2018
Annual Report

益華控股有限公司
YI HUA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2213

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

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

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
Guangzhou Rural Commercial Bank

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

Corporate Governance Professionals Limited
(formerly known as Baker Tilly Hong Kong Risk Assurance Limited)

LEGAL ADVISER 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	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018 RMB'000**
Revenue	710,146	655,277	582,598	754,312	**773,335**
Operating profit/(loss)	45,927	40,145	121,434	47,769	**(51,669)**
Profit/(loss) for the year from continuing operations	29,066	20,531	73,908	(9,789)	**(115,171)**
Profit/(loss) for the year	29,066	20,531	73,908	(9,789)	**(115,171)**
Total comprehensive income/(loss) attributable to the owners of the Company	27,054	26,478	71,935	(3,335)	**(117,386)**
Total comprehensive income/(loss) attributable to the owners of the Company from continuing operations	27,054	26,478	71,935	(3,335)	**(117,386)**
Earnings/(losses) per share attributable to the owners of the Company	0.0270 (restated, note 1)	0.0191 (restated, note 1)	0.0730 (restated, note 1)	(0.0115)	**(0.1170)**
Earnings/(losses) per share attributable to the owners of the Company from continuing operations	0.0270 (restated, note 1)	0.0191 (restated, note 1)	0.0730 (restated, note 1)	(0.0115)	**(0.1170)**
Consolidated balance sheet summary					
Non-current assets	355,584	455,214	792,010	1,032,694	**1,056,677**
Current assets	375,425	360,013	772,850	1,232,214	**1,124,290**
Total assets	731,009	815,227	1,564,860	2,264,908	**2,180,967**
Non-current liabilities	35,300	54,720	333,042	487,671	**508,174**
Current liabilities	533,618	516,546	928,950	1,508,120	**1,513,333**
Total liabilities	568,918	571,266	1,261,992	1,995,791	**2,021,507**
Net assets	162,091	243,961	302,868	269,117	**159,460**
Equity attributable to owners of the Company	159,358	239,867	297,401	261,625	**151,614**
Non-controlling interests	2,733	4,094	5,467	7,492	**7,846**
Total equity	162,091	243,961	302,868	269,117	**159,460**

Note 1: 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 29.

CHAIRMAN'S STATEMENT

INDUSTRY REVIEW

The Chinese economy recorded a Gross Domestic Product growth rate of 6.6% in 2018, down by 0.3% from the growth rate of 6.9% in 2017. Faced with unfavourable macroeconomic conditions, the retail market in China revealed a falling trend. Economic uncertainties had impacts on the Chinese consumer sentiments and demand. However, consumption upgrade is expected to continue in 2019. It is expected that in 2019 consumption will be the major driver of economic growth in China. Despite the unfavourable macroeconomic conditions and Sino-US trade friction, it is expected that the consumer market in China will remain steady and positive with an optimistic outlook.

Amid uncertainties in the macroeconomic environment. The Group will continue to focus on optimising the operation enhancement of core business while seizing the opportunities arising from consumption upgrade in the course of transformation and strengthening the development of new business so as to strengthen its resilience.

BUSINESS REVIEW

For the year ended 31 December 2018, the Group's revenue was approximately RMB773.3 million, representing an increase of approximately 2.5% 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 approximately RMB354.5 million, representing an increase of 13.5% over the last year. Operating loss was approximately RMB51.7 million, compared to an operating profit of RMB47.8 million last year. Loss attributable to owners of the Company was approximately RMB117.4 million, representing an increase of 920.6% over the last year.

CHAIRMAN'S STATEMENT

New business of convenience stores

During 2018, the Group has continued to open convenience stores. As at 31 December 2018, the Group has opened 85 convenience stores, of which 36 stores are direct-operated and 49 stores are franchised. The Group will continue to open more convenience stores which can supplement our supermarkets' deficiencies.

Game Console business

The Group's 49% held associate, Subor Cultural Development 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 game consoles have been formally launched in the China Joy Expo 2018 held on 3 August 2018 in Shanghai. On 14 May 2018, the Olympic Council of Asia announced that Electronic sports ("Esports") have been incorporated as a demonstration sport in the Jakarta Palembang 2018 Asian Games, and has considered that Esports could be included as an official medal sport at the 2022 Asian Games. From games played by a small group of people to the Esports item in the Asian Games, it is expected that Esports will be played in the Olympic Games.

CHAIRMAN'S STATEMENT

Against this backdrop, the development of Esports in China is accelerating. Our game console is using Windows 10 for the operating system, and it is not just a game console but also a personal computer. As tested, the game console meets the standards of the Esports console requirement and can be used in Esports competitions. Our game console is above average in terms of functionality. With the promotion and development of Esports, the Board expects that the market prospects of our game console will be promising.

Launching our game console is only the first step to enter the Esports market of China. The JV Company will launch its own online game platform in the first half of 2019, and several of the games are exclusive games being invested in by the JV Company. As the online game platform becomes available on the internet, the Company expects that the sales volume of the game console will be driven up.

Opening of a shopping mall in Yunfu

The shopping mall located in Yunfu City acquired in 2017 has been opened in September 2018 and the occupancy rate is almost 100%. The full occupancy rate is attributable to the prime location of the shopping mall and this acquisition set a model for our future potential acquisition.

CHAIRMAN'S STATEMENT

OUTLOOK AND PROSPECTS

In 2019, the economy of China will face even more complicated and severe pressure from the external environment over that of 2018. The Group will endeavour to maintain a sound strategy to capture the opportunities arising from consumption upgrade. At the same time, it will place emphasis on increasing the business size and efficiency and strengthen the control of costs and expenses to vigorously push ahead the Group's healthy and sustainable development with a view to generating more attractive returns for the shareholders. Its areas of focus are mainly as follows:

1. Continue to transform the department store business model to a shopping mall business model and push ahead the upgrade of stores to shopping mall while fully implementing the store renovation work in 2019; focus on exploring the potential of store results performance and further consolidate the leading position of key stores.

