners of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	3,840	174,863	61,164	239,867	4,094	243,961
Comprehensive income						
Profit for the year	–	–	73,185	73,185	723	73,908
Other comprehensive income						
Change in value of available-for-sale financial assets, net of tax	–	(1,250)	–	(1,250)	–	(1,250)
Total other comprehensive income, net of tax	–	(1,250)	–	(1,250)	–	(1,250)
Total comprehensive income	–	(1,250)	73,185	71,935	723	72,658
Transactions with owners in their capacity as owners						
Capital injection from non-controlling shareholders	–	–	–	–	650	650
Appropriation to statutory reserve	–	450	(450)	–	–	–
Issue of shares upon 2015 Scrip Dividend Scheme *(note 28(a))*	85	(85)	–	–	–	–
Dividend distributed *(note 13)*	–	(14,401)	–	(14,401)	–	(14,401)
Transactions with owners in their capacity as owners	85	(14,036)	(450)	(14,401)	650	(13,751)
Balance as at 31 December 2016	3,925	159,577	133,899	297,401	5,467	302,868
Balance at 1 January 2017	3,925	159,577	133,899	297,401	5,467	302,868
Comprehensive income						
(Loss)/profit for the year	–	–	(11,502)	(11,502)	1,713	(9,789)
Other comprehensive income						
Revaluation gains of investment properties	–	8,167	–	8,167	–	8,167
Total other comprehensive income, net of tax	–	8,167	–	8,167	–	8,167
Total comprehensive income	–	8,167	(11,502)	(3,335)	1,713	(1,622)
Transactions with owners in their capacity as owners						
Capital injection from non-controlling shareholders	–	–	–	–	312	312
Appropriation to statutory reserve	–	1,038	(1,038)	–	–	–
Issue of shares upon 2016 Scrip Dividend Scheme *(note 28(c))*	31	(31)	–	–	–	–
Dividend distributed *(note 13)*	–	(32,441)	–	(32,441)	–	(32,441)
Transactions with owners in their capacity as owners	31	(31,434)	(1,038)	(32,441)	312	(32,129)
Balance as at 31 December 2017	3,956	136,310	121,359	261,625	7,492	269,117

CONSOLIDATED CASH FLOW STATEMENT

(All amounts expressed in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2017	2016
Cash flows from operating activities			
Cash generated from operations	33	**254,591**	10,962
Interest received		**918**	486
Interest paid		**(44,712)**	(22,960)
Income tax paid		**(19,471)**	(6,345)
Net cash generated from/(used in) operating activities		**191,326**	(17,857)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	38	**28,284**	12,663
Proceeds from disposal of property, plant and equipment		**–**	390
Receipt of government grants		**1,060**	2,730
Proceeds from disposal of available-for-sale financial assets		**–**	15,000
Purchases of property, plant and equipment and computer software		**(26,204)**	(27,499)
Payment for construction costs of investment properties		**(44,293)**	(48,463)
Capital injection to investment in an associate of the Group	17	**(34,000)**	(15,000)
Payments for Development Projects incurred by an associate of the Group		**(67,451)**	(34,568)
Repayments for Development Projects incurred by an associate of the Group		**–**	23,900
Refund/(payment) of deposit for an acquisition		**8,950**	(8,950)
Increase in term deposits		**(29,772)**	(29,978)
Payment for the consideration of an acquisition		**(23,328)**	–
Net cash used in investing activities		**(186,754)**	(109,775)
Cash flows from financing activities			
Capital injection from non-controlling shareholders		**312**	650
Proceeds from borrowings		**379,776**	319,996
Repayments of borrowings		**(325,393)**	(126,973)
Dividend distribution	13	**(32,441)**	(14,401)
Repayments of advance from a third party		**(21,816)**	(34,414)
Increase in restricted cash		**(53,397)**	–
Net cash (used in)/generated from financing activities		**(52,959)**	144,858
Net (decrease)/increase in cash and cash equivalents		**(48,387)**	17,226
Cash and cash equivalents at beginning of the year		**140,157**	120,459
Exchange (losses)/gains on cash and cash equivalents	7	**(1,131)**	2,472
Cash and cash equivalents at end of the year		**90,639**	140,157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

1 GENERAL INFORMATION OF THE GROUP

Yi Hua Holdings Limited (the "**Company**", formerly known as Yi Hua Department Store Holdings Limited) was incorporated in the Cayman Islands on 20 April 2012 as an exempted company with limited liability under the Cayman Islands Companies Law. The address of the Company's registered office is at the Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Company and its subsidiaries are collectively referred to as "the Group".

The Company is an investing holding company. The Group is principally engaged in the operations of department stores in the People's Republic of China (the "**PRC**"). Following various acquisitions in 2016 and 2017, the Group has also expanded its operations into property investment and property development business.

The Company has its primarily listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**HKEX**") (the "**Placing and Public Offer**") on 11 December 2013.

These consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

- The acquisition of Yunfu Tairui Baisheng Real Estate Development Co., Ltd. ("**Yunfu Baisheng**") in June 2017 which resulted in a gain from bargain purchase (note 38).

- The sale of completed properties held for sale in 2017 (note 5).

- The fair value gain on investment properties in 2017 (note 16).

For a detailed discussion about the Group's performance and financial position please refer to our operating and financial review on pages 9 to 16.

1.1 Going concern

As at 31 December 2017, the current liabilities of the Group exceeded its current assets by approximately RMB275,906,000. Included in the current liabilities were advances from customers primarily relating to consumption cards issued and receipt in advance from property presale of approximately RMB57,983,000 and RMB282,307,000, respectively, which would not result in future cash outflows. As at 31 December 2017, total borrowings of the Group amounted to RMB718,624,000, of which RMB487,650,000 are due for repayment in the coming twelve months; while the Group's cash and cash equivalents amounted to RMB90,639,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

1 GENERAL INFORMATION OF THE GROUP (CONTINUED)

1.1 Going concern (continued)

As detailed in note 17, an associate of the Group had entered into contracts with several suppliers for the provision of technical services, including a semi-custom development agreement with a supplier with regard to a chip development and platform project ("**Development Projects**"). Payments of RMB135,034,000, including US$14,570,000 (equivalent to RMB95,203,000) for the Development Projects, have to be made to the suppliers if certain relevant development milestones could be reached during the year ending 31 December 2018. In addition, as disclosed in note 35(a), the Group has provided financial guarantees to one of the suppliers to the extent of US$10,000,000 (equivalent to RMB65,342,000) for any outstanding obligations owed by the associate to the supplier.

The capital expenditure of the Group contracted for but not yet incurred as at 31 December 2017 amounted to RMB139,111,000 including construction costs for property, plant and equipment, investment properties and properties under development (note 37(a)).

In view of these circumstances, the directors of the Company (the "**Directors**") have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to fulfil its financial obligations and contracted commitments. A number of measures have been put in place by the Directors to improve the Group's financial position, including:

(i) The Group is implementing various cost control measures to improve the operating performance of the department store business. In addition, with the acquisitions of the investment properties and property development projects during these years, it is expected that there will be cash inflows from the leasing of the investment properties and sales of properties in the coming twelve months.

(ii) During the period from January 2018 to March 2018, the Group issued bonds at interest rate of 6.5% to 7% per annum with maturity period ranging from two to six years. The aggregated principal amount of the bonds amounted to HK$23,000,000 (equivalent to RMB19,004,000). In this connection, the Group raised net proceeds of approximately RMB18,162,000 (note 44(a)).

(iii) During the period from January 2018 to February 2018, the Group obtained an advance from a director, Mr Chen Daren, amounting to HK$70,820,000 (equivalent to RMB57,762.000). The advance is interest free and unsecured. Mr. Chen Daren has also provided an undertaking to the Group for not requesting repayment of the advance before 31 December 2019 (note 44(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

1 GENERAL INFORMATION OF THE GROUP (CONTINUED)

1.1 Going concern (continued)

(iv) On 11 February 2018, a wholly owned subsidiary of the Group obtained an eighteen-month borrowing of RMB35,000,000 from a third party bearing interest rate of 4.32% per annum. This borrowing is secured by the guarantee given by the Company (note 44(d)).

(v) On 23 March 2018, a wholly owned subsidiary of the Group, entered into an agreement with a financial institution for a three-year borrowing of RMB40,000,000 which bears interest rate of 8.645% per annum (note 44(e)).

(vi) The Group maintains continuous communication with its bankers for renewal of its certain existing bank loans upon their maturities. The Directors are of the opinion that these bank loans can be renewed when their current terms expire.

(vii) The Group leased certain properties from companies controlled by Mr. Chen Daren, a director of the Company or companies jointly controlled by Mr. Chen Daren (the "**Landlords**") under certain non-cancellable operating lease agreements with future lease payments payable in the coming twelve months amounted to approximately RMB60,700,000. On 26 February 2018, the Landlords provided undertakings to the Group and agreed that the Group can delay the payments of the rental expenses and property management fees for the year 2018 until the Group has adequate financial resources to repay.

(viii) The Directors have assessed the available sources of financing and funding for the Group and considered that certain of the Group's investment properties and property, plant and equipment, which are free from any encumbrances, could be pledged to provide additional financial resources for the Group when needed.

The Directors have reviewed the Group's cash flow projection which covers a period of twelve months from 31 December 2017. The Directors are of the opinion that, taking into account the Group's anticipated cash flows generated from the Group's department store operations and the sales and leases of the properties in the expected timeframe as well as the possible changes in its operating performance, successful renewal of its bank loans upon expiry, continuous availability of banking facilities; and the additional financing to be obtained as and when needed, the Group will have sufficient financial resources to meet its financial liabilities as and when they fall due in the coming twelve months from 31 December 2017. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the HKICPA and requirements of the Hong Kong Companies Ordinance ("**HKCO**") Cap. 622.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- investment properties – measured at fair value, and
- assets held for sale transferred from investment properties – measured at fair value.

(iii) New and amended standards adopted by the Group

The following amended standards have been issued and effective for the annual accounting period beginning on 1 January 2017.

Standards/Interpretations	**Subject of amendment**
Amendments to HKAS 7	Statement of cash flows
Amendments to HKAS 12	Income taxes
Amendments to HKFRS 12	Disclosure of interest in other entities

The adoption of amended standards has no material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(iv) New standards and amendments to standards that have been issued but are not effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except those set out in note (a), (b) and (c).

Standards/Interpretations	**Subject of amendment**	**Effective for annual accounting periods beginning on or after**
HKFRS 9 *(note (a))*	Financial instruments	1 January 2018
HKFRS 15 *(note (b))*	Revenue from contracts with customers	1 January 2018
Amendment to HKFRS 1	First time adoption of HKFRS	1 January 2018
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts	1 January 2018 or when the entity first applies HKFRS 9
Amendment to HKAS 28	Investments in associates and joint ventures	1 January 2018
Amendments to HKAS 40	Transfers of investment property	1 January 2018
HK(IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 16 *(note (c))*	Leases	1 January 2019
HK(IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 9	Prepayment features with negative compensation	1 January 2019
Annual Improvements to 2015-2017 Cycle	Improvements to HKFRSs	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(iv) New standards and amendments to standards that have been issued but are not effective (continued)

(a) HKFRS 9, 'Financial instruments'

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

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets, since the majority of the Group's financial assets are receivables measured at amortised cost which meet the conditions for classification at amortised cost under HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

There is a change in hedge accounting rules that more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principle-based approach. While the Group does not have any such hedging instruments.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group anticipates that the new model may result in an earlier recognition of credit losses compared to the current incurred losses model of HKAS 39.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(iv) New standards and amendments to standards that have been issued but are not effective (continued)

(a) HKFRS 9, 'Financial instruments' (continued)

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phase was only permitted for annual reporting periods beginning before 1 February 2015. The Group does not intend to adopt HKFRS 9 before its mandatory date.

(b) HKFRS 15, 'Revenue from contracts with customers'

HKFRS 15 will replace the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The new standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Revenue from pre-sales of properties under development is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the properties under development may transfer over time or at a point in time.

- The timing of revenue recognition for sale of completed properties, which is currently based on whether significant risk and reward of ownership of properties transfer, will be recognized at a later point in time when the underlying property is legally or physically transfer to the customer under the control transfer model.

- The Group currently offers different payment schemes to customers, the transaction price and the amount of revenue for the sale of property will be adjusted when significant financial component exists in that contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(iv) New standards and amendments to standards that have been issued but are not effective (continued)

(b) HKFRS 15, 'Revenue from contracts with customers' (continued)

- The Group provides different incentives to customers when they sign a property sale contract. Certain incentives (e.g. free gift and property management service) represents separate performance obligation in a contract. Part of the consideration of the contract will be allocated to those performance obligations and recognised as revenue only when performance obligation is satisfied. The amount of revenue for the sale of property will also be reduced for any cash payment to customer which doesn't not represent fair value of good or service provided by the customer.

- Certain costs incurred for obtaining a pre-sale property contract (e.g. sale commission), which is currently expense off in profit and loss directly, will be eligible for capitalisation under HKFRS 15 and match with revenue recognition pattern of related contract in the future.

The Group intends to adopt the standard on all uncompleted contracts as at 1 January 2018 using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group is estimating the overall impact of the above on the Group's retained earnings on 1 January 2018.

(c) HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. While the accounting for lessors will not significantly change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(iv) New standards and amendments to standards that have been issued but are not effective (continued)

(c) HKFRS 16, 'Leases' (continued)

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately RMB227,062,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (continued)

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investment in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

(iii) Equity accounting

Under the equity method of accounting, the investment in an associate is initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from the associate are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.11.

(iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations (continued)

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and senior management of the Group that makes strategic decisions.

2.6 Foreign currency translation

(i) Functional and presentation currency

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (continued)

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within "finance costs". Foreign exchange gains and losses that relate to current accounts are presented in the statement of comprehensive income within "other operating expenses". All other foreign exchange gains and losses are presented in statement of comprehensive income within "other gains/losses – net".

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of items.

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

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

–	Leasehold improvements	10 years
–	Buildings	20 years
–	Office equipment	3 years
–	Vehicles	6 years
–	Other equipment	5 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/losses – net" in the consolidated statements of comprehensive income.

2.8 Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

2.9 Investment properties

Investment properties, principally comprising leasehold buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties.

Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Investment properties acquired through business combination are initially recognised at fair value on the date of acquisition. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated statement of comprehensive income as part of a valuation gain or loss in "other gains/losses – net".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment properties (continued)

When an owner-occupied property becomes an investment property carried at fair value, the Group applies HKAS 16 up to the date of change in use. The Group treats any difference at that date between the carrying amount of the property in accordance with HKAS 16 and its fair value in the same way as a revaluation in accordance with HKAS 16. In other words, any resulting increase in the carrying amount is treated as follows:

(i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss.

(ii) any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity.

2.10 Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software and is carried at cost less accumulated amortisation. These costs are amortised over their estimated useful lives of 10 years.

2.11 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Non-current assets held for sale (continued)

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

2.13 Other financial assets

(i) Classification

The Group classifies its financial assets in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amount that are settled or expected to be settled more than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "deferred assests", "trade and other receivables", "amounts due from related parties", "restricted cash", "term deposits" and "cash and cash equivalents" in the consolidated balance sheet.

b. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve months of the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Other financial assets (continued)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently carried at fair value. Gains or losses arising from changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

Dividends on available-for-sale equity instruments are recognised in consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Details on how the fair value of financial instruments is determined are disclosed in note 3.3(a).

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment testing of trade receivables is described in note 23.

2.16 Properties under development

Properties under development acquired through business combination are recognised at fair value on the date of acquisition and development costs incurred subsequently.

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Properties under development (continued)

Development cost of property comprises costs of land use rights, construction costs, capitalised finance costs and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

If a property under development becomes owner-occupied, it is reclassified as property, plant and equipment. A property under development for future use as investment property is classified as investment property under construction when there is evidence of commencement of an operating lease to another party.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2.17 Completed properties held for sale

Completed properties remaining unsold at the end of each relevant year are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the estimated selling price in the ordinary course of business, less applicable estimated selling expenses to make the sale.

2.18 Inventories

Inventories comprise merchandise held for direct sales and low value consumables and are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out ("**FIFO**") method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.19 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold, properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Cash and cash equivalents, restricted cash and term deposits

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Bank deposits which are restricted to use are included in "restricted cash" of the consolidated balance sheet.

Bank deposits with initial terms of over three months are included in "term deposits" in the consolidated balance sheets.

Restricted cash and term deposits are excluded from cash and cash equivalents.

2.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.22 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.23 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawn-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.25 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and its associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Current and deferred income tax (continued)

(ii) Deferred income tax (continued)

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.26 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

(ii) Pension obligations

Pursuant to the relevant regulations of the PRC Government, all the subsidiaries of the Group that were established in the PRC (the "**PRC Subsidiaries**") have participated in a local municipal government retirement benefits scheme (the "**Scheme**"), whereby the PRC Subsidiaries are required to contribute a certain percentage of the salaries of their employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits of those employees of the Group. Contributions under the Scheme are charged to profit or loss as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Employee benefits (continued)

(iii) Bonus plans

Provisions for bonus plan due wholly within twelve months after the end of the reporting period. Provision is recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

2.27 Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.28 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Revenue recognition (continued)

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sale of properties

Timing of recognition: Revenue from sale of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of the properties has been completed and the properties have been ready for delivery to the purchasers pursuant to the sale agreements, and collectability of related receivables is reasonably assured.

Measurement of revenue: The amount of revenue is measured at the amount receivable under the contract. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet as "deposits received on sale of properties" under current liabilities.

(ii) Sale of goods – retail

Timing of recognition: The Group operates a chain of retail stores selling mainly daily essential products and electrical appliance. Revenue from the sale of goods is recognised when a group entity sells a product to the customer.

Measurement of revenue: It is the Group's policy to sell its products to the end customer with a right of return within seven days. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(iii) Sale of goods – customer loyalty programme (deferred revenue)

Timing of recognition: The Group operates a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. Revenue from the award points is recognised when the points are redeemed.

Measurement of revenue: The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points will expire on January 31 of the next year after the initial sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Revenue recognition (continued)

(iv) Commission income from concessionaire sales

Timing of recognition: Commission income from concessionaire sales is recognised upon sales of goods by the relevant stores.

Measurement of revenue: The amount of revenue is determined by the recognised sales of goods and the rate of commission fee agreed under the contract.

(v) Management fee and service income from operations

Timing of recognition: Management fee and service income from operations are recognised when the service is rendered and right to receive payment is established.

Measurement of revenue: The amount of revenue is measured at the amount receivable under the contract.

(vi) Operating lease rental income

Timing of recognition: Operating lease rental income is recognised on a straight-line basis over the period of the lease.

Measurement of revenue: The amount of revenue is measured at the amount receivable under the contract. When the Group provides incentives to its tenants, the cost of incentives will be recognised over the lease term, on a straight-line basis, as a reduction of rental income. The difference between the gross receipt of rental and operating lease rental recognised over the lease term is recognised as deferred assets.

(vii) Revenue from services – consulting

Timing of recognition: Revenue from consulting services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (percentage of completion method).

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

2.29 Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.31 Bonus points liabilities

The Group operates a loyalty points program, which allows customers to accumulate points when they purchase products in the Group's department stores. The points can then be redeemed for gifts and consumption cards, subject to a minimum number of points being obtained. The consumption cards are cash-equivalent when customers use them to purchase products in the Group's department stores.

The award points are recognised as a separate identifiable component of the initial sale transaction, by allocating the fair value of consideration received between the award points and the other components of the sale such that the award points are recognised as a liability under "deferred revenue" at their fair value. Deferred revenue is recognised as revenue when the points are redeemed for gifts and is classified as advances from customers when the points are redeemed for consumption cards.

2.32 Government grants

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

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

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

2.33 Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group manages and monitors the exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) *Market risk*

(i) Foreign exchange risk

The Group operates in the PRC with most of the transactions denominated in RMB, except for certain cash and cash equivalents, term deposits, trade and other receivables, trade and other payables and borrowings are denominated in Hong Kong dollar ("HK$"), United States dollar ("US$") and Australian dollar ("AU$"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The Group has not hedged its foreign exchange rate risk. However, management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Exposure

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

	31 December 2017			31 December 2016		
	HK$	**US$**	**AU$**	HK$	US$	AU$
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	**524**	**230**	**24**	1,088	31	29
Term deposits	**–**	**–**	**–**	21,468	–	–
Trade and other receivables	**101**	**–**	**–**	1,568	–	–
Trade and other payables	**(1,289)**	**–**	**(43)**	(1,012)	–	(203)
Borrowings	**(205,248)**	**(9,310)**	**–**	(123,460)	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Amounts recognised in profit or loss and other comprehensive income

During the year, the following foreign-exchange related amounts were recognised in profit or loss:

	Year ended 31 December	
	2017	2016
Net foreign exchange gain/(losses) included in other operating expenses	**4,373**	(131)
Net foreign exchange (losses)/gains included in other (losses)/gains *(note 7)*	**(1,131)**	2,472
Exchange gains/(losses) on foreign currency borrowing included in finance costs	**7,504**	(7,025)
Total net foreign exchange gains/(losses) recognised in profit before income tax for the year	**10,746**	(4,684)

Sensitivity

As shown in the table above, the Group is primarily exposed to changes in HK$/RMB exchange rates. At 31 December 2017, if HK$ had weakened/strengthened by 6% against the RMB with all other variables held constant, post-tax profit for the year would have been RMB10,316,000 higher/lower (31 December 2016: RMB5,028,000 higher/lower), mainly as a result of foreign exchange losses/gains on translation of HK$ denominated cash and cash equivalent, term deposits, trade and other receivables, trade and other payables and borrowings.

Profit is more sensitive to movements in the HK$/RMB exchange rates in 2017 than 2016 because of the increased amount of HK$ denominated borrowings. The Group's exposure to other foreign exchange movements is not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. During 2017 and 2016, the Group's borrowings at variable rate were mainly denominated in RMB and HK$. Borrowings obtained at fix rates expose the Group to fair value interest rate risk.

The exposure of the Group's borrowings to interest rate changes at the end of the reporting period are as follows:

	31 December 2017	**% of total loans**	31 December 2016	% of total loans
Variable rate borrowings	**335,570**	**47%**	335,425	68%

An analysis by maturities is provided in note 3.1(c). The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of borrowings.

(b) Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents, term deposits, restricted cash, trade and other receivables as well as amounts due from related parties. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent our Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

The Group's measures to manage the credit risk are to control potential exposures to recoverability problem. To manage this risk, deposits are mainly placed with reputable financial institutions or with financial institutions which are controlled by the government. As at 31 December 2017 and 2016, the bank balances are deposited with creditworthy banks with no recent history of default.

Sales to retail customers are settled in cash, or by using credit cards or consumption cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

As for trade receivables related to management fee and service income, receivables from sales of consumption cards and receivables from consulting service, the Group carries out regular review on these balances and follow-up actions on any overdue amounts to minimise exposures to credit risk.

Amounts due from related parties are continuously monitored by assessing the credit quality of the counterparties, taking into account their financial positions, past experience and other factors. The amounts due from related parties have no history of default. Management perceives that the credit risk of receivables from related parties is low after considering the creditworthiness and financial capability of these counterparties.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of undrawn committed credit facilities to meet obligations when due and to close out market positions. At the end of the reporting period the Group did not hold any deposits at call (31 December 2016: RMB40,100,000) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

(i) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	As at 31 December	
	2017	2016
Floating rate		
– Expiring within one year (bank loans)	**60,000**	60,895
– Expiring beyond one year (bank loans)	**33,985**	83,368
	93,985	144,263

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

(ii) Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	**Within 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
As at 31 December 2017					
Trade and other payables (excluding other taxes and surcharges payable)	**618,129**	**9,590**	**68,005**	**11,221**	**706,945**
Amounts due to related parties	**16,996**	**–**	**–**	**–**	**16,996**
Borrowings	**513,426**	**102,229**	**132,278**	**33,599**	**781,532**
	1,148,551	**111,819**	**200,283**	**44,820**	**1,505,473**
As at 31 December 2016					
Trade and other payables (excluding other taxes and surcharges payable)	312,295	48,398	2,249	11,052	373,994
Amounts due to related parties	10,352	–	–	–	10,352
Borrowings	351,703	76,966	62,085	53,442	544,196
	674,350	125,364	64,334	64,494	928,542

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and

- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio:

Net debt as per note 33(b)
divided by
Total "equity" (as shown in the consolidated balance sheet, including non-controlling interests).

The Group's gearing ratio at 31 December 2017 and 2016 were as follows:

	As at 31 December	
	2017	2016
Net debt *(note 33(b))*	**627,985**	355,447
Total equity	**269,117**	302,868
Net debt to equity ratio	**233.4%**	117.4%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

(a) Non-financial assets

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its non-financial assets into the three levels prescribed under the accounting standards.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers among levels 1, 2 and 3 for recurring fair value measurements during the year.

Level 1: The fair value of non-financial assets traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for non-financial assets held by the Group is the current bid price. These non-financial assets are included in level 1.

Level 2: The fair value of non-financial assets that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value a non-financial asset are observable, the non-financial asset is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the non-financial assets is included in level 3.

See note 16 for disclosures of the investment properties that are measured at fair value, and note 39 for fair value assessments for investment properties, owner-occupied properties, properties under development and completed properties held for sale on the date of acquisition and investment properties at year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Offsetting financial assets and financial liabilities

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2017 and 31 December 2016. The column "net amount" shows the impact on the Group's consolidated balance sheet if all set-off rights were exercised.

		Effects of offsetting on the balance sheet		Related amounts not offset	
	Gross amounts	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Financial instrument collateral	Net amount
2017					
Financial assets					
Restricted cash *(note (a))*	**103,527**	**–**	**103,527**	**(65,340)**	**38,187**
Amounts due from related parties *(note (b))*	**187,824**	**(78,910)**	**108,914**	**–**	**108,914**
	291,351	**(78,910)**	**212,441**	**(65,340)**	**147,101**
Financial liabilities					
Borrowings *(note (a))*	**718,624**	**–**	**718,624**	**(65,340)**	**653,284**
Amounts due to related parties *(note (b))*	**95,906**	**(78,910)**	**16,996**	**–**	**16,996**
	814,530	**(78,910)**	**735,620**	**(65,340)**	**670,280**
2016					
Financial assets					
Restricted cash *(note (a))*	32,437	–	32,437	(11,943)	20,494
Trade and other receivables excluding prepayments *(note (b))*	136,723	(47,634)	89,089	–	89,089
	169,160	(47,634)	121,526	(11,943)	109,583
Financial liabilities					
Borrowings *(note (a))*	495,604	–	495,604	(11,943)	483,661
Trade and other payables excluding other taxes and surcharges payable *(note (b))*	421,628	(47,634)	373,994	–	373,994
	917,232	(47,634)	869,598	(11,943)	857,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Offsetting financial assets and financial liabilities (continued)

(a) Collateral against borrowings

The Group has pledged investment properties, properties under development and completed properties held for sale as collateral against a number of its borrowings. Refer to note 36 for further information on financial and non-financial collateral pledged as security against borrowings.

(b) Offsetting arrangements

According to the agreements signed on 31 December 2017 among the Company and the Group's certain related parties, the Company has offset amounts due from the Group's related parties and amounts due to the Group's related parties amounting to RMB78,910,000.

According to the agreements signed on 31 December 2016 among the Group and certain third parties, the Company has offset other receivables and other payables amounting to RMB47,634,000.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates

(a) PRC corporate income taxes and deferred tax

The Group is primarily subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.1 Critical accounting estimates (continued)

(b) Bonus points liabilities

The amount of revenue attributable to the credit award earned by the customers of the Group's loyalty points program is estimated based on the fair value of the credits awarded and the expected redemption rate. The expected redemption rate is estimated by considering the number of the credits that will be available for redemption in the future after allowing for credits which are not expected to be redeemed. Revenue from the loyalty points is recognised when the points are redeemed.

(c) Fair value of investment properties

The fair value of investment properties at the date of business combination and at year end is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in note 39.

(d) Fair value of owner-occupied properties, properties under development and completed properties held for sale at the date of business combination

The fair value of owner-occupied properties, properties under development and completed properties held for sale acquired through business combination is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in note 39.

In determing the fair value of properties under development and completed properties held for sale, the respective PRC land appreciation tax has been provided and deferred in the deferred tax liabilities. PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including sales charges, borrowing costs and all property development expenditures. However, the implementation of these taxes varies amongst various cities in the PRC and the Group has not finalised its land appreciation tax returns for certain years with the related tax authority. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognised these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expenses and provisions for land appreciation taxes in the period in which such determination is made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.1 Critical accounting estimates (continued)

(e) Provision for impairment of trade and other receivables

The Group assesses at the end of each reporting period whether there is objective evidence that trade and other receivables are impaired. Trade and other receivables are impaired and impairment losses are incurred only if there is a loss event and that loss event (or events) has an impact on the estimated future cash flows of the trade and other receivables that can be reliably estimated.