2. Expedite the establishment of convenience stores to attain economies of scale as soon as possible; focus on regions with development potential and enhance the efficiency of existing stores.

Apart from the development priorities of the existing businesses mentioned above, the Group's major stores located in the Greater Bay Area enjoy the geographical advantages of the Greater Bay Area. The Group will proactively look for good investment projects in the Greater Bay Area to enhance the Group's profitability.

CHAIRMAN'S STATEMENT

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

28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2018, the Group recorded a revenue of approximately RMB773.3 million, representing an increase of approximately 2.5% or approximately RMB19.0 million year on year.

The following table sets forth a breakdown of the Group's revenue for the two years ended 31 December 2018 and 2017.

	Year ended 31 December																
	2018									2017							
	Department store RMB'000	Supermarket and convenience store RMB'000	Electrical appliance RMB'000	Furniture RMB'000	Consulting service RMB'000	Property investment RMB'000	Property development RMB'000	Others RMB'000	Total RMB'000	Department store RMB'000	Supermarket and convenience store RMB'000	Electrical appliance RMB'000	Furniture RMB'000	Consulting service RMB'000	Property investment RMB'000	Property development RMB'000	Total RMB'000
Direct sales of goods	48	135,515	25,015	-	-	-	-	657	161,235	857	170,766	47,988	51	–	–	–	219,662
Commission income from concessionaire sales	138,711	14,140	6,157	-	-	-	-	-	159,008	152,166	12,263	6,253	–	–	–	–	170,682
Management fee and service income from operations	36,328	9,306	3,121	-	-	-	-	-	48,755	35,294	9,199	4,288	366	–	–	–	49,147
Rental income	32,518	13,117	332	1,986	-	23,478	-	-	71,431	27,639	11,659	650	1,844	–	2,044	–	43,836
Consulting service income	-	-	-	-	2,236	-	-	-	2,236	–	–	–	–	7,805	–	–	7,805
Sales of properties	-	-	-	-	-	-	330,118	-	330,118	–	–	–	–	–	–	263,180	263,180
Franchise income	-	552	-	-	-	-	-	-	552	–	–	–	–	–	–	–	–
	207,605	172,630	34,625	1,986	2,236	23,478	330,118	657	773,335	215,956	203,887	59,179	2,261	7,805	2,044	263,180	754,312

Direct sales of goods

For the year ended 31 December 2018, the revenue from direct sales was approximately RMB161.2 million, representing a decrease of approximately RMB58.5 million or approximately 26.6%, from approximately RMB219.7 million for the year ended 31 December 2017.

The decrease was mainly due to the decrease in revenue in supermarket and convenience store segment and electrical appliance segment by 20.6% and 47.9%, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Commission income from concessionaire sales

For the year ended 31 December 2018, the revenue from concessionaire sales was approximately RMB159.0 million, representing a slight decrease of approximately RMB11.7 million, or approximately 6.9%, from approximately RMB170.7 million for the year ended 31 December 2017. The decrease was mainly due to the reduced in operational areas and shift the areas to tenants for receiving a fixed rental income.

Management fee and service income from operations

For the year ended 31 December 2018, the management fee and service income from operations were approximately RMB48.8 million, representing a slight decrease of approximately RMB0.3 million, or approximately 0.6% from approximately RMB49.1 million for the year ended 31 December 2017.

Rental income

For the year ended 31 December 2018, the revenue from rental income was approximately RM71.4 million, representing a significant increase of approximately RMB27.6 million, or approximately 63.0%, from approximately RMB43.8 million for the year ended 31 December 2017. 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 2018, the Group has entered agreements with one independent commercial complex operator and recorded a revenue of RMB2.2 million for the service provided, representing a decrease of approximately RMB5.6 million, or approximately 71.8%, from approximately RMB7.8 million for the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

For the year ended 31 December 2018, the total gross profit were approximately RMB354.5 million, an increase of approximately RMB42.2 million, or approximately 13.5%, from approximately RMB312.3 million for the year ended 31 December 2017. The gross profit margin for the years ended 31 December 2018 and 2017 was approximately 45.8% and approximately 41.4%, respectively, represented an increase of approximately 4.4%. The increase in the gross profit margin was partly due to the increase in the rental income derived from the investment properties.

Other income

For the year ended 31 December 2018, the other income was approximately RMB3.9 million, an increase of approximately RMB2.4 million, from approximately RMB1.5 million for the year ended 31 December 2017. 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 Tairui Baisheng Real Estate Development Co., Ltd. ("Yunfu Baisheng") on 28 June 2017. The gain from bargain purchase was a non-recurrent item.

Fair value gain on investment properties

For the year ended 31 December 2018, the fair value gain on investment properties was approximately RMB30.5 million, a decrease of approximately RMB44.2 million, from approximately RMB74.7 million for the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Other losses – net

For the year ended 31 December 2018, the other losses were approximately RMB1.0 million, a decrease of approximately RMB1.5 million, from approximately RMB2.5 million for the year ended 31 December 2017.

Purchases of and changes in inventories

For the year ended 31 December 2018, the purchases of and changes in inventories was approximately RMB139.3 million, representing a decrease of approximately RMB48 million, or approximately 25.6%, from approximately RMB187.3 million for the year ended 31 December 2017. The decrease was in line with the decrease in direct sales of goods.

Constructions of and changes in completed properties held for sale

For the year ended 31 December 2018, the constructions of and changes in completed properties held for sale was approximately RMB279.5 million, representing an increase of approximately RMB24.8 million, or approximately 9.7% from approximately RMB254.7 million for the year ended 31 December 2017.