Evidence of impairment may include indications that the debtors 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(f) Provision for impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on the higher of their fair value less costs to sell and value in use. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rate or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.1 Critical accounting estimates (continued)

(g) Provision for impairment of properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and completed properties held for sale according to their recoverable amounts based on the realisability of these properties, taking into account estimated costs to completion based on past experience and committed contracts and estimated net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

The Group estimates property construction cost upon recognition of respective costs of sales. Such estimates are substantiated by detailed budgetary information as developed by the management, and will be assessed periodically, as the constructions progress. Should these estimates depart from their actual finalised costs, such differences would affect the accuracy of costs of sales recognised.

(h) Provision for impairment of inventories

Net realisable value of inventories is the estimated selling prices in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in economic conditions in places where the Group operates and changes in customer taste and competitor actions in response to changes in market conditions. Management reassesses these estimates at each reporting date.

4.2 Critical accounting judgements

(a) Recognition of contingent liability

A contingent liability of RMB2,855,000 was recognised on the acquisition of Yunfu Baisheng (note 38) for a pending lawsuit in which the entity is a defendant. The claim has arisen from the residents near one property project of Yunfu Baisheng due to damages during construction. It is expected that the court will have reached a decision on this case in 2018. The potential undiscounted amount of all future payments that the Group could be required to make if there was an adverse decision related to the lawsuit is estimated to be approximately RMB2,855,000. As at 31 December 2017, there has been no change in the amount recognised for the liability in June 2017, as there has been no change in the probability of the outcome of the lawsuit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 SEGMENT INFORMATION AND REVENUE

The CODM has been identified as executive directors and senior management of the Company. Management determines the operating segments based on the Group's internal reports, which are then submitted to executive directors and senior management for performance assessment and resources allocation.

The CODM considered the nature of the Group's business and determined that the Group has eight reportable operating segments as follows:

(i) Department store (which offers an extensive variety of merchandise, including watches, jewelries, cosmetics, handbags, leather goods, and children's products, clothing, shoes, textiles, sports wear and beddings);

(ii) Supermarket (trading under the brand "Yihua Lejia Supermarket" (益華樂家超市), which offers mainly daily essential products such as food and beverages, perishables and other household products);

(iii) Electrical appliances (trading under the brand "Yihua Sihai Electrical Appliance Centre" (益華四海電器), which offers a variety of electrical appliances ranging from large household electrical appliances (such as refrigerators, washing machines, air conditioners, televisions, kitchen appliances etc.) to small household electrical appliances (such as rice cookers, hair dryers, toasters etc.));

(iv) Furniture (trading under the brand "Yihua Shijia" (益華世家) in Zhongshan store (main store), Yangjiang store, Jiangmen store and Zhaoqing store);

(v) Consulting service (mainly includes market research and provision of advice on design, decoration and layout for properties);

(vi) Property investment (mainly includes development and leasing commercial properties in the PRC);

(vii) Property development (mainly includes development and selling residential properties, carparks and commercial properites in the PRC);

(viii) Others (mainly an investment accounted for using the equity method, which is engaged in sale and production of game console, educational software development and virtual reality business).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 SEGMENT INFORMATION AND REVENUE (CONTINUED)

The CODM assesses the performance of the operating segments based on a measure of revenue and segment results (revenue less purchases of and changes in inventories and provision of impairment for inventories and receivables; revenue less constructions of and changes in completed properties held for sale, taxes and surcharges related to property sales and provision of impairment of completed properties held for sale; net rental income from investment properties less property taxes plus its fair value gain; share of loss of an associate, when appropriate). Assets and liabilities for the operating segments are not regularly reported to the CODM.

The Group has identified one new reportable operating segments – "property development" during the year.

Most of the revenue is generated in the PRC and all significant operating assets of the Group are in the PRC. No single external customer contributes 10 per cent or more of the Group's revenues.

The revenue reported to the CODM is measured in a manner consistent with that in the consolidated statement of comprehensive income.

The segment results for the year ended 31 December 2017:

	Department store	Supermarket	Electrical appliances	Furniture	Consulting service	Property investment	Property development	Others	Total
Segment revenue	215,956	203,887	59,179	2,261	7,805	2,044	263,180	–	754,312
Fair value gain on investment properties	–	–	–	–	–	74,715	–	–	74,715
Provision for impairment of assets (excluding provision for impairment of property, plant and equipment)	(597)	(1,632)	–	(370)	(300)	–	(10,121)	–	(13,020)
Share of loss of an associate	–	–	–	–	–	–	–	(5,448)	(5,448)
Segment result – gross profit	213,375	61,090	15,645	1,790	7,152	74,276	(23,672)	(5,448)	344,208
Gain from bargain purchase									61,263
Unallocated losses – other income and other losses, net									(1,033)
Unallocated costs									(348,115)
Provision for impairment of property, plant and equipment									(17,095)
Finance income									1,317
Finance expenses									(40,684)
Loss before income tax with land appreciation tax allocated									(139)
Unallocated income tax expense									(9,650)
Loss for the year									(9,789)
Depreciation and amortisation									27,806
Provision for impairment of property, plant and equipment									17,095

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 SEGMENT INFORMATION AND REVENUE (CONTINUED)

The segment results for the year ended 31 December 2016:

	Department store	Supermarket	Electrical appliances	Furniture	Consulting service	Property investment	Others	Total
Segment revenue	210,885	251,923	96,897	2,120	19,868	905	–	582,598
Fair value gain on investment properties	–	–	–	–	–	71,786	–	71,786
Share of loss of an associate	–	–	–	–	–	–	(1,990)	(1,990)
Segment results – gross profit	207,282	65,755	18,858	2,107	19,580	71,254	(1,990)	382,846
Gain from bargain purchase								104,965
Unallocated losses – other income and other losses, net*								(19,561)
Unallocated costs								(348,806)
Finance income								3,951
Finance expenses								(24,646)
Profit before income tax								98,749
Income tax expense								(24,841)
Profit for the year								73,908
Depreciation and amortisation								30,290
Provision for impairment of property, plant and equipment								28,558

* Included provision for impairment of property, plant and equipment of RMB28,558,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 SEGMENT INFORMATION AND REVENUE (CONTINUED)

Entity-wide information

The turnover of the Group is set out as follows:

	Year ended 31 December	
	2017	2016
Sales of properties *(note (a))*	**263,180**	–
Direct sales of goods	**219,662**	308,461
Commission income from concessionaire sales	**170,682**	171,289
Management fee and service income from operations	**49,147**	50,654
Rental income	**43,836**	32,326
Consulting service income *(note (b))*	**7,805**	19,868
	754,312	582,598

(a) During the year ended 31 December 2017, two subsidiaries of the Group principally engaged in property development business and delivered the properties to buyers.

(b) During the year ended 31 December 2017, the Group has provided certain consulting services to four (2016: two) independent property developers. The services mainly include market research and provision of advice on design, decoration, layout and business for the properties.

6 OTHER INCOME

	Year ended 31 December	
	2017	2016
Government grants	**1,479**	3,276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

7 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2017	2016
Net foreign exchange (losses)/gains	**(1,131)**	2,472
Property related income	**–**	2,354
Gain from disposals of available-for-sales assets	**–**	1,667
Others	**(1,381)**	(772)
	(2,512)	5,721

8 PROVISION FOR IMPAIRMENT OF ASSETS

	Year ended 31 December	
	2017	2016
Provision for impairment of property, plant and equipment *(note 15)*	**17,095**	28,558
Provision for impairment of completed properties held for sale *(note 21)*	**10,121**	–
Provision for impairment of amounts due from related parties *(note 40)*	**1,206**	–
Provision for impairment of trade receivables *(note 23)*	**897**	–
Provision for impairment of inventories *(note 22)*	**796**	–
	30,115	28,558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

9 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2017	2016
Utilities	**29,539**	30,929
Other taxes	**10,802**	12,714
Advertising, promotion and related expenses	**29,652**	8,581
Bank charges	**5,203**	5,128
Repairs and maintenance	**4,374**	3,384
Travelling and transportation expenses	**4,934**	4,844
Professional service expenses	**4,588**	5,728
Consumables	**3,829**	3,958
Office expenses	**2,845**	3,463
Entertainment expenses	**5,530**	3,586
Consumption cards related expenses	**964**	1,154
Insurance expenses	**1,007**	535
Auditor's remuneration	**2,950**	2,288
Other expenses	**5,063**	9,451
	111,280	95,743

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2017	2016
Wages and salaries	**80,122**	84,703
Social security costs	**11,515**	12,464
Welfare and other benefits	**6,232**	5,222
	97,869	102,389

(a) Five highest paid individuals

All the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 and 2016 are directors. Their emoluments are reflected in the analysis shown in note 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

11 FINANCIAL INCOME AND EXPENSES

	Year ended 31 December	
	2017	2016
Finance income		
– Interest income derived from cash in banks and other deposits	**256**	3,720
– Interest income derived from term deposits	**1,061**	231
Finance income	**1,317**	3,951
Finance costs		
– Interest expense on bonds	**(5,774)**	(3,312)
– Interest expense on bank borrowings	**(24,080)**	(11,644)
– Interest expense on other borrowings	**(19,295)**	(3,476)
– Foreign exchange gains/(losses) on borrowings	**7,504**	(7,025)
	(41,645)	(25,457)
Amounts capitalised	**961**	811
Finance costs expensed	**(40,684)**	(24,646)
Net finance costs	**(39,367)**	(20,695)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

12 INCOME TAX EXPENSES

This note provides an analysis of the Group's income tax expense, shows how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

(a) Income tax expenses

	Year ended 31 December	
	2017	2016
Current income tax		
Current tax on profits for the year	**10,173**	9,464
PRC land appreciation income tax	**3,093**	–
Total current tax expense	**13,266**	9,464
Deferred income tax		
Increase in deferred tax assets *(note 18)*	**(561)**	(2,221)
Increase in deferred tax liabilities *(note 18)*	**38**	17,598
Total deferred tax expense	**(523)**	15,377
Income tax expenses	**12,743**	24,841

(i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 of Cayman Islands. Accordingly, it is exempted from Cayman Islands income tax.

(ii) Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profit.

(iii) Corporate income tax ("**CIT**") is provided on the assessable income of entities within the Group incorporated in the PRC. Pursuant to PRC CIT Law, the CIT is unified at 25% for all types of entities.

According to the CIT law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies established outside PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

12 INCOME TAX EXPENSES (CONTINUED)

(a) Income tax expenses (continued)

(iv) Certain PRC subsidiaries are also subject to the PRC land appreciation tax which is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sale of properties less deductible expenditures including costs of land use rights and development and construction expenditures.

(b) Numerical reconciliation of income tax expenses

	Year ended 31 December	
	2017	2016
Profit before income tax	**2,954**	98,749
Tax at the CIT rate of 25% (2016: 25%)	**739**	24,687
Tax effect of:		
– Different income tax rates of certain companies	**(588)**	(477)
– An associate result reported net of tax	**1,362**	498
– Expenses not deductible for tax purposes	**1,431**	1,031
– Gain from bargain purchase	**(15,316)**	(26,241)
– Utilisation of previously unrecognised tax losses	**(107)**	(90)
– Tax losses for which no deferred income tax assets were recognised	**21,915**	22,264
– Others	**214**	3,169
Enterprise income tax	**9,650**	24,841
PRC land appreciation income tax	**3,093**	–
Income tax expenses	**12,743**	24,841

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

12 INCOME TAX EXPENSES (CONTINUED)

(c) Amounts recognised directly in equity

	Year ended 31 December					
	2017			2016		
	Before tax	**Tax charge**	**After tax**	Before tax	Tax charge	After tax
Fair value gains on available-for-sale financial assets	**–**	**–**	**–**	(1,667)	417	(1,250)
Revaluation gains arising from transfer of property, plant and equipment to investment properties	**10,890**	**(2,723)**	**8,167**	–	–	–
Other comprehensive income	**10,890**	**(2,723)**	**8,167**	(1,667)	417	(1,250)
Deferred tax *(note 18)*	**–**	**(2,723)**	**–**	–	417	–

(d) Tax losses

	As at 31 December	
	2017	2016
Unused tax losses for which no deferred tax asset has been recognised	**214,321**	127,089
Potential tax benefit at the CIT rate of 25%	**53,580**	31,772

As at 31 December 2017, the Group did not recognise deferred income tax assets of RMB53,580,000 (31 December 2016: RMB31,772,000) in respect of losses amounting to approximately RMB214,321,000 (31 December 2016: RMB127,089,000), as it is uncertain that future taxable profit will be available against which the tax losses can be utilised. In accordance with the PRC tax law, tax losses may be carried forward to offset against future taxable income for a period of five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

12 INCOME TAX EXPENSES (CONTINUED)

(e) Unrecognised temporary differences

	Year ended 31 December	
	2017	2016
Temporary difference relating to investments in subsidiaries for which deferred tax liabilities have not been recognised:		
Undistributed earnings	**192,038**	158,525
Unrecognised deferred tax liabilities relating to the above temporary differences	**19,204**	15,853

As at 31 December 2017, deferred income tax liabilities of RMB19,204,000 (31 December 2016: RMB15,853,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain PRC subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled RMB192,038,000 as at 31 December 2017 (31 December 2016: RMB158,525,000).

13 DIVIDEND

A dividend in respect of the year ended 31 December 2016 of HK$0.05 per share, amounting to a total dividend of HK$49,790,000 (equivalent to RMB44,538,000) was distributed. Shareholders of the Company holding an aggregate of approximately 761,170,000 shares elected to receive the dividend in cash, and shareholders holding an aggregate of approximately 234,638,000 shares elected to receive in new shares ("2016 Scrip Dividend Scheme"). A total of approximately 7,351,000 new shares were allotted to these shareholders in lieu of cash.

The dividend paid in 2016 were HK$16,746,000 (HK$0.1 per share, equivalent to RMB14,401,000 in total). The dividend paid in 2017 were HK$38,058,000 (HK$0.05 per share, equivalent to RMB32,441,000 in total). No dividend in respect of the year ended 31 December 2017 is to be proposed at the annual general meeting.