Employee benefit expenses

For the year ended 31 December 2018, the employee benefit expenses were approximately RMB95.6 million, a decrease of approximately RMB2.3 million, or approximately 2.3%, from approximately RMB97.9 million for the year ended 31 December 2017. 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 2018, the depreciation and amortisation were approximately RMB24.9 million, a decrease of approximately RMB2.9 million, or approximately 10.4%, from approximately RMB27.8 million for the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Provision for impairment of property, plant and equipment

During the year ended 31 December 2018, 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 RMB20.2 million was recognised during the year ended 31 December 2018, an increase of approximately RMB3.1 million, or approximately 18.1%, from approximately RMB17.1 million for the year ended 31 December 2017.

Operating lease rental expenses and property management fee

For the year ended 31 December 2018, the operating lease rental expenses and property management fee was approximately RMB151.8 million, an increase of approximately RMB19.4 million, or approximately 14.7%, from approximately RMB132.4 million for the year ended 31 December 2017. This increase was primarily due to the expanded areas of our Jiangmen store.

Other operating expenses

For the year ended 31 December 2018, the other operating expenses were approximately RMB133.3 million, an increase of approximately RMB22.0 million, or approximately 19.8%, from approximately RMB111.3 million for the year ended 31 December 2017.

The increase was mainly attributable to: (i) the foreign exchange losses of approximately RMB8.0 million for the year ended 31 December 2018, as compared to a foreign exchange gain of approximately RMB4.4 million for the year ended 31 December 2017; (ii) advertising and promotion expenses increased by approximately RMB2.4 million, which was due to the increase sales activities of properties; (iii) Entertainment expenses increased by RMB2.7 million, which was due to the opening of shopping mall in Yunfu City; and (iv) other taxes increased by approximately RMB2.9 million, which was due to the housing property tax for leasing the Block A of Enping Hotel.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs – net

For the year ended 31 December 2018, the net finance costs was approximately RMB44.0 million, an increase of approximately RMB4.6 million, or approximately 11.7%, from approximately RMB39.4 million for the year ended 31 December 2017. The increase was mainly attributable to the increase in borrowings during the year ended 31 December 2018.

Share of net losses of an associate

For the year ended 31 December 2018, the share of loss of an associate was approximately RMB7.3 million, an increase of approximately RMB1.9 million, or approximately 35.2%, from approximately RMB5.4 million for the year ended 31 December 2017.

Income tax expenses

For the year ended 31 December 2018, the income tax expenses were approximately RMB12.2 million a decrease of approximately RMB0.5 million, or approximately 3.9%, from approximately RMB12.7 million for the year ended 31 December 2017.

Loss for the year

For the year ended 31 December 2018, the loss for the year was approximately RMB115.2 million, an increase of approximately RMB105.4 million, or approximately 1,075.5%, from approximately RMB9.8 million for the year ended 31 December 2017.

Loss attributable to owners of the Company

For the year ended 31 December 2018, the loss attributable to owners of the Company was approximately RMB117.4 million, an increase of approximately RMB105.9 million, or approximately 920.9%, from approximately RMB11.5 million for the year ended 31 December 2017.

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 RMB216.1 million and approximately RMB253.9 million as at 31 December 2018 and 2017, respectively. The outstanding borrowings of the Group amounted to approximately RMB605.5 million as at 31 December 2018.

As at 31 December 2018 and 2017, total current assets of the Group amounted to approximately RMB1,124.3 million and approximately RMB1,232.2 million, respectively, whereas total current liabilities amounted to approximately RMB1,513.3 million and approximately RMB1,508.1 million, respectively, which resulted in a net current liabilities position of approximately RMB389.0 million and approximately RMB275.9 million, respectively as at 31 December 2018 and 2017.

Gearing ratio

As at 31 December 2018 and 2017, the gearing ratios were approximately 92.7% and 88.1%, respectively. The gearing ratio is calculated as total liabilities divided by total assets at the balance sheet dates.

Pledge of assets

As at 31 December 2018, certain investment properties and properties under development of the Group with an aggregate carrying amount of RMB475.0 million (31 December 2017: RMB509.4 million) were pledged as collateral for the Group's borrowings.

Employees

As at 31 December 2018, total number of employees for the Group was 1,160 (31 December 2017: 1,445). 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 RMB68.6 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

The Group did not have any significant investments and disposals during the year ended 31 December 2018.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers ("PwC"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on the preliminary announcement.

REVIEW OF FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

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

The Audit Committee had reviewed the annual results of the Group for the year ended 31 December 2018 and the independent auditor's report thereon.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN AND EXECUTIVE DIRECTORS

Mr. Chen Jianren (陳健仁), aged 65, 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.

Mr. Fan Xinpei (范新培), aged 64, 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 60, 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 59, 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 35, 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 Jianren, 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 55, 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 three companies listed on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"), namely New Smart Energy Group Limited (Stock code: 91) from October 1999 to June 2005; China Mining Resources Group Limited (Stock code: 340) from May 2000 to June 2004 and Ding He Mining Holdings Limited (Stock code: 705) from September 2010 to January 2019. 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 41, is an Executive Director of the Company. Mr. Wei 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 63, 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 Jiaren, an Executive Director and the Chairman of the Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Hong (孫洪), aged 70, 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.

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 72, 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 (洪縕舫), aged 45, 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 64, 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 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 53, 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 39, 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 39, 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 2018.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhancing corporate governance and transparency of the Group by applying the principles in the code provisions of the CG Code on Corporate Governance Practices (the "**CG Code**") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). The Board has reviewed measures to adopt the CG Code as the Company's code of corporate governance practices. During the year ended 31 December 2018, the Company has complied with the code provisions under the CG Code, save and except for the deviations as described in the paragraph of Directors' Securities Transactions.

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 complied with the relevant standards stipulated in the Model Code throughout the year. However, one non-compliance incident was noted, 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 2018 and up to the date of this report, the Board comprises seven Executive Directors, one Non-executive Director and four Independent Non-executive Directors. The Independent Non-executive Directors represent at least one-third of the Board as required by the Rule 3.10A of the Listing Rules.

The composition of the Board are:
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	–

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	–

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 or her 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.

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.

CORPORATE GOVERNANCE REPORT

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.

Board meetings

Regular Board meetings are held not 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.

During the year ended 31 December 2018, 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	4/4
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

Appointment and re-election of Directors

All the Executive Directors and Non-executive Directors (including Independent Non-executive Directors) have entered into a service agreement with the Company for a term of three years. 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.

CORPORATE GOVERNANCE REPORT

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. During the financial year ended 31 December 2018, 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 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 not 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. The 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 2018, the Remuneration Committee had held one Remuneration Committee meetings 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

The summary of work of the Remuneration Committee in the financial year ended 31 December 2018 is set out below:

– reviewed the remuneration policy of the Directors and the senior management for 2018; and

– reviewed the remuneration of the Executive Directors, Non-executive Director and the Independent Non-executive Directors.

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.

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).

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.

During the year ended 31 December 2018, the Audit Committee had held two Audit Committee meetings and the attendance records are set out below:

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

The members of Audit Committee reviewed and discussed the Group's audited financial statements for the year ended 31 December 2018 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.

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. The primary terms include reviewing and supervision of the structure, size and diversity of the Board, developing the procedures for identifying, 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.

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.

During the year ended 31 December 2018, the Nomination Committee had 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 AUDITOR AND AUDITOR'S REMUNERATION

Total fee for services, being provided by the external auditor – PricewaterhouseCoopers, relating to the audit of the Group's consolidated financial statements for the year ended 31 December 2018 is approximately RMB2.95 million.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing its corporate governance functions as required under The CG Code and has adopted paragraph D.3.1 of the CG Code as the term of reference for its corporate governance functions. During the year ended 31 December 2018, the Board has performed the following duties:

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 Corporate Governance Professionals Limited (formerly known as Baker Tilly Hong Kong Risk Assurance Limited) ("**CGPL**") 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 CGPL 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 CGPL 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 2018. 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 2018, 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 of decrease in market demand; risk of investment loss; mismatch with corporate strategy; uncertainties associated with the outlook of emerging markets
Operational Risks	Product liability risk; business complaint risk; leakage of sensitive information risk; risk of cash management; recruitment of inexperienced staff; unauthorized expenses; risk of lack of human resources
Financial Risks	Liquidity risk, interest rate risk, foreign exchange 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 CGPL. 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.

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 2018, 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.

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 2018, 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.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours 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.

Dividend Policy

The Company has set out a dividend policy which aims at achieving a balance of stability, continuity and available resources for the future investment. Dividends distribution will be considered with focuses on reasonable return form investments and sufficient cash to meet future expenses and obligations. The dividends may be proposed and/or declared by the Board and subject to the shareholders' approval.

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 2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The board of directors of the Company (the "**Board**") and its subsidiaries (the "**Group**" or "**We**") hereby presents its environmental, social and governance ("**ESG**") report ("**Report**") for the year ended 31 December 2018.

REPORTING STANDARDS AND REPORTING SCOPE

The ESG Report is prepared in accordance with the requirements contained in Appendix 27 Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") and is in compliance with the "comply or explain" provisions of the ESG Reporting Guide. For details of corporate governance, please refer to the Corporate Governance Report in the annual report of the Group for the year ended 31 December 2018.

The Report covers the operations of the principal businesses of the Group, including department store, property investment and property development, and 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 the Group's ESG 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. At the same time, the ESG working group is also set up. Management officers and employees of various functional departments (primarily including the administration department, procurement department, personnel department, engineering department and finance department) are appointed to collect data and information. In addition, 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

For the Group, the development of the enterprise is based on a people-centered basis. All stakeholders related to the organization, including employees, customers, suppliers and business partners, creditors, shareholders and investors, government and regulatory authorities, and the communities, are all important to and influence the Company. The Group believes that maintaining communication 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.

The table below sets out the summary of its areas of concern and communication between the Group and stakeholders:

Stakeholder	Expectations and areas of concern	Communication channels
Employees	• Remuneration and benefits • Occupational health and safety • Training and development	• Performance assessment • Training and team activities • Employee complaint system
Government and regulatory authorities	• Comply with laws and regulations • Promote economic development and employment	• Information disclosure • Meetings and field trips
Shareholders and investors	• Investment returns • Corporate governance • Business compliance	• General meetings • Reports, announcements and press releases • Company website
Customers	• Quality products and services • Safeguard customer interests	• Customer service center • Meetings and site visits
Suppliers and business partners	• Fair and open procurement • Mutually beneficial cooperation • Reduce risks	• Business conferences, telephone and site visits • Supplier evaluation
Community	• Community participation • Environmental protection awareness	• Public welfare and community investment • Meetings and site visits

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL

The Group regards corporate social responsibility as an integral part of its business. The Group assumes responsibility for environmental protection and is fully aware of the importance of sustainable environmental development. The Group strictly complies with the relevant laws and regulations such as the Environmental Protection Law of the People's Republic of China, the Prevention and Control of Environmental Noise Pollution Law of the People's Republic of China, the Prevention and Control of Environmental Pollution by Solid Waste Law of the People's Republic of China and the Energy Conservation Law of the People's Republic of China. 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. Given the nature of business, the Group will not have a significant impact on the environment and will not produce substantial harmful pollutants.

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. Please refer to the detailed description in the next section headed "Use of Resources".