	Year ended 31 December	
	2017	2016
Proposed final dividend of nil (2016: HK$0.05) per ordinary share	**–**	44,538

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

14 (LOSSES)/EARNINGS PER SHARE

(a) Basic (losses)/earnings per share

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2017	2016
(Loss)/profit attributable to owners of the Company	**(11,502)**	73,185
Weighted average number of ordinary shares in issue (thousand shares)*	**1,003,159**	1,003,159
Basic (losses)/earnings per share (expressed in RMB per share)	**(0.0115)**	0.0730

* The weighted average number of ordinary shares for the purpose of calculating basic (losses)/earnings per share for the year ended 31 December 2017 and 2016 has been retrospectively adjusted for the effect of Share Subdivision and the bonus shares of the Company as disclosed in note 28.

(b) Diluted (losses)/earnings per share

As there were no potential dilutive ordinary shares during the year ended 31 December 2017 and 2016, diluted (losses)/earnings per share was equal to basic (losses)/earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

15 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Buildings	Office equipment	Vehicles	Other equipment	Construction in progress	Total
Year ended 31 December 2016							
Opening net book amount	145,843	217	5,230	1,015	11,829	78,800	242,934
Additions	2,368	–	1,056	733	254	8,541	12,952
Acquisition of subsidiaries	–	–	43	–	27	–	70
Disposals	–	–	(147)	(11)	(317)	–	(475)
Transfer	26,182	–	–	–	–	(26,182)	–
Transfer to investment properties *(note 16)*	–	–	–	–	–	(21,509)	(21,509)
Depreciation	(24,924)	(12)	(1,961)	(436)	(2,611)	–	(29,944)
Impairment charge *(note 8)*	(27,611)	–	–	–	(947)	–	(28,558)
Closing net book amount	121,858	205	4,221	1,301	8,235	39,650	175,470
As at 31 December 2016							
Cost	295,194	344	17,836	4,489	28,050	39,650	385,563
Accumulated depreciation	(145,725)	(139)	(13,615)	(3,188)	(18,868)	–	(181,535)
Accumulated impairment charge	(27,611)	–	–	–	(947)	–	(28,558)
Net book amount	121,858	205	4,221	1,301	8,235	39,650	175,470
Year ended 31 December 2017							
Opening net book amount	**121,858**	**205**	**4,221**	**1,301**	**8,235**	**39,650**	**175,470**
Additions	**11,435**	**–**	**2,537**	**735**	**8,079**	**2,627**	**25,413**
Acquisition of a subsidiary *(note 38)*	**–**	**–**	**54**	**70**	**19**	**28,727**	**28,870**
Transfer from completed properties held for sale *(note 21)*	**–**	**5,714**	**–**	**–**	**–**	**–**	**5,714**
Disposals	**(1,164)**	**–**	**(339)**	**(3)**	**(942)**	**–**	**(2,448)**
Transfer to investment properties *(note 16)*	**–**	**–**	**–**	**–**	**–**	**(15,410)**	**(15,410)**
Depreciation	**(22,421)**	**(12)**	**(1,911)**	**(486)**	**(2,653)**	**–**	**(27,483)**
Impairment charge *(note 8)*	**(17,095)**	**–**	**–**	**–**	**–**	**–**	**(17,095)**
Closing net book amount	**92,613**	**5,907**	**4,562**	**1,617**	**12,738**	**55,594**	**173,031**
As at 31 December 2017							
Cost	**305,465**	**6,058**	**20,088**	**5,291**	**35,206**	**55,594**	**427,702**
Accumulated depreciation	**(168,146)**	**(151)**	**(15,526)**	**(3,674)**	**(21,521)**	**–**	**(209,018)**
Accumulated impairment charge	**(44,706)**	**–**	**–**	**–**	**(947)**	**–**	**(45,653)**
Net book amount	**92,613**	**5,907**	**4,562**	**1,617**	**12,738**	**55,594**	**173,031**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

16 INVESTMENT PROPERTIES

At fair value	Completed investment properties	Investment properties under construction	Total
Year ended 31 December 2016			
Opening balance as at 1 January	–	58,840	58,840
Acquisition of a subsidiary	32,730	277,340	310,070
Capitalised subsequent expenditure	–	34,030	34,030
Transfer	43,787	(43,787)	–
Transfer from property, plant and equipment	–	21,509	21,509
Revaluation gains recognised in profit or loss	25,386	46,400	71,786
Closing balance as at 31 December	101,903	394,332	496,235
Year ended 31 December 2017			
Opening balance as at 1 January	**101,903**	**394,332**	**496,235**
Acquisition of a subsidiary *(note 38)*	**–**	**143,667**	**143,667**
Capitalised subsequent expenditure	**–**	**44,293**	**44,293**
Transfer from property, plant and equipment *(note 15)*	**–**	**15,410**	**15,410**
Transfer to non-current assets held for sale *(note 27)*	**–**	**(44,600)**	**(44,600)**
Revaluation gains recognised as other comprehensive income	**–**	**10,890**	**10,890**
Revaluation gains recognised in profit or loss	**5,762**	**68,953**	**74,715**
Closing balance as at 31 December	**107,665**	**632,945**	**740,610**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

16 INVESTMENT PROPERTIES (CONTINUED)

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2017	2016
Rental income	**2,044**	905
Direct operating expenses from property that did not generate rental income	**(2,483)**	(1,437)
Fair value gain	**74,715**	71,786

(b) Non-current assets pledged as security

Refer to note 36 for information on non-current assets pledged as security by the Group.

(c) Contractual obligations

Refer to note 37 for disclosure of contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance or enhancements.

(d) Leasing arrangements

Some of the investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

	As at 31 December	
	2017	2016
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
– Within 1 year	**38,060**	37,813
– Between 1 and 5 years	**172,616**	151,253
– Over 5 years	**346,903**	360,621
	557,579	549,687

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17 INVESTMENT IN AN ASSOCIATE

As at 31 December 2017 and 2016, the Group held 49% equity interest in Subor Cultural Development Company Limited ("**Subor**", formerly known as Zhongshan Subor Cultural Industry Company Limited), which is principally engaged in sale and production of game console, development of educational software and virtual reality business.

Subor had entered into contracts with several suppliers for the provision of technical services, including a semi-custom development agreement with a supplier regard to a chip development and platform project ("**Development Projects**"). During the year ended 31 December 2017, payment to the suppliers was RMB100,382,000 (2016: RMB47,743,000), including payment of US$13,500,000 (equivalent to RMB90,519,000) (2016: US$7,000,000, equivalent to RMB47,743,000) for the Development Projects, and employment costs incurred for the engineers working for these projects amounted to RMB3,868,000 (2016: RMB1,745,000). Subor capitalised these costs in its financial statements as prepayments for the year ended 31 December 2017 and 2016. Further payments of RMB135,034,000, including US$14,570,000 (equivalent to RMB95,203,000) for the Development Projects, have to be paid to the supplier if certain development milestones could be reached during the year ending 31 December 2018. All the payments specifically related to Development Projects have been accounted for as prepayments.

The associate is accounted for using equity method.

The movement of the Group's investment in Subor is as follows:

	Year ended 31 December	
	2017	2016
As at 1 January	**13,010**	–
Additions	**34,000**	15,000
Share of post-tax loss of an associate	**(5,448)**	(1,990)
As at 31 December	**41,562**	13,010

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(All amounts expressed in RMB thousands unless otherwise stated)

17 INVESTMENT IN AN ASSOCIATE (CONTINUED)

Set out below is the summarised financial information for Subor as at 31 December 2017, which, in the opinion of the Directors, is material to the Group.

(a) Summarised balance sheet

	As at 31 December	
	2017	2016
Cash and cash equivalents	**251**	7,411
Restricted cash	**–**	4,500
Prepayment for Development Projects	**153,738**	49,488
Other assets	**5,672**	38,121
Total assets	**159,661**	99,520
Trade and other payables	**729**	1,786
Amounts due to related parties	**111,555**	61,485
Other liabilities	**2,570**	14,324
Total liabilities	**114,854**	77,595
Share capital	**59,986**	25,986
Accumulated losses	**(15,179)**	(4,061)
Net assets	**44,807**	21,925

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

17 INVESTMENT IN AN ASSOCIATE (CONTINUED)

(b) Summarised statement of comprehensive income

	Year ended 31 December	
	2017	2016
Revenue	**7,590**	13,815
Other income	**4,008**	–
Other gains	**9,388**	–
Purchases of and changes in inventories	**(6,212)**	(11,304)
Employee benefit expenses	**(5,597)**	(4,296)
Depreciation and amortisation	**(206)**	(7)
Other operating expenses	**(16,867)**	(3,618)
Loss before income tax	**(7,896)**	(5,410)
Income tax (expense)/credit	**(3,222)**	1,349
Loss for the year	**(11,118)**	(4,061)
Other comprehensive income	**–**	–
Total comprehensive loss	**(11,118)**	(4,061)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

17 INVESTMENT IN AN ASSOCIATE (CONTINUED)

(c) Reconciliation of summarised financial information

	Year ended 31 December	
	2017	2016
Net assets as at 1 January	**21,925**	–
Loss for the year	**(11,118)**	(4,061)
Other comprehensive income	**–**	–
Capital injected by and attributable to the Group	**34,000**	15,000
Capital injected by and attributable to other shareholders	**–**	10,986
Net assets as at 31 December	**44,807**	21,925
Reconciliation item of capital to be injected by other shareholders	**40,014**	4,626
Net assets as at 31 December	**84,821**	26,551
Interest in Subor	**41,562**	13,010
Carrying value	**41,562**	13,010

(d) The Group has provided financial guarantees to a supplier of Subor (note 35).

(e) Capital commitments relating to the Group's interest in Subor

Capital expenditure of the associate contracted for at each consolidated balance sheet date, but not yet incurred is as follows:

	As at 31 December	
	2017	2016
Costs for technical services	**136,582**	214,353
Property, plant and equipment	**280**	86
	136,862	214,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

17 INVESTMENT IN AN ASSOCIATE (CONTINUED)

(f) Operating lease commitments relating to the Group's interest in Subor

Subor leases various buildings for operations under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2017	2016
– Within 1 year	**4,286**	2,040
– Between 1 and 5 years	**8,923**	2,654
	13,209	4,694

18 DEFERRED INCOME TAX

(a) Deferred tax assets

	As at 31 December	
	2017	2016
The balance comprises temporary differences attributable to:		
Accrued expenses and deferred revenue	**1,727**	1,409
Tax losses	**13,623**	7,539
	15,350	8,948
Others	**2,110**	4,180
Total deferred tax assets	**17,460**	13,128
Set-off of deferred tax liabilities pursuant to set-off provisions *(note (b))*	**(8,255)**	(9,809)
Net deferred tax assets	**9,205**	3,319

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(All amounts expressed in RMB thousands unless otherwise stated)

18 DEFERRED INCOME TAX (CONTINUED)

(a) Deferred tax assets (continued)

Movements	Accrued expenses and deferred revenue	Tax losses	Others	Total
As at 1 January 2016	3,669	–	2,178	5,847
Acquisition of subsidiaries	–	4,572	488	5,060
(Charge)/credit to profit or loss	(2,260)	2,967	1,514	2,221
As at 31 December 2016	1,409	7,539	4,180	13,128
Acquisition of a subsidiary *(note 38)*	714	3,057	–	3,771
(Charge)/credit to profit or loss	(396)	3,027	(2,070)	561
As at 31 December 2017	1,727	13,623	2,110	17,460

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(All amounts expressed in RMB thousands unless otherwise stated)

18 DEFERRED INCOME TAX (CONTINUED)

(b) Deferred tax liabilities

	As at 31 December	
	2017	2016
The balance comprises temporary differences attributable to:		
Accelerated tax depreciation	**11,437**	10,786
Fair value of investment properties over the tax bases	**76,431**	39,039
Fair value of properties under development over the tax bases	**39,888**	36,785
Land appreciation tax on acquisitions of subsidiaries	**40,762**	25,150
Fair value of completed properties held for sale over the tax bases	**3,513**	–
Fair value of property, plant and equipment over the tax bases	**1,741**	–
	173,772	111,760
Others	**818**	883
Total deferred tax liabilities	**174,590**	112,643
Set-off of deferred tax assets pursuant to set-off provisions *(note (a))*	**(8,255)**	(9,809)
Net deferred tax assets	**166,335**	102,834

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18 DEFERRED INCOME TAX (CONTINUED)

(b) Deferred tax liabilities (continued)

Movements	Accelerated tax depreciation	Fair value of investment properties over the tax bases	Revaluation of available-for-sale financial assets	Fair value of property under development over the tax bases	Land appreciation tax	Fair value of completed properties held for sale over the tax bases	Fair value of property, plant and equipment over the tax bases	Others	Total
As at 1 January 2016	10,476	4,329	417	–	–	–	–	144	15,366
Acquisition of subsidiaries	428	16,764	–	36,785	25,150	–	–	969	80,096
(Credit)/charge to profit or loss	(118)	17,946	–	–	–	–	–	(230)	17,598
Credit to other comprehensive income	–	–	(417)	–	–	–	–	–	(417)
As at 31 December 2016	10,786	39,039	–	36,785	25,150	–	–	883	112,643
Acquisition of a subsidiary *(note 38)*	–	15,990	–	10,646	16,912	9,658	1,741	4,239	59,186
(Credit)/charge to profit or loss	651	18,679	–	(7,543)	(1,300)	(6,145)	–	(4,304)	38
Charge to other comprehensive income	–	2,723	–	–	–	–	–	–	2,723
As at 31 December 2017	11,437	76,431	–	39,888	40,762	3,513	1,741	818	174,590

19 DEFERRED ASSETS

Rental income is recognised on an accruals basis by averaging out the impact of rent-free periods, contracted rental escalations and such other terms affecting the cash received from rental income under each tenancy agreement. Thus, rental income is recognised on a straight-line basis for the entire lease term of each tenancy agreement, which effectively amortises the impact of rent-free periods, contracted rental escalations and other relevant terms on the rental income over the relevant lease periods. The difference between the rental income as set out in the lease agreements and accounting rental income is reflected as deferred assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

20 PROPERTIES UNDER DEVELOPMENT

	As at 31 December	
	2017	2016
As at 1 January	**376,872**	–
Fair value of properties under development at date of acquisition *(note 38)*	**267,227**	369,400
Capitalised subsequent expenditure	**116,075**	7,472
Transfer to completed properties held for sale *(note 21)*	**(302,606)**	–
As at 31 December	**457,568**	376,872

All properties under development are expected to be completed within the normal operating cycle.