During the reporting period, the emission data are as follows:

Waste gas emission	**Unit**	**2018**	2017
NO_x	kg	**966,101**	1,662,183
SO_x	kg	**19,104**	2,934
Particulates	kg	**5,689**	102,614

Greenhouse gas emission	**Unit**	**2018**	2017
Scope 1 – Greenhouse gas emissions and reductions	CO_2 equivalent tons	**193**	1,099
Scope 2 – Indirect greenhouse gas emissions from energy combustion	CO_2 equivalent tons	**39,979**	39,208
Scope 3 – Other indirect greenhouse gas emissions	CO_2 equivalent tons	**1,002**	793
Gross greenhouse gas emissions (Scopes 1 – 3 total)	CO_2 equivalent tons	**41,174**	41,000

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Gross hazardous wastes produced	Unit	2018	2017
Gross hazardous wastes	ton	**0.5**	0.5
Hazardous waste density	ton/RMB1 million of revenue	**0.0006**	0.0006

Gross non-hazardous wastes produced	Unit	2018	2017
Gross non-hazardous wastes	ton	**10.3**	17.5
Non-hazardous waste density	ton/RMB1 million of revenue	**0.0133**	0.0232

A2 USE OF RESOURCES

To minimize energy consumption and improve energy saving management, the Group regularly reviews with relevant government departments and adopts targeted energy saving and water saving measures to enhance resource utilization rate and protect and save the environment. We will more proactively implement green operations and green office practices, strengthen the employees' awareness on environmental protection and energy saving, and have taken the following energy-saving measures:

Lighting

We have replaced the existing traditional lighting system with LED lighting to reduce electricity use. Now more than 50% of the premises are using LED lighting instead. We will continue to optimise the existing lighting system. As to the existing indoor space, employees are designated to adjust the lighting system at any time with reference to how bright it is outside and outdoor lighting and sign lights are installed with timers where the time of switching on and off lights is adjusted according to seasonal changes. When designing new stores and premises, we will use natural light more to reduce the use of lighting.

Air-conditioning and Refrigeration Equipment

The indoor 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 air-conditioning system is regularly cleaned and maintained to improve ventilation so as to reduce energy consumption. Air curtains are installed at the entrances' public space to effectively maintain cleanliness of air indoor, avoid convection of hot air and cooled air and reduce the electricity use of the air-conditioning system.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As to the use of refrigeration equipment (including the main frame of refrigeration, cooling system, cooler compartment, freezer compartment, display cabinet, refrigerator, ice maker, etc.), all-glass machines or machines with screens are required. In addition, the temperature is re-set appropriately at night time to reduce cooling load and save electricity. The time of defrosting is controlled to reduce energy wastage or substandard quality of products due to over or under defrosting.

Other Measures to Reduce Electricity Use

To further control our electricity requirements, we have provided guidance to employees to set electronic equipment at the energy-saving mode. The environmentally-friendly option of the printers is pre-selected so that they automatically switch to the energy-saving mode when idle. The indoor lighting and air-conditioning systems are switched off during lunch break or off-site duty.

We encourage employees to wear suitable clothes at the temperature of the office so that it is not necessary to set the air-conditioning temperature too low in the office.

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 to control and minimize the damage to the natural environment with a view to maintaining balance between the take and give of nature.

Reducing Paper Use

We actively raise the awareness of customers on environmental protection by reducing the use of wrapping paper or other packaging materials.

At the office, we endeavor to use electronic data exchange and office equipment. Employees 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 Use Management

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 sorted and then transported by cleaning companies to designated garbage collection stations for processing.

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.

Environmental data that facilitate the use of resources during the reporting period are as follows:

Use of resources	**Unit**	**2018**	2017
Gross electricity consumption	MWh	**50,666**	49,611
Energy consumption density	MWh/RMB1 million of revenue	**65.467**	65.7971
Gross water consumption	kl	**390**	421
Water consumption density	kl/RMB1 million of revenue	**0.5045**	0.5584
Gross packaging materials used in finished products			
Gross packaging materials used	ton	**0.1**	0.1
Density of packaging materials used	ton/RMB1 million of revenue	**0.0001**	0.0001

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. There are daily inspections to ensure that the volume of the public announcement system in our department stores is appropriate. The volume of background music in our department stores is controlled within national standards. The use of loudspeakers and loud promotion are prohibited when selling products at counters. Employees 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 employees and customers can work and shop in a safe environment.

Environment Impacts of Construction Sites and Construction Projects

To minimize the environmental impacts of construction sites and construction projects, the Group has carried out environmental assessment on the projects and controlled the nuisances caused by the noise of the building, dust and wastewater discharged from the construction site, and regularly carried out environmental monitoring and audit of the projects to ensure compliance with the statutory and contract requirements. The relief measures include:

1. Use recycled or recyclable materials during project design and construction process as much as possible; use materials other than timber to build molding boards to reduce the production of construction wastes; and transport the construction wastes to treatment companies for sorting and processing;

2. Plan the operation time of noisy machinery to minimize or avoid construction activities during sensitive hours; endeavor to install silencer or muffler in the machinery equipment and set up sound barrier or sound shield to alleviate the noise in the affected area;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. Control the danger caused by dust and minimize the adverse effect on the air quality surrounding the construction site; barriers are set up in the construction site to contain dust arising from construction; pre-cut materials, isolate the processes that generate dust as far as possible and use ventilation system and no dust machine in areas outside the construction site; and implement water spraying measures in the construction site to reduce dust;

4. To avoid contamination of waters in the surrounding area or surface runoff, the Group has set up a temporary sewage collection treatment station in the construction site to collect construction wastewater and process properly before discharge to public sewage pipelines;

5. Minimize the damage to local cultural artifacts, natural water systems, wetlands and other conservation zones to protect the environment.

Management of Business Vehicles

The Group has been strengthening business vehicle management and optimizing vehicle utilization. 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.