Refer to note 36 for information on current assets pledged as security by the Group.

21 COMPLETED PROPERTIES HELD FOR SALE

	As at 31 December	
	2017	2016
As at 1 January	**–**	–
Fair value of properties under development at date of acquisition *(note 38)*	**94,000**	–
Transfer from properties under development *(note 20)*	**302,606**	–
Transfer to property, plant and equipment *(note 15)*	**(5,714)**	–
Costs of sold propertes	**(254,737)**	–
Impairment charge *(note 8)*	**(10,121)**	–
As at 31 December	**126,034**	–

All completed properties held for sale are located in the PRC.

Refer to note 36 for information on current assets pledged as security by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

22 INVENTORIES

	As at 31 December	
	2017	2016
Merchandise held for direct sales	**43,028**	58,082
Low value consumables	**1,041**	1,262
	44,069	59,344
Less: impairment charge *(note 8)*	**(796)**	–
	43,273	59,344

The cost of inventories recognised as purchase and changes in inventories amounted to approximately RMB187,319,000 for the year ended 31 December 2017 (2016: RMB267,823,000).

23 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
Trade receivables	**30,227**	31,802
Receivables from sales of consumption cards and arrangements with mobile telecommunications service provider	**22**	424
Other receivables	**60,818**	34,521
Rental and other deposits	**11,602**	9,603
Prepayments	**97,709**	69,048
Prepaid taxes	**20,353**	12,739
Total trade and other receivables	**220,731**	158,137
Less: impairment charge *(note 8)*	**(897)**	–
Less: non-current portion of prepayments and other receivables	**(49,860)**	(68,235)
	169,974	89,902

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

23 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

(a) The carrying amounts of the Group's trade and other receivables as at 31 December 2017 and 2016 approximate their fair values.

(b) As at 31 December 2017 and 2016, the aging analysis of trade receivables based on invoice date is as follows:

	As at 31 December	
	2017	2016
Trade receivables		
– Within 2 months	**19,442**	22,189
– Over 2 months	**10,785**	9,613
	30,227	31,802

(c) The balance of trade receivables mainly including management fee and service income from concessionaires and other lessees, the credit terms of which are generally within 30 to 60 days.

(d) As at 31 December 2017, trade receivables of approximately RMB9,888,000 (31 December 2016: RMB9,613,000) were past due but not impaired. These relate to a number of independent customers for whom there has been no recent history of default. The credit quality of trade receivables was neither past due nor impaired and has been assessed by reference to historical default rates of the counterparties.

(e) The maximum exposure to credit risk as at the balance sheet date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 RESTRICTED CASH

	As at 31 December	
	2017	2016
Guarantee deposits for borrowings *(note (a))*	**65,340**	11,943
Guarantee deposits for construction of pre-sold properties *(note (b))*	**29,712**	8,061
Guarantee deposits for notes *(note (c))*	**930**	5,010
Guarantee deposits for consumption cards issued *(note (d))*	**1,045**	7,167
Guarantee deposits for an ongoing lawsuit *(note (e))*	**6,500**	–
Others	**–**	256
	103,527	32,437

All restricted cash was denominated in RMB.

(a) Pursuant to certain bank loan agreements, the Group is required to place certain cash deposits as securities for borrowings. Such guarantee deposits will only be released after full repayment of relevant borrowings.

(b) In accordance with the relevant documents issued by the local State-Owned Land and Resource Bureau, certain property development companies of the Group are required to place at designated bank accounts the pre-sale proceeds of properties received as the guarantee deposits for constructions of related properties. The deposits can only be used for purchases of construction materials and payments of construction fees of related property projects upon the approval of the local State-Owned Land and Resource Bureau. Such guarantee deposits will be released according to the completion stage of the related pre-sold properties.

(c) As at 31 December 2017 and 2016, the restricted cash was deposited in a designated bank account for the pledge of notes payable.

(d) As at 31 December 2017 and 2016, the restricted cash was deposited in a designated bank account for the pledge of certain consumption cards issued.

(e) As at 31 December 2017, the restricted cash was frozen by court for an ongoing lawsuit between a wholly owned subsidiary of the Group and its lessor about the rental.

25 TERM DEPOSITS

As at 31 December 2017, the initial terms of the Group's term deposits were twelve months. These term deposits earn interest ranging from 1.5% to 1.75% per annum (2016: from 0.7% to 1.75%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

26 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
Cash at bank	**85,873**	94,950
Short-term bank deposits	**–**	40,100
Cash on hand	**4,766**	5,107
	90,639	140,157

27 NON-CURRENT ASSETS HELD FOR SALE

	As at 31 December	
	2017	2016
Investment properties under construction *(note 16)*	**44,600**	–

In November 2017, the directors of Enping Kangsheng Hotel Management Company Limited ("Enping Hotel") decided to sell the fifth to twenty-second floors of Block C of the property which were originally acquired for capture the benefit of the capital appreciation of the property. There are certain interested parties and the sale is expected to be completed in 2018.

28 SHARE CAPITAL

Movement in ordinary shares:

	Number of ordinary share *(thousands)*	**Share capital** *RMB'000*
As at 1 January 2016	488,010	3,840
Issue of shares upon 2015 Scrip Dividend Scheme *(note (a))*	9,894	85
As at 31 December 2016	497,904	3,925
As at 1 January 2017	**497,904**	**3,925**
Share Subdivision *(note (b))*	**497,904**	**–**
Issue of shares upon 2016 Scrip Dividend Scheme *(note (c))*	**7,351**	**31**
As at 31 December 2017	**1,003,159**	**3,956**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

28 SHARE CAPITAL (CONTINUED)

(a) Pursuant to an annual general meeting resolution on 9 August 2016, shareholders of the Company holding an aggregate of approximately 167,459,000 shares and approximately 320,551,000 shares elected to receive cash dividend and new shares as dividend respectively ("**2015 Scrip Dividend Scheme**"). Accordingly, an aggregate of 9,894,000 shares of HK$0.01 each were issued and allotted in lieu of cash.

(b) As at 10 May 2017, each of issued and unissued ordinary shares of par value of HK$0.01 each ("**Old shares**") in the share capital of the Company was subdivided into two ordinary shares of par value of HK$0.005 each in the share of the Company ("**Share Subdivision**").

(c) Pursuant to an annual general meeting resolution on 11 August 2017, shareholders of the Company holding an aggregate of approximately 761,170,000 shares and approximately 234,638,000 shares elected to receive cash dividend and new shares as dividend respectively (note 13). Accordingly, an aggregate of 7,351,000 shares of HK$0.005 each were issued and allotted in lieu of cash.

29 OTHER RESERVES

	Share premium	Statutory reserve *(note (a))*	Capital reserve *(note (b))*	Other reserves	Total
Balance as at 1 January 2016	138,520	12,785	16,250	7,308	174,863
Appropriation to statutory reserve	–	450	–	–	450
Issue of shares upon 2015 Scrip Dividend Scheme	(85)	–	–	–	(85)
Dividend distributed	(14,401)	–	–	–	(14,401)
Available-for-sale financial assets	–	–	–	(1,250)	(1,250)
Balance as at 31 December 2016	124,034	13,235	16,250	6,058	159,577
Balance as at 1 January 2017	**124,034**	**13,235**	**16,250**	**6,058**	**159,577**
Revaluation gains of investment properties	**–**	**–**	**–**	**8,167**	**8,167**
Appropriation to statutory reserve	**–**	**1,038**	**–**	**–**	**1,038**
Issue of shares upon 2016 Scrip Dividend Scheme	**(31)**	**–**	**–**	**–**	**(31)**
Dividend distributed	**(32,441)**	**–**	**–**	**–**	**(32,441)**
Balance as at 31 December 2017	**91,562**	**14,273**	**16,250**	**14,225**	**136,310**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

29 OTHER RESERVES (CONTINUED)

(a) Appropriation to reserve fund

In accordance with relevant rules and regulations in the PRC, except for sino-foreign equity joint venture enterprises, all PRC companies are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of the respective companies.

(b) Capital reserve

This balance mainly represented accumulated capital contribution from shareholders of the Group.

30 TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
Trade payables	**79,712**	58,303
Notes payable	**3,100**	16,700
Staff salaries, bonuses and welfare payables	**11,389**	11,305
Payables to concessionaires and lessees	**201,801**	136,985
Other taxes and surcharges payable	**37,621**	15,038
Rental and other deposits	**66,102**	38,664
Payables for construction costs	**118,845**	53,025
Unpaid cash consideration for completed acquisitions	**47,721**	26,471
Payables to former shareholders of the acquired subsidiaries	**44,352**	2,518
Deemed acquisition cost of land use right	**52,622**	–
Deposits received on sale of properties	**16,493**	–
Others	**64,808**	30,023
	744,566	389,032
Less: non-current portion of other payables	**(88,816)**	(61,699)
	655,750	327,333

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(All amounts expressed in RMB thousands unless otherwise stated)

30 TRADE AND OTHER PAYABLES (CONTINUED)

(a) The fair value of trade and other payables approximated their carrying amounts.

(b) As at 31 December 2017 and 2016, the aging analysis of trade payables based on invoice date is as follows:

	As at 31 December	
	2017	2016
Trade payables		
– Within 3 months	**68,000**	49,642
– Over 3 months	**11,712**	8,661
	79,712	58,303

31 BORROWINGS

	As at 31 December	
	2017	2016
Non-current		
Long-term borrowings		
– Bonds – unsecured *(note (a))*	**68,108**	50,111
– Bonds – secured *(note (b))*	**22,951**	–
– Bank borrowings – secured *(note (c))*	**300,603**	284,185
– Other borrowings – unsecured *(note (d))*	**118,698**	–
Less: current portion of long-term borrowings	**(279,386)**	(167,504)
	230,974	166,792
Current		
Short-term borrowings		
– Bonds – unsecured *(note (e))*	**47,730**	–
– Bank borrowings – unsecured *(note (f))*	**35,000**	–
– Bank borrowings – secured *(note (g))*	**115,918**	137,890
– Other borrowings – unsecured *(note (h))*	**9,616**	10,000
– Other borrowings – secured *(note (i))*	**–**	13,418
Current portion of long-term bonds *(note (j))*	**4,980**	22,237
Current portion of long-term bank borrowings	**189,622**	145,267
Current portion of other borrowings	**84,784**	–
	487,650	328,812
Total borrowings	**718,624**	495,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31 BORROWINGS (CONTINUED)

(a) During the period from May 2017 to December 2017, the Company issued bonds at interest rate of 6% to 8% per annum with maturity period of two to eight years. The aggregated principal amount of these bonds amounted to HK$45,500,000 (equivalent to RMB39,237,000). The net proceeds of these bonds, after deducting the transaction costs, amounted to RMB38,804,000.

On 4 March 2016, 24 March 2016, 28 April 2016, 2 June 2016, 9 September 2016, the Company issued 7% bonds (the "2016 Bonds") which will be due for payment on 3 March 2023, 23 September 2023, 27 October 2023, 1 December 2023, 8 September 2018 respectively. The nominal value of the 2016 Bonds amounted to HK$18,000,000 (equivalent to RMB15,145,000). The net proceeds of the 2016 Bonds, after deducting the transaction costs, amounted to RMB13,655,000.

(b) During the period from May 2017 to December 2017, the Company issued bonds at interest rate of 6.5% or 7% per annum with maturity period of two or three years. The aggregated principal amount of these bonds amounted to HK$31,000,000 (equivalent to RMB26,431,000), which are secured by guarantees given by the non-executive director of the Company. The net proceeds of these bonds, after deducting the transaction costs, amounted to RMB23,131,000.

(c) As at 31 December 2017, the long-term bank borrowings are secured by guarantees given by the Company, subsidiaries within the Group and some third parties.

Certain portions of the long-term bank borrowings, amounting to HK$48,000,000 (equivalent to RMB40,124,000) (2016: HK$47,000,000, equivalent to RMB42,041,000), are collectively pledged by restricted cash of the Group of RMB8,584,000 (2016: RMB8,378,000).

Certain portions of the long-term bank borrowings, amounting to US$1,425,000 (equivalent to RMB9,311,000) (2016: Nil), are collectively pledged by restricted cash of the Group of RMB11,000,000 (2016: Nil).

Certain portions of the long-term bank borrowings, amounting to RMB251,168,000 (2016: RMB242,144,000), are collectively pledged by investment properties of the Group of RMB381,100,000 (2016: RMB341,020,000), completed properties held for sale and properties under development of the Group of RMB65,170,000 (2016: RMB277,242,000), restricted cash of the Group of RMB2,980,000 (2016: Nil), properties and term deposit owned by some third parties.

(d) As at 28 June 2017, the Group completed acquisition of Yunfu Baisheng, and took over the other borrowings due to a related party of previous shareholders, amounting to RMB135,655,000. The borrowings are unsecured, bear fixed interest rates and repaid quarterly from 30 September 2017 to 30 June 2019.

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(All amounts expressed in RMB thousands unless otherwise stated)

31 BORROWINGS (CONTINUED)

(e) During the period from July 2017 to December 2017, the Company issued bonds at interest rate of zero to 6% per annum with maturity period of three months. The aggregated principal amount of these bonds amounted to HK$99,100,000 (equivalent to RMB84,468,000). There were no transaction cost of these bonds.

(f) During the period from April 2017 to September 2017, the Group obtained approximately one-year bank borrowings, amounting to RMB35,000,000. The borrowings are unsecured, bear fixed interest rates and have fixed repayment terms.

(g) As at 31 December 2017, the short-term bank borrowings are secured by guarantees given by the Company and subsidiaries within the Group.

Certain portions of the short-term bank borrowings, amounting to HK$20,000,000 (equivalent to RMB16,718,000) (2016: HK$20,000,000, equivalent to RMB17,890,000), are collectively pledged by restricted cash of the Group of RMB3,576,000 (2016: RMB3,565,000).

Certain portions of the short-term bank borrowings, amounting to RMB99,200,000 (2016: RMB20,000,000), are collectively pledged by restricted cash of the Group of RMB39,200,000 (2016: Nil), investment properties of the Group of RMB388,000,000 (2016: RMB289,920,000), and guarantees given by the executive director of the Company.