Greening the Environment

We advocate greening in the office, shopping malls and property development projects with an aim to contribute to the environment and provide a comfortable working and living environment.

B. SOCIAL

B1 EMPLOYMENT

The Group regards employees as the primary stakeholders in enterprise development and endeavors to provide each employee with opportunities and room for sustainable development. It attaches great importance to 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, thus providing equal opportunities to everyone.

The particulars of the employees' pay and leave system, attendance system, working environment and conditions, standards of behavior 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

During the reporting period, the employee statistics are as follows:

Employee statistics	Unit	2018	2017
Total no. of full-time employees	No. of employees	**1,160**	1,445
By gender			
Female	No. of employees	**797**	938
Male	No. of employees	**363**	507
By position			
General employees	No. of employees	**933**	1,196
Supervisors or above	No. of employees	**227**	249
By age			
18 – 30	%	**21.3**	22.1
31 – 60	%	**78.1**	77.2
Above 60	%	**0.6**	0.7
Employee turnover	%	**58.3**	57.0
By gender			
Female	%	**21.9**	33.9
Male	%	**36.4**	23.1
By age			
18 – 30	%	**22.3**	25.3
31 – 60	%	**35.9**	31.6
Above 60	%	**0.1**	0.1

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B2 HEALTH AND SAFETY

Occupational Health

To safeguard the occupational health and safety of the employees, the Group strictly complies with the relevant local laws and regulations of China and Hong Kong and strives to provide a safe, healthy, and comfortable working environment. We have formulated procedures on office safety, first aid and emergency response and organized seminars and conducted drills regularly to provide proper safety training to employees. Body checks are arranged for all employees. As to employees who work outdoor under high temperature, adequate and cool drinks, heat stroke medicine and various cooling measures are prepared and adopted to ensure employees' work safety. We regularly conduct inspection and maintenance of work areas to ensure the conditions in the place of work comply with the safety and health standards. We also ensure that all devices, machinery, equipment and tools of the drinking facilities, air-conditioning systems and electrical circuits are properly maintained for safe use.

Safety and Emergency Management

The Group has formulated the safety rules and emergency management system to ensure that employees can execute the relevant emergency measures 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 employees must comply with the safety code in the Staff Manual and the provisions of the Fire Safety Management Code, and ensures that all firefighting devices and fire escape are properly maintained, in good condition and safe with no obstruction. The Group regularly holds fire drills and conducts training in relation to knowledge of safety, fire prevention and fire extinguishment for all employees. 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 3 days.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B3 DEVELOPMENT AND TRAINING

Training Activities

Employee training is crucial to promoting the human resources development of the Group. We endeavor to organize a series of strategically-planned and quality training programs for employees to increase employees' work confidence and strengthen teambuilding in an effort to optimize service, such that the performance of employees or even the entire department is continuously enhanced. Each year, we conduct training including lectures by experts of different professions, external learning and internal learning for current employees in a targeted manner to enhance the employees' major work skills. New employees are given induction training to help them to get to know the Company as soon as possible and to adapt to their positions. 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 and explore their own potential so that they can achieve their personal career development goals as the Company progresses steadily. Directors and senior management receive more professional training so that they understand the latest company law, regulatory policies, corporate governance, financial management, market trends, and other information to help them strengthen the concept of governance.

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 employees, including trips, barbecues, picnics, fun sports day, and more, so that employees can stretch their bodies, develop their hobbies and relieve work stress.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employee training statistics during the reporting period	Unit	2018	2017
Average no. of hours of training completed by each employee			
By gender			
Female	No. of hours	**2.6**	5.3
Male	No. of hours	**4.4**	5.1
By position			
General employee	No. of hours	**2.6**	5.2
Supervisors or above	No. of hours	**6.0**	4.8
Percentage of staff who have received training – By gender			
Female	%	**72.1**	71.8
Male	%	**27.9**	28.2

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, the Group carefully inspects 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 Group did not have any instances of significant non-compliance in relation to the labor standards stipulated in the relevant laws and regulations.

B5 and B6 SUPPLY CHAIN MANAGEMENT AND PRODUCT RESPONSIBILITY

To ensure the quality of products supplied and various construction projects are of good quality, the Group has established long-term partnership with its suppliers and contractors over the years to jointly share inventory and demand statistics, resist market risks and look into the formulation of cost-effective strategy to achieve win-win results. On top of achieving sound sustainable development of the supply chain, we have in place a set of standardized tendering evaluation procedures tailored for the selection of suppliers or contractors who provide products or services. Suppliers and contractors are reviewed and screened on a fair basis having regard to their professional qualifications, past working experience and performance, sustainability of products or services as well as their financial stability and credibility. Their performance is also monitored to ensure that it meets the standards, contract terms, and quality requirements before purchase.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our procurement policy is fair, just and transparent and our procurement procedures towards local or overseas suppliers and contractors are the same. At the same time, we purchase from local suppliers and contractors as far as possible considering from an environmental perspective and use more energy saving products and services that support sustainable development so as to reduce pollutant emission during the course of transportation and encourage each of the suppliers and contractors to promote environmental protection measures and the use of environmentally-friendly products.

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 whether the imported products possess a complete set of import filing evidence or documentation as stipulated by the state, complete immigration customs, quarantine evidence and other relevant documents. The Group regularly reviews the suppliers' operation qualifications, scope of business etc. and whether they have the corresponding agency authorization to safeguard and protect intellectual property rights. If a product is found to have quality or intellectual property rights problems, the goods will be removed from the shelves, and the suppliers concerned will be replaced and reported to the relevant government departments.

In relation to project work, the Group provides guidance and issues guidelines to contractors or sub-contractors prior to the commencement of project, and monitors the process and coordinates with various parties. During the construction phase, the Group will conduct regular site visits and maintain communication with contractors to avoid the occurrence of errors. The Group will also monitor the conditions of the construction site and inspect the construction quality to ensure the quality of finished products and services.