(h) On 8 August 2017 and 9 December 2017, the Company obtained three-month borrowings of HK$2,000,000 (equivalent to RMB1,672,000) and nine-month borrowings of HK$9,500,000 (equivalent to RMB7,944,000) respectively from third parties. The borrowings are unsecured, bear fixed interest rates and have fixed repayment terms.

On 27 September 2016, the Company obtained approximately five-month borrowings from a third party, amounting to RMB10,000,000. The borrowings are unsecured, bear fixed interest rates and have fixed repayment terms.

(i) On 20 December 2016, the Company obtained three-month borrowings from a third party, amounting to HK$15,000,000 (equivalent to RMB13,418,000). The borrowings bear fixed interest rates and have fixed repayment terms. The borrowings are secured by guarantees given by one executive director of the Company, and secured by three bank notes of HK$15,900,000 (equivalent to RMB14,223,000).

(j) On 9 September 2016, the Company issued a two-year 7% bond which will be due for payment on 8 September 2018 in the nominal value of HK$1,000,000 (equivalent to RMB836,000).

On 17 November 2014, the Company issued a three-year 7% bond in the nominal value of HK$25,000,000 (equivalent to RMB19,758,000), HK$5,000,000 (equivalent to RMB4,180,000) of which was agreed by counterparties to reschedule the repayment on 17 March 2018.

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31 BORROWINGS (CONTINUED)

(k) The effective interest rates of the Group's total borrowings are as follows:

	Year ended 31 December	
	2017	2016
Bank borrowings	**5.31%**	5.81%
Bonds	**5.98%**	8.04%
Other borrowings	**11.99%**	13.72%

(l) The maturities of the Group's borrowings at balance sheet date are set out as follows:

	As at 31 December	
	2017	2016
Within 1 year	**487,650**	328,812
Between 1 and 2 years	**88,953**	69,345
Between 2 and 5 years	**119,848**	46,920
Over 5 years	**22,173**	50,527
	718,624	495,604

(m) The fair value of the Group's borrowings approximates to their carrying amounts.

32 DEFERRED REVENUE

	As at 31 December	
	2017	2016
Government grants classified as non-current liabilities	**1,546**	1,717
Government grants classified as current liabilities	**559**	407
Bonus points liabilities classified as current liabilities	**3,321**	4,750
	5,426	6,874

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33 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December	
	2017	2016
Profit before income tax	**2,954**	98,749
Adjustments for:		
– Depreciation of property, plant and equipment	**27,483**	29,944
– Disposal of property, plant and equipment and intangible assets	**2,991**	–
– Amortisation of computer software	**323**	346
– Amortisation of government grant relating to assets	**(1,479)**	(283)
– Provision for impairment of assets	**30,115**	28,558
– Finance income	**(1,317)**	(3,951)
– Finance expenses	**40,684**	24,646
– Gain from property related income	**–**	(2,354)
– Fair value gain on investment properties	**(74,715)**	(71,786)
– Gain from bargain purchase	**(61,263)**	(104,965)
– Share of loss of an associate	**5,448**	1,990
Changes in working capital:		
– Trade receivables, prepayment and other receivables, amounts due from related parties	**(46,498)**	3,855
– Tax prepayment	**(12,178)**	(142)
– Properties under development	**190,261**	(6,661)
– Completed properties held for sale	**(42,155)**	–
– Inventories	**15,275**	31,598
– Deferred assets	**(756)**	(1,412)
– Trade and other payables, amounts due to related parties, deferred revenue, advances from customers	**159,766**	(21,082)
– Deposits received on sale of properties	**35,322**	5,090
– Restricted cash	**(15,670)**	(1,178)
Cash generated from operations	**254,591**	10,962

There were no significant non-operating non-cash transactions during the year ended 31 December 2017 and 2016.

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(All amounts expressed in RMB thousands unless otherwise stated)

33 CASH FLOW INFORMATION (CONTINUED)

(b) Net debt reconciliation

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

	As at 31 December	
	2017	2016
Cash and cash equivalents	**90,639**	140,157
Borrowings – repayable within one year	**(487,650)**	(328,812)
Borrowings – repayable after one year	**(230,974)**	(166,792)
Net debt	**(627,985)**	(355,447)
Cash	**90,639**	140,157
Gross debt – fixed interest rates	**(383,054)**	(160,179)
Gross debt – variable interest rates *(note 3.1(a)(i))*	**(335,570)**	(335,425)
Net debt	**(627,985)**	(355,447)

	Other assets	**Liabilities from financing activities**		
	Cash	**Borrowings due within 1 year**	**Borrowings due after 1 year**	**Total**
Net debt as at 1 January 2017	140,157	(328,812)	(166,792)	(355,447)
Cash flows	(48,387)	33,461	(87,844)	(102,770)
Foreign exchange adjustments	(1,131)	798	6,706	6,373
Acquisition of a subsidiary	–	(107,628)	(67,827)	(175,455)
Transfer	–	(85,469)	85,469	–
Other non-cash movements	–	–	(686)	(686)
Net debt as at 31 December 2017	90,639	(487,650)	(230,974)	(627,985)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2017	2016
Financial assets		
– Loans and receivables		
– Deferred assets	**2,894**	2,138
– Trade and other receivables excluding prepayments	**123,022**	89,089
– Amounts due from related parties	**108,914**	62,775
– Restricted cash	**103,527**	32,437
– Term deposits	**59,750**	29,978
– Cash and cash equivalents	**90,639**	140,157
	488,746	356,574
Financial liabilities at amortised cost		
– Trade and other payables excluding other taxes and surcharges payable	**706,945**	373,994
– Amounts due to related parties	**16,996**	10,352
– Borrowings	**718,624**	495,604
	1,442,565	879,950

35 FINANCIAL GUARANTEES

The face value of the financial guarantees issued by the Group as at 31 December 2017 are analysed as follows:

	As at 31 December	
	2017	2016
Guarantees to an associate *(note (a))*	**65,342**	69,370
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's poperties *(note (b))*	**286,486**	82,003
	351,828	151,373

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

35 FINANCIAL GUARANTEES (CONTINUED)

(a) It represents guarantees provided to a third party supplier of an associate for the provision of semiconductor products for a game system.

Pursuant to the terms of the guarantees, upon default in payment obligations by the associate, the Group is responsible to repay the outstanding payment obligations owed by the associate to the supplier, in proportion to the equity interests in the associate held by the Group, with a maximum of US$10,000,000 (equivalent to approximately RMB65,342,000). The Group's guarantee period starts from 5 September 2016 until expressly revoked by a written notice from the Group to the supplier.

The Group closely monitors the repayment progress of the relevant purchase by the associate. The Directors consider that the likelihood of default in payments is minimal and the financial guarantees measured at fair value is immaterial.

(b) The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to the bank over the repayment obligations of the purchasers. Such guarantees terminate upon the earlier of (i) issuance of the certificate of real estate ownership; or (ii) completion of mortgage registration.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the date of grant of the relevant mortgage loan and ends when the certificate of real estate ownership for the mortgagee is issued and submitted to the banks. The Directors consider that the fair value of these contracts at date of inception was minimal and in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

36 ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Note	As at 31 December 2017	2016
Current			
Properties under development	20	–	277,242
Completed properties held for sale	21	**65,170**	–
Restricted cash	24	**65,340**	11,943
Total current assets pledged as security		**130,510**	289,185
Non-current			
Investment properties	16	**444,200**	341,020
Total assets pledged as security		**574,710**	630,205

37 COMMITMENTS

(a) Capital commitments

Capital expenditure of the Group contracted for at each consolidated balance sheet date, but not yet incurred is as follows:

	As at 31 December 2017	2016
Property, plant and equipment	**178**	466
Investment properties	**22,824**	12,298
Properties under development	**116,109**	43,574
	139,111	56,338

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

37 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

The Group leases various buildings for operations under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2017	2016
– Within 1 year	**78,597**	84,517
– Between 1 and 5 years	**55,183**	80,264
– Over 5 years	**93,282**	68,709
	227,062	233,490

The above lease commitments only include commitments for basic rentals or fixed rentals, and do not include commitments for additional rental payable (contingent rents), if any, which are to be determined generally by applying predetermined percentages to future sales as it is not possible to determine in advance the amount of such additional rentals.

The Group also entered several long-term lease agreements with lessors, lease period of which varied from 3 years to 19 years. According to these agreements, the Group shall negotiate and agree rental with lessors annually.

The future minimum lease income under non-cancellable operating leases is as follows:

	As at 31 December	
	2017	2016
– Within 1 year	**65,048**	51,913
– Between 1 and 5 years	**204,511**	174,623
– Over 5 years	**348,537**	360,771
	618,096	587,307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

38 BUSINESS COMBINATION

Yunfu Baisheng

On 28 June 2017, the Group acquired 100% equity of Yunfu Baisheng, a third party company that principally engaged in property development and management in Yunfu City, Guangdong Province, for a cash consideration of RMB71,000,000, including a contingent cash consideration of RMB20,000,000 to be received from the outcome of an ongoing lawsuit of the Company (see note (a)). The acquisition is expected to lower the Group's pressure of rising rents and capture the benefit of the capital appreciation of the property.

The negative goodwill of RMB61,413,000 arises from the excess amount of the fair value of the net identifiable assets of Yunfu Baisheng as at 28 June 2017 over the fair value of the consideration given by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

38 BUSINESS COMBINATION (CONTINUED)

Yunfu Baisheng (continued)

The following table summaries the consideration paid for Yunfu Baisheng, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	28 June 2017
Purchase consideration	
– Consideration paid	–
– Consideration payable	54,568
– Contingent consideration *(note (a))*	20,000
Total purchase consideration	74,568
Less: discount impact for consideration payable due after one year	(3,568)
Less: contingent consideration	(20,000)
Fair value of purchase consideration	51,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Provisional fair value	
Property, plant and equipment	28,870
Investment properties *(note 16)*	143,667
Properties under development *(note 20)*	267,227
Completed properties held for sale *(note 21)*	94,000
Other receivables	4,542
Tax prepayments	15,388
Restricted cash	2,023
Cash and cash equivalents	38,274
Borrowings	(175,455)
Deferred tax liabilities *(note (b))*	(55,415)
Accruals and other payables	(138,651)
Deposits received on sale of properties	(109,352)
Provision for a legal claim *(note (c))*	(2,855)
Total identifiable net assets	112,263
Gain from bargain purchase *(note (d))*	61,263

	31 December 2017
Inflow of cash to acquire business, net of cash acquired	
Cash consideration paid in the year ended 31 December 2017	9,990
Less: cash and banks in Yunfu Baisheng acquired	(38,274)
Cash inflow on acquisition	(28,284)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

38 BUSINESS COMBINATION (CONTINUED)

Yunfu Baisheng (continued)

(a) Contingent consideration

Pursuant to an on-going arbitration case between Yunfu Baisheng as plantiff and a third party company, Yunfu Baisheng has initiated a claim against for breach of contract regarding the termination of a lease agreement for commercial properties. The amount of up to RMB20,000,000 is an estimated amount of claims receivable (after deducting all relevant costs and expenses incurred or to be incurred by Yunfu Baisheng) as at 28 June 2017 and will be repaid to the previous owners of Yunfu Baisheng as part settlement of the cash consideration.

(b) Deferred tax liabilities

The deferred tax liabilities includes deferred land appreciation tax of RMB16,912,000, deferred income tax liabilities recognised on temporary differences arising between the tax bases of property, plant and equipment, investment properties, properties under development and completed properties held for sale and their carrying amounts of RMB38,035,000, deferred income tax liabilities recognised on temporary differences arising between the tax bases of tax prepayments and other payables and their carrying amounts of RMB4,239,000, deferred income tax assets recognised on temporary differences arising between the tax bases of provision for a legal claim and their carrying amounts of RMB714,000, and deferred income tax assets recognised for tax losses of RMB3,057,000.

(c) Provision for a legal claim

A provision of RMB2,855,000 has been made for a legal claim of damages against the Group by the residents of a property nearby the project of Yunfu Baisheng. In the Director's opinion, after taking appropriate legal advice, the outcome of the legal claim will not give rise to any significant loss beyond the amount provided for as of 31 December 2017.

(d) Gain from bargain purchase recorded in profit and loss

The excess amount of the fair value of the net identifiable assets of Yunfu Baisheng as at 28 June 2017 over the fair value of the consideration given by the Group is recognised as a gain from bargain purchase.

(e) Revenue and loss contribution

The revenue and loss contributed by Yunfu Baisheng in the consolidated statement of comprehensive income since 28 June 2017 was RMB36,606,000 and RMB22,273,000 respectively.

Had Yunfu Baisheng been consolidated from 1 January 2017, the consolidated statement of comprehensive income would show pro-forma revenue of RMB779,454,000 and loss of RMB19,496,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

39 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES, OWNER-OCCUPIED PROPERTIES, PROPERTIES UNDER DEVELOPMENT AND COMPLETED PROPERTIES HELD FOR SALE ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR-END

(a) Fair value hierarchy

Independent valuations of the Group's investment properties, owner-occupied properties, properties under development and completed properties held for sale on the date of acquisition and investment properties at year-end were performed by independent and professionally qualified valuers to determine the fair values of the respective properties.

On the acquisition date and as at 31 December 2017, all the valuations of investment properties were within level 3 of the fair value hierarchy as the valuations were arrived at by making reference to certain significant unobservable inputs. There were no transfers between levels 1, 2 and 3 inputs during the year.

On the acquisition date of owner-occupied properties, properties under development and completed properties held for sale, the valuations were also within level 3 of the fair value hierarchy as the valuations were arrived at by making reference to certain significant unobservable inputs.

(b) Valuation processes of the Group's properties

The valuations of the Group's properties were performed by independent and professionally qualified valuers not related to the Group, who hold relevant recognised professional qualifications and have recent experience in the locations and segments of the properties valued.

The Group's finance department includes a team that reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the chief financial officer ("**CFO**") and the audit committee. Discussions of valuation processes and results are held between the CFO, the valuation team and the independent valuers at least once every six months, which is in line with the Group's interim and annual reporting dates.

At each reporting date the finance department:

- Verifies all major inputs to the independent valuation reports;
- Assesses property valuation movements when compared to the prior year valuations;
- Holds discussion with the independent valuers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES, OWNER-OCCUPIED PROPERTIES, PROPERTIES UNDER DEVELOPMENT AND COMPLETED PROPERTIES HELD FOR SALE ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR-END (CONTINUED)

(c) Valuation techniques

Valuations on the date of acquisition and as at 31 December 2017 were based on either:

Market approach by making reference to comparable sales data as available in the relevant markets, with appropriate adjustments to reflect the differences between the subject properties and the comparables in terms of various factors such as location and property size, etc.

Income approach by taking into account the passing rentals of the unexpired term of the existing tenancies of the subject properties, with due allowance on the reversionary potential of the property interests upon expiry of the leases. The rentals are then capitalized by appropriate term and reversionary yields to derive the values of the properties.

Residual approach which is applicable for development sites or properties under construction. The estimated (outstanding) construction cost, professional fees, finance cost, contingencies, marketing and legal cost, and a reasonable developer's profit margin were deducted from the gross development values of the subject properties to arrive at their "as-is" values.

The fair values of investment properties, owner-occupied properties, properties under development and completed properties held for sale on the date of acquisition have been determined by Prudential Surveyors (Hong Kong) Limited, and the fair values of investment properties at year-end have been determined by LCH (Asia-Pacific) Surveyors Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

39 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES, OWNER-OCCUPIED PROPERTIES, PROPERTIES UNDER DEVELOPMENT AND COMPLETED PROPERTIES HELD FOR SALE ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR-END (CONTINUED)

(d) Information about fair value measurements using significant unobservable inputs (level 3)

(i)

Property category	Description	Fair value at 31 December 2017	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties	Hotel	RMB103,885,000	Income approach	Market rents (RMB/ square metre/ month)	First and Second Floor of Block A: 40-55 Ancillary Block: 65	The higher the market rents, the higher the fair value, and vice versa
Completed investment properties	Industrial land	RMB3,780,000	Market approach	Market price (RMB/ square metre)	264	The higher the market rates, the higher the fair value, and vice versa
Investment properties under construction	Hotel	RMB313,265,000	Income approach	Market rents (RMB/ square metre/ month)	Third to Twenty-fourth Floor of Block A: 40-55 First and Fourth Floor of Block C: 30-43	The higher the market rents, the higher the fair value, and vice versa
Investment properties under construction	Enping shopping mall	RMB102,300,000	Income approach	Market rents (RMB/ square metre/ month)	First Floor: 54-127 Second Floor: 29-37 Third Floor: 28-33	The higher the market rents, the higher the fair value, and vice versa
Investment properties under construction	Yufun shopping mall	RMB188,180,000	Income approach	Market rents (RMB/ square metre/ month)	Cinema at Basement and First Floor: 23 First Floor: 87-140 Second Floor: 77-140 Third Floor: 60-150	The higher the market rents, the higher the fair value, and vice versa
Investment properties under construction	Yufun shopping mall	RMB29,200,000	Market approach	Market price (RMB/unit)	Parking spaces: 146,000	The higher the market rates, the higher the fair value, and vice versa

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

39 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES, OWNER-OCCUPIED PROPERTIES, PROPERTIES UNDER DEVELOPMENT AND COMPLETED PROPERTIES HELD FOR SALE ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR-END (CONTINUED)

(d) Information about fair value measurements using significant unobservable inputs (level 3) (continued)

(ii)

Property category	Description	Fair value at 28 June 2017	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Owner-occupied properties	Yunfu shopping mall	RMB28,728,000	Residual approach	Market price (RMB/ square metre)	Commercial units: 11,877	The higher the market rates, the higher the fair value, and vice versa
				Budgeted cost to be incurred (RMB)	15,439,000	The higher the budget cost, the lower the fair value, and vice versa
Investment properties under construction	Yunfu shopping mall	RMB143,667,000	Residual approach	Market price (RMB/ square metre)	Commercial units: 11,877	The higher the market rates, the higher the fair value, and vice versa
				Market price (RMB/unit)	Parking spaces: 190,000	The higher the market rates, the higher the fair value, and vice versa
				Budgeted cost to be incurred (RMB)	56,539,000	The higher the budget cost, the lower the fair value, and vice versa

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES, OWNER-OCCUPIED PROPERTIES, PROPERTIES UNDER DEVELOPMENT AND COMPLETED PROPERTIES HELD FOR SALE ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR-END (CONTINUED)

(d) Information about fair value measurements using significant unobservable inputs (level 3) (continued)

(ii) (continued)

Property category	Description	Fair value at 28 June 2017	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Properties under development	Yunfu shopping mall	RMB267,227,000	Residual approach	Market prices (RMB/ square metre)	Residential building: 6,500 Apartment building: 5,500 Commercial units: 11,877	The higher the market rates, the higher the fair value, and vice versa
				Market price (RMB/unit)	Parking spaces: 190,000	The higher the market rates, the higher the fair value, and vice versa
				Budgeted cost to be incurred (RMB)	122,022,000	The higher the budget cost, the lower the fair value, and vice versa
Completed properties held for sale	Yunfu Phase I	RMB94,000,000	Market approach	Market prices (RMB/ square metre)	Residential building: 6500 Commercial units: 10,000	The higher the market rates, the higher the fair value, and vice versa
				Market price (RMB/unit)	Parking spaces: 150,000	The higher the market rates, the higher the fair value, and vice versa

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39 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES, OWNER-OCCUPIED PROPERTIES, PROPERTIES UNDER DEVELOPMENT AND COMPLETED PROPERTIES HELD FOR SALE ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR-END (CONTINUED)

(d) Information about fair value measurements using significant unobservable inputs (level 3) (continued)

(iii)

Property category	Description	Fair value at 31 December 2016	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties	Hotel	RMB98,268,000	Income approach	Market rents (RMB/square metre/month)	First and Second Floor of Block A: 54~95 Ancillary Block: 62	The higher the market rents, the higher the fair value, and vice versa
Completed investment properties	Industrial land	RMB3,635,000	Market approach	Market price (RMB/square metre)	253.8	The higher the market rates, the higher the fair value, and vice versa
Investment properties under construction	Hotel	RMB327,752,000	Income approach	Market rents (RMB/square metre/month)	Third to Twenty-fourth Floor of Block A: 54~95 Block C: 41~69	The higher the market rents, the higher the fair value, and vice versa
Investment properties under construction	Enping shopping mall	RMB66,580,000	Income approach	Market rents (RMB/square metre/month)	Second Floor: 27 Third Floor: 27~35	The higher the market rents, the higher the fair value, and vice versa

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

40 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS

The ultimate controlling individual of the Company is Mr. Chen Daren.

The Directors of the Company are of the view that the following companies were related parties that had significant transactions or balances with the Group.

Name	Relationship with the Group
廣東益華集團投資有限公司 Guangdong Yihua Group Investment Company Limited	A company controlled by Mr. Chen Daren
廣東益華廣場管理有限公司 Guangdong Yihua Plaza Management Limited	A company controlled by Mr. Chen Daren
廣東逸豪酒店管理有限公司 Guangdong Yucca Hotel Management Limited	A company controlled by Mr. Chen Daren
中山市京華世紀酒店有限公司 Zhongshan King Century Hotel Company Limited	A company controlled by Mr. Chen Daren
中山市古鎮國貿大酒店有限公司 Zhongshan Guzhen International Hotel Limited	A company controlled by Mr. Chen Daren
江門市金匯世紀廣場物業管理有限公司 Jiangmen Jinhui Century Square Property Management Company Limited	A company controlled by Mr. Chen Daren
江門市逸豪酒店有限公司 Jiangmen Yucca Hotel Company Limited	A company controlled by Mr. Chen Daren
中山市東阜國貿逸豪酒店有限公司（原名：中山市阜沙國貿逸豪酒店有限公司） ZhongshanDongfu International Trade Yucca Hotel Company Limited(formerly known as Zhongshan Fusha International Trade Yucca Hotel Company Limited)	A company controlled by Mr. Chen Daren
泰安益華置業開發有限公司 Tai'an Yihua Property Development Company Limited	A company controlled by Mr. Chen Daren
鎮江華龍廣場置業有限公司 Zhenjiang Hualong Plaza Properties Company Limited	A company controlled by Mr. Chen Daren

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

40 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Name	Relationship with the Group
肇慶市益華實業有限公司 Zhaoqing Yihua Industrial Company Limited	A company controlled by Mr. Chen Daren
中山市益通寶智能網絡科技有限公司 Zhongshan Yitongbao Intelligent Technology Company Limited	A company controlled by Mr. Chen Daren
Jaguar Asian	A company controlled by Mr. Chen Daren
粵光企業有限公司 Yue Guang Business Company Limited	A company controlled by Mr. Chen Daren
中山市新都酒店有限公司 Zhongshan Xindu Hotel Company Limited	A company controlled by Mr. Chen Daren
中山市阜沙國貿廣場有限公司 Zhongshan Fusha International Trade Square Company Limited	A company controlled by Mr. Chen Daren
江門市潮苑酒樓有限公司 Jiangmen Chaoyuan Restaurant Company Limited	A company controlled by Mr. Chen Daren
江門市威爾遜酒店有限公司 Jiangmen Wilson Hotel Company Limited	A company controlled by Mr. Chen Daren
陽東逸豪金倫餐飲管理有限公司 Yangdong yucca Kienlen Catering Management Company Limited	A company controlled by Mr. Chen Daren
中山市益華世聯科技有限公司 Zhongshan Yihua Shilian Technology Company Limited	A company controlled by Mr. Chen Daren
中山市太陽城京華餐飲娛樂管理有限公司 Zhongshan Suncity Jinghua catering and Entertainment Management Company Limited	A company controlled by Mr. Chen Daren
鎮江逸豪酒店有限公司 Zhenjiang Yucca Hotel Company Limited	A company controlled by Mr. Chen Daren
鎮江逸豪置業有限公司 Zhenjiang Yucca Properties Limited	A company controlled by Mr. Chen Daren

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

40 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Name	Relationship with the Group
肇慶市加洲新城房地產實業開發有限公司 Zhaoqing Jiazhou Xincheng Real Estate Industry Development Company Limited	A company controlled by Mr. Chen Daren
肇慶益華物業管理有限公司 Zhaoqing Yihua Property Management Company Limited	A company controlled by Mr. Chen Daren
陽江市宏圖物業管理有限公司 Yangjiang City Hongtu Property Management Limited Company	A company jointly controlled by Mr. Chen Daren and third parties
陽江宏高房地產發展有限公司 Yangjiang Honggao Real Estate Development Limited	A company jointly controlled by Mr. Chen Daren and third parties
中山市益華廣場實業有限公司 Zhongshan Yihua Plaza Industrial Corporation Limited	A company jointly controlled by Mr. Chen Daren and third parties
江蘇益華廣場管理有限公司 Jiangsu Yihua Plaza Management Limited	A company jointly controlled by Mr. Chen Daren and third parties
小霸王文化發展有限公司 （原名：中山市小霸王文化產業有限公司） Subor (formerly known as Zhongshan Subor Cultural Industry Company Limited)	An associate of the Group
陳達仁 Mr. Chen Daren	A director of the Company
陳健仁 Mr. Chen Jianren	A director of the Company
陳正陶 Mr. Chen Zhengtao	A director of the Company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

40 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant transactions with related parties

The following is a summary of significant related party transactions which, in the opinion of the directors, are entered into in the ordinary course of business between the Company and its related parties, and the balances arising from related party transactions in addition to the related party information shown elsewhere in these financial statements.

During the year ended 31 December 2017, the Group had the following significant transactions with related parties:

(i) Rental expenses and property management fee

	Year ended 31 December	
	2017	2016
Companies controlled by Mr. Chen Daren	**64,897**	59,831
Companies jointly controlled by Mr. Chen Daren and third parties	**7,461**	5,243
	72,358	65,074

(ii) Purchase of services

	Year ended 31 December	
	2017	2016
Companies controlled by Mr. Chen Daren	**1,308**	923

(iii) Sales of goods

	Year ended 31 December	
	2017	2016
Companies controlled by Mr. Chen Daren	**1,376**	1,809

(iv) Provision of financial guarantees

	Year ended 31 December	
	2017	2016
An associate of the Group *(note 35(a))*	**65,342**	69,370

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

40 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant transactions with related parties (continued)

(v) ***Financial guarantees for borrowings (note 31)***

	Year ended 31 December	
	2017	2016
Mr. Chen Zhengtao	**40,000**	–
Mr. Chen Daren	**22,951**	–
Mr. Chen Jianren	**–**	14,223
	62,951	14,223

(vi) On 24 June 2016, the Group acquired 58.08% equity interests of Enping Hotel from Guangdong Yihua Group Investment Company Limited, which is a company controlled by Mr. Chen Daren.

(b) Balances with related parties

(i) ***Amounts due from related parties***

	As at 31 December	
	2017	2016
Companies controlled by Mr. Chen Daren	**86,064**	47,707
Companies jointly controlled by Mr. Chen Daren and third parties	**4,875**	4,403
An associate of the Group	**17,975**	10,665
	108,914	62,775

The amounts due from related parties as at 31 December 2017 included trade receivables, prepaid rental and prepaid deposits, which were all denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

40 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (continued)

(i) Amounts due from related parties (continued)

As at 31 December 2017 and 2016, the aging of trade receivables due from related parties based on invoice date, amounting RMB4,551,000 (31 December 2016: RMB3,037,000), are as follows:

	As at 31 December	
	2017	2016
Trade receivable due from related parties		
– Within 2 months	**2,922**	1,870
– Over 2 months	**1,629**	1,437
	4,551	3,307

The balance of trade receivables mainly represents sales of goods to related parties, the credit terms of which are generally 30 to 60 days. As at 31 December 2017, trade receivables due from related parties of approximately RMB1,629,000 (31 December 2016: RMB1,437,000) were past due but not impaired since there is no recent history of default. The fair value of such trade receivables approximated to their fair value.

As at 31 December 2017, other receivables due from related parties of approximately RMB1,206,000 (31 December 2016: Nil) were impaired, which represents utilities paid on behalf of a wound up related party in 2017.