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

Handling of Complaints about Services

The Group attaches great importance to the views of customers and undertakes to handle customer complaints in a fair and prudent manner. We have formulated the complaints handling guidelines which regulate the complaint investigation work and feedback procedures. We devote manpower to follow up customer questions and opinions to ensure that the complaints are dealt with and the customers are answered in the shortest possible time.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.

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.

We have an Anti-corruption Code to disseminate the anti-corruption awareness to employees and strictly regulate the behavior of all departments and employees. Employees who are in any breach of the relevant code are subject to disciplinary action or prosecution. We also require all suppliers to restrain their employees to be honest and self-disciplined so as to put an end to all conducts of commercial bribery when they sign our contract.

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 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are operation of department stores, property investment, property development and property management business 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 2018 are set out in the consolidated statement of comprehensive income on pages 73 and 74.

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 34 to 47 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 2018.

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 2018, 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 Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

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 PROPERTIES

Details of the movement in investment properties are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 29 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 45 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 2018, the Company's share premium available for distribution amounted to approximately RMB91,562,000. Details of which are set out in note 30 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2018 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

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 was as follows:

(i) 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 2018 are set out in note 32 to the consolidated financial statements.

COMMITMENTS

Details of the commitments of the Group are set out in note 38 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 41 to the consolidated financial statements.

The related party transactions mentioned in note 41(a)(ii) were connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. Included in these transactions is an amount of RMB137,000 which were fully exempt from shareholders' approval, annual review and all disclosure requirements as all the applicable percentage ratios are less than 0.1% under Chapter 14A of the Listing Rules.

The related party transactions mentioned in note 41(a)(iv) were not connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

The related party transactions mentioned in note 41(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.

Apart from the above, the related party transactions mentioned in note 41(a)(i), (ii) and (iii) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

DIRECTORS' REPORT

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed under the headings "Continuing Connected Transactions" in this Directors' Report on pages 55 to 60 and "Related Parties and Significant Related Party Transactions" in note 41 to the consolidated 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 2018, 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	588,720,412 (L) *(Note 3)* *(Note 5)*	58.69%
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%

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 2018.

3. Jaguar Asian is wholly-owned by Mr. Chen Daren, a non-executive Director. Mr. Chen Daren is deemed to be interested in the 588,720,412 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.

5. Jaguar Asian has charged an aggregate of 541,722,412 shares of the Company as security for a loan advanced by an independent third party to Jaguar Asian on 13 February 2018.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2018, 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.

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 2018, 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	Approximate percentage of shareholding
Jaguar Asian Limited	Beneficial owner	588,720,412 (L)	58.69%

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 2018.
3. Jaguar Asian has charged an aggregate of 541,722,412 shares of the Company as security for a loan advanced by an independent third party to Jaguar Asian on 13 February 2018.

Save as disclosed above, so far as is known to the Directors, as at 31 December 2018, 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.

Save as disclosed above, as at 31 December 2018, 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 2018 RMB'000	Annual cap amount for the year ended 31 December 2018 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	497	3,802
B.	**Revenue Transactions: Master Supply Agreement**					
1	18 November 2015	Yihua Investment *(Note 1)*	Supply of goods, provision of services and utilities by the Group to Yihua Investment and its subsidiaries	1 January 2016 to 31 December 2018	857	6,591
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	–	3,120

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2018 RMB'000	Annual cap amount for the year ended 31 December 2018 RMB'000
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	–	6,239
II.	**CCTs subject to announcement, annual reporting and independent shareholders' approval**					
D.	**Expenditure Transactions: Tenancy and Management Agreements**					
1	12 March 2013 and 18 November 2015	Guangdong Yihua Management *(Note 4)*	Lease of properties located at levels 1 to 4 of West Wing of Yihua Commercial Centre	12 March 2013 to 31 December 2018	10,093	11,007
2	18 November 2015	Guangdong Yihua Management *(Note 4)*	Lease of properties located at Units 907, 909 and 916 of East Wing and unit 603 of West Wing of Yihua Commercial Centre	1 January 2016 to 31 December 2018	1,320	1,320
3	30 December 2016	Guangdong Yihua Management *(Note 4)*	Lease of properties located at Units 815, 912 of East Wing of Yihua Commercial Centre	1 January 2017 to 31 December 2018	533	533

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2018 RMB'000	Annual cap amount for the year ended 31 December 2018 RMB'000
4	30 December 2016	Guangdong Yihua Management *(Note 4)*	Lease of properties located at Units 503, 818 of East Wing and 7/F of West Wing of Yihua Commercial Centre	1 January 2017 to 31 December 2018	3,061	3,333
			Lease of properties located at Unit 9A of West Wing of Yihua Commercial Centre	1 March 2017 to 31 December 2018		
5	24 November 2017	Yihua Investment *(Note 1)*	Lease of properties located at Unit 201 and Unit 501 of East Wing and Unit 501 and 901 of West Wing of Yihua Commercial Centre	1 January 2018 to 31 December 2020	3,858	4,127
6	1 September 2012, as supplemental by an agreement dated 18 November 2015	Yihua Investment *(Note 1)*	Lease of properties situated at levels 1 to 3 of East Wing of Yihua Commercial Centre	1 September 2012 to 31 August 2022	4,202	4,429
7	1 January 2010 and 18 November 2015	Guomao Hotel *(Note 5)*	Lease of properties located at portion of level 3 of section B of Zhongshan Guzhen International Hotel	1 January 2010 to 31 December 2019	1,204	1,783