(ii) Amounts due to related parties

	As at 31 December	
	2017	2016
Companies controlled by Mr. Chen Daren	**12,216**	7,311
Companies jointly controlled by Mr. Chen Daren and third parties	**4,780**	2,041
An associate of the Group	**–**	1,000
	16,996	10,352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

40 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	Year ended 31 December	
	2017	2016
Basic salaries and allowances	**7,907**	9,385
Other benefits including retirement benefit contribution	**182**	680
	8,089	10,065

41 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2017:

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the British Virgin Islands (the "BVI") and directly owned				
萬利貿易有限公司 Billion Profit Trading Limited (Formerly named: Mentor Asia Limited)	BVI, 15 June 2000 limited liability company	US$10,000	Investment holding, BVI	100%
卓融環球有限公司 Ace Fusion Global Limited	BVI, 1 July 2015 limited liability company	US$1	Investment holding, BVI	100%
盛卓環球有限公司 Prime Vantage Global Limited	BVI, 5 January 2016 limited liability company	US$1	Investment holding, BVI	100%
Subsidiaries – Incorporated in the Hong Kong and indirectly owned				
智鏈設備有限公司 Intelligence Link Limited	Hong Kong, 3 May 1994 limited liability company	HK$10,000	Investment holding, Hong Kong	100%
益華投資發展 (香港) 有限公司 Yihua Investment Development (HK) Limited	Hong Kong, 30 October 2015 limited liability company	HK$1	Investment holding, Hong Kong	100%

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(All amounts expressed in RMB thousands unless otherwise stated)

41 SUBSIDIARIES (CONTINUED)

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the Hong Kong and indirectly owned (continued)				
益華萬果商業科技有限公司 Yihua Wanguo Commercial Technology Limited	Hong Kong, 30 October 2015 limited liability company	HK$10,000,000	Investment holding, Hong Kong	100%
香港益華新天地置業有限公司 Yihua Hong Kong New Sky Properties Limited	Hong Kong, 18 August 2015 limited liability company	HK$1	Investment holding, Hong Kong	100%
Subsidiaries – Incorporated in the PRC and indirectly owned				
中山市朗華模具塑料有限公司 Zhongshan Lonwalk Mould Plastic Co. Ltd.*	PRC, 16 October 2000 limited liability company	RMB40,000,000	Investment holding, PRC	100%
廣東益華百貨有限公司 Yihua Department Store Limited*	PRC, 24 October 1994 limited liability company	RMB80,000,000	Department store operations, PRC	100%
中山市古鎮益華百貨有限公司 Zhongshan Guzhen Yihua Department Store Limited*	PRC, 29 March 2006 limited liability company	RMB5,000,000	Department store operations, PRC	100%
江門市益華百貨有限公司 Jiangmen Yihua Department Store Limited*	PRC, 24 August 2004 limited liability company	RMB5,000,000	Department store operations, PRC	100%
江門市益華世家家居有限公司 Jiangmen Yihua Shijia Jiaju Limited*	PRC, 29 August 2013 limited liability company	RMB1,000,000	Furniture store operations, PRC	100%
清遠城市廣場益華百貨有限公司 Qingyuan City Plaza Yihua Department Store Limited*	PRC, 16 October 2003 limited liability company	RMB5,000,000	Department store operations, PRC	100%

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41 SUBSIDIARIES (CONTINUED)

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the PRC and indirectly owned (continued)				
韶關市益華百貨有限公司 Shaoguan Yihua Department Store Limited*	PRC, 3 August 2007 limited liability company	RMB5,000,000	Department store operations, PRC	59%
鎮江益華百貨有限公司 Zhengjiang Yihua Department Store Limited*	PRC, 5 June 2013 limited liability company	RMB5,000,000	Department store operations, PRC	100%
中山市益華世家家居有限公司 Zhongshan Yihua Shijia Jiaju Limited*	PRC, 11 September 2012 limited liability company	RMB5,000,000	Furniture store operations, PRC	100%
陽春市益華百貨有限公司 Yangchun Yihua Department Store Limited*	PRC, 28 September 2012 limited liability company	RMB1,000,000	Department store operations, PRC	100%
中山市太陽城益華有限公司 Zhongshan Taiyangcheng Yihua Department Store Limited*	PRC, 9 November 2012 limited liability company	RMB1,000,000	Department store operations, PRC	100%
泰安益華商業有限公司 Tai'an Yihua Commercial Limited*	PRC, 10 December 2012 limited liability company	RMB1,000,000	Department store operations, PRC	100%
英德市益華百貨有限公司 Yingde Yihua Department Store Limited*	PRC, 11 December 2012 limited liability company	RMB1,000,000	Department store operations, RPC	100%
陽江市益華百貨有限公司 Yangjiang Yihua Department Store Limited*	PRC, 28 January 2014 limited liability company	RMB5,000,000	Department store operations, PRC	100%

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(All amounts expressed in RMB thousands unless otherwise stated)

41 SUBSIDIARIES (CONTINUED)

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the PRC and indirectly owned (continued)				
陽江市益華世家家居有限公司 Yangjiang Yihua Shijia Jiaju Limited*	PRC, 6 May 2013 limited liability company	RMB5,000,000	Furniture store operations, PRC	100%
恩平市益華百貨有限公司 Enping Yihua Department Store Limited*	PRC, 16 April 2014 limited liability company	RMB5,000,000	Department store operations, PRC	100%
肇慶市益華購物廣場有限公司 Zhaoqing Yihua Plaza Limited*	RRC, 3 August 2015 limited liability company	RMB1,000,000	Department store operations, PRC	100%
廣東益華跨電商業有限公司 Guangdong Yihua Cross-Border Commerce Limited*	PRC, 26 May 2015 limited liability company	RMB10,000,000	E-commerce, PRC	100%
廣東益華跨電商業中山有限公司 Guangdong Yihua Zhongshan Cross-Border Commerce Limited*	PRC, 10 June 2015 limited liability company	RMB10,000,000	E-commerce, PRC	100%
江門市益華跨電商業有限公司 Jiangmen Yihua Cross-Border Commerce Limited*	PRC, 17 July 2015 limited liability company	RMB10,000,000	E-commerce, PRC	100%
廣東益華商業發展有限公司 Guangdong Yihua Commerce Limited*	PRC, 15 December 2015 limited liability company	RMB10,000,000	Department store operations, PRC	100%
中山益華萬果商貿有限公司 Yihua Wanguo Commerce Limited*	PRC, 27 July 2015 limited liability company	RMB5,000,000	Department store operations, PRC	100%
中山市南朗益華購物廣場有限公司 Zhongshan Nanlang Yihua Plaza Limited*	PRC, 1 June 2015 limited liability company	RMB1,000,000	Department store operations, PRC	100%

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41 SUBSIDIARIES (CONTINUED)

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the PRC and indirectly owned (continued)				
中山益華購物廣場管理發展有限公司 Zhongshan Yihua Plaza Managment and Development Co., Ltd*	PRC, 19 January 2016 limited liability company	RMB5,000,000	Department store operations, PRC	100%
中山益華世家科技有限公司 Zhongshan Yihuashijia Technology Co., Ltd*	PRC, 19 January 2016 limited liability company	RMB5,000,000	Department store operations, PRC	70%
廣東益高蔬果食品進出口有限公司 Guangdong Yigao Vegetable & Fruit Import and Export Co., Ltd*	PRC, 14 April 2016 limited liability company	RMB10,000,000	Vegetables and fruits store operations, PRC	51%
恩平市康盛酒店管理有限公司 Enping Hotel*	PRC, 11 July 2012 limited liability company	RMB153,000,000	Property investment, PRC	100%
肇慶市華萊置業發展有限公司 Zhaoqing Hualai Property Development Company Limited*	PRC, 29 June 2005 limited liability company	RMB30,000,000	Property development, PRC	100%
肇慶益華商業投資有限公司 Zhaoqing Yihua Commerce Investment Co., Ltd*	PRC, 25 June 2016 limited liability company	RMB5,000,000	Investment holding, PRC	100%
雲浮市泰瑞百盛房地產開發有限公司 Yunfu Baisheng*	PRC, 28 February 2011 limited liability company	RMB9,900,000	Property development, PRC	100%
雲浮市益華商業發展有限公司 Yunfu Yihua Commerce Investment Co., Ltd*	PRC, 24 January 2017 limited liability company	RMB5,000,000	Investment holding, PRC	100%

* The English name of the subsidiaries represents the best effort by the management of the Group in translating their Chinese name as they do not have an official English name.

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(All amounts expressed in RMB thousands unless otherwise stated)

42 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	As at 31 December 2017	2016
Non-current assets			
Investment in subsidiaries		**28,276**	28,276
Amounts due from subsidiaries		**88,401**	89,124
		116,677	117,400
Current assets			
Prepayments and other receivables		**14,852**	12,561
Amounts due from subsidiaries		**160,596**	63,000
Cash and cash equivalents		**231**	21,839
		175,679	97,400
Total assets		**292,356**	214,800
Equity attributable to equity holders of the Company			
Share capital		**3,956**	3,925
Other reserves	(a)	**119,562**	152,034
Accumulated losses	(b)	**(37,714)**	(20,000)
Total equity		**85,804**	135,959
Current liabilities			
Other payables		**48,835**	15,313
Borrowings		**63,306**	35,655
		112,141	50,968
Non-current liabilities			
Borrowings		**94,411**	27,873
Total liabilities		**206,552**	78,841
Total equity and liabilities		**292,356**	214,800

The balance sheet of the Company was approved by the Board of Directors on 29 March 2018 and was signed on its behalf.

Fan Xinpei **Chen Zhengtao**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

42 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Movement of other reserves

	Share premium	Capital reserve	Total
At 1 January 2016	138,520	28,000	166,520
Issue of shares upon 2015 Scrip Dividend Scheme *(note 28(a))*	(85)	–	(85)
Dividend distributed *(note 13)*	(14,401)	–	(14,401)
At 31 December 2016	124,034	28,000	152,034
At 1 January 2017	**124,034**	**28,000**	**152,034**
Issue of shares upon 2016 Scrip Dividend Scheme *(note 28(c))*	**(31)**	**–**	**(31)**
Dividend distributed *(note 13)*	**(32,441)**	**–**	**(32,441)**
At 31 December 2017	**91,562**	**28,000**	**119,562**

(b) Movement of accumulated losses

	Year ended 31 December	
	2017	2016
At the beginning of the year	**(20,000)**	(10,355)
Loss for the year	**(17,714)**	(9,645)
At the end of the year	**(37,714)**	(20,000)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

43 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2017:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

	Fees	Basic salaries	Housing funds	Employer's contribution to social insurance and other benefits	Total
Executive directors					
Mr. Fan Xinpei *(note (i))*	–	1,210	–	–	1,210
Mr. Lin Guangzheng	–	803	15	34	852
Mr. Su Weibing	–	802	15	34	851
Mr. Chen Jianren *(note (i))*	–	1,280	–	–	1,280
Mr. Chen Zhengtao *(note (ii))*	–	1,151	15	34	1,200
Mr. Leung Wai Kwan *(note (iii))*	–	804	–	–	804
Mr. Wei Chaoling *(note (iv))*	–	451	2	21	474
Non-executive director					
Mr. Chen Daren	–	61	–	–	61
Independent non-executive directors					
Mr. Sun Hong	81	–	–	–	81
Mr. Xu Yinzhou	81	–	–	–	81
Ms. Hung Wan Fong, Joanne *(note (v))*	104	–	–	–	104
Ms. Lai Pou Lam, Mina *(note (vi))*	104	–	–	–	104
	370	6,562	47	123	7,102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

43 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (continued)

For the year ended 31 December 2016:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

	Fees	Basic salaries	Housing funds	Employer's contribution to social insurance and other benefits	Total
Executive directors					
Mr. Fan Xinpei *(note (i))*	–	1,481	–	–	1,481
Mr. Lin Guangzheng	–	803	13	66	882
Mr. Su Weibing	–	822	13	96	931
Mr. Chen Jianren *(note (i))*	–	1,300	–	30	1,330
Mr. Chen Zhengtao *(note (ii))*	–	795	12	–	807
Mr. Leung Wai Kwan *(note (iii))*	–	411	–	–	411
Non-executive director					
Mr. Chen Daren	–	61	–	–	61
Independent non-executive directors					
Mr. Sun Hong	81	–	–	–	81
Mr. Xu Yinzhou	81	–	–	–	81
Ms. Hung Wan Fong, Joanne *(note (v))*	54	–	–	–	54
Ms. Lai Pou Lam, Mina *(note (vi))*	30	–	–	–	30
	246	5,673	38	192	6,149

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

43 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (continued)

(i) Mr. Fan Xinpei is the chief executive officer of the Group and Mr. Chen Jianren is the chairman of the Group.

(ii) Mr. Chen Zhengtao was appointed as executive director on 4 May 2015.

(iii) Mr. Leung Wai Kwan was re-designated as executive director on 20 June 2016.

(iv) Mr. Wei Chaoling was appointed as executive director on 17 July 2017.

(v) Ms. Hung Wan Fong, Joanne was appointed as independent non-executive director on 20 June 2016.

(vi) Ms. Lai Pou Lam, Mina was appointed as independent non-executive Director on 19 September 2016.

(b) Director's retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2016: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year, the Company did not pay consideration to any third parties for making available directors' services (2016: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2017, there is no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: Nil).

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(All amounts expressed in RMB thousands unless otherwise stated)

44 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2017:

(a) On 2 January 2018, 10 January 2018 and 26 January 2018, the Group issued 7% bonds which will be due for payment on 1 January 2024, 9 January 2021 and 25 January 2021 respectively. The aggregated principal amount of the bonds amounted to HK$16,000,000 (equivalent to RMB13,301,000).

On 28 January 2018, 2 February 2018, 13 March 2018 and 20 March 2018, the Group issued 6.5% bonds which will be due for payment on 27 January 2020, 1 February 2020, 12 March 2020 and 19 March 2020 respectively. The aggregated principal amount of the bonds amounted to HK$7,000,000 (equivalent to RMB5,703,000).

In this connection, the Group raised net proceeds of approximately RMB18,162,000.

(b) During the period from January 2018 to February 2018, the Group obtained an advance from a director, Mr Chen Daren, amounting to HK$70,820,000 (equivalent to RMB57,762.000). The advance is interest free and unsecured. Mr. Chen Daren has also provided an undertaking to the Group for not requesting repayment of the advance before 31 December 2019.

(c) On 5 February 2018, Enping Hotel signed a contract with a third party to sell sixty-one apartments of the fifth to twenty-second floor of Block C of the property for approximately RMB11,341,000.

(d) On 11 February 2018, a wholly owned subsidiary of the Group obtained an eighteen-month borrowing of RMB35,000,000 from a third party bearing interest rate of 4.32% per annum. This borrowing is secured by the guarantee given by the Company.

(e) On 23 March 2018, a wholly owned subsidiary of the Group, entered into an agreement with a financial institution for a three-year borrowing of RMB40,000,000 which bears interest rate of 8.645% per annum.