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2018 RMB'000	Annual cap amount for the year ended 31 December 2018 RMB'000
8	10 August 2009 and 18 November 2015; 30 December 2016	Jinhui Century *(Note 6)*	Lease of properties located at (i) Basement 1 and Levels 1 to 3 of Jinhui Century Square;	(i) 17 September 2009 to 16 September 2019	23,121	23,793
			(ii) Basement 1 of Jinhui Century Square; and an open area at 118 Yingbin Avenue	(ii) 1 January 2017 to 31 December 2018	4,775	4,870
9	20 September 2008 and 18 November 2015	Yucca Hotel *(Note 7)*	Lease of an additional area of 238 sq.m. at JP Area	22 September 2008 to 25 July 2023	1,175	1,175
	18 November 2015	Yucca Hotel *(Note 7)*	Provision of property management services for main building and auxiliary building at JP Area	1 January 2016 to 31 December 2018		
10	24 November 2017	Yihua Plaza Corporation *(Note 8)*	No. 3 Chuangye Road, Zhongshan City	1 January 2018 to 31 December 2020	1,046	1,099
11	24 November 2017	Zhaoqing California New City *(Note 9)*	Shop No. B1-001, Basement Level 1, Commercial Office Building, Huasheng Complex Centre, Zhaoqing City	1 January 2018 to 31 December 2020	4,309	4,597

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2018 RMB'000	Annual cap amount for the year ended 31 December 2018 RMB'000
12	1 June 2006 and 18 November 2015	Yihua Investment	Lease of properties located at Basement 1, Level 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	12,150	12,755
Aggregate amount for Tenancy and Management Agreements					70,847	74,821

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 (a director, 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 Company Limited*) ("**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.

DIRECTORS' REPORT

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, the nephew of Mr. Chen Daren (a director and controlling shareholder) and son of Mr. Chen Jianren (a director)).

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

6. 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*) ("**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).

7. 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 (a director and controlling shareholder).

8. 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 (a director, the nephew of Mr. Chen Daren (a director and controlling shareholder) and son of Mr. Chen Jianren (a director)), and 98% by Higson Holdings Limited, a company wholly-owned by Mr. Chan Kuong lan (the brother of Mr, Chen Daren and Mr. Chen Jianren).

9. 肇慶市加洲新城房地產實業開發有限公司(Zhaoqing California New City Real Estate Industrial Development Company Limited) ("Zhaoqing California New City") was a non wholly-owned subsidiary of Yihua Investment.

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.

DIRECTORS' REPORT

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. In order to provide the Company with the flexibility in granting share options to eligible participants under the Scheme as incentives or rewards for their contribution to the Group, the existing limit on the grant of share options under the Scheme be refreshed provided that the total number of shares which may be allotted and issued upon exercise of any share options to be granted under the Scheme (excluding share options previously granted, outstanding, cancelled, lapsed or exercised in accordance with the Scheme) shall not exceed 10% of the aggregate number of shares of the Company in issue. The refreshment of the Scheme of the Company was approved by the shareholders at the annual general meeting ("**AGM**") on 22 June 2018. Based on 1,003,157,915 shares in issue as at 22 June 2018, the Company will be allowed to grant share options under the Scheme of up to a total of 100,315,791 shares. It is assumed that the refreshed Scheme mandate limit is fully utilised, the total number of outstanding share options will be 100,315,791, which does not exceed 30% of the shares in issue as at the 31 December 2018. 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 2018, 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.

AUDITOR

The financial statements for the year ended 31 December 2018 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 AGM.

DIRECTORS' REPORT

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 18 June 2019 to Friday, 21 June 2019, 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, not later than 4:30 p.m. on Monday, 17 June 2019.

On behalf of the Board

Mr. Chen Jianren
Chairman

28 March 2019

INDEPENDENT AUDITOR'S REPORT

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 73 to 200, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We 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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

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

- Assessment on working capital sufficiency
- Valuation of investment properties ("**IP**")
- Impairment of retail store assets included in property, plant and equipment ("**Store Assets**")

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 2018, the current liabilities of the Group exceeded its current assets by approximately RMB389,043,000. 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 2019 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 2019 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 2018 against the forecast made in prior year, to consider whether the forecast had been subject to management bias; – we challenged the key assumptions for:

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment on working capital sufficiency	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 2019, 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; – 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;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment on working capital sufficiency	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. – 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	
Refer to note 4(d), note 16 and note 40 to the consolidated financial statements. The Group's IP, including two hotels, a piece of industrial land, commercial units and parking spaces, was measured at fair value of RMB822,170,000 as at 31 December 2018, with a revaluation gain of RMB30,490,000 recorded in the consolidated statement of comprehensive income for the year then ended. Independent external valuations were obtained for IP at year end in order to support management's estimates on the fair value at year end. Fair values of these properties were derived based on the below approach: – income approach for one hotel, the first to fourth floors of the another hotel, commercial units at year end; and – market approach for 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 was 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 at year end.	In assessing the appropriateness of management's valuation of IP, 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; – 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 under construction. 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(f) and note 15 to the consolidated financial statements As at 31 December 2018, the Group's Store Assets amounted to RMB353,568,000 with an impairment provision of RMB57,826,000. 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, 28 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in RMB thousands unless otherwise stated)

	Note	Year ended 31 December **2018**	2017
Revenue	5	**773,335**	754,312
Other income	6	**3,888**	1,479
Gain from bargain purchase	39(b)	**–**	61,263
Fair value gain on investment properties	16	**30,490**	74,715
Fair value loss on financial assets	20	**(1,005)**	–
Other losses – net	7	**(1,023)**	(2,512)
Purchases of and changes in inventories	23	**(139,304)**	(187,319)
Constructions of and changes in completed properties held for sale	22	**(279,504)**	(254,737)
Employee benefit expenses	10	**(95,602)**	(97,869)
Depreciation and amortisation		**(24,871)**	(27,806)
Provision for impairment of assets	8	**(32,932)**	(30,115)
Operating lease rental expense and property management fee		**(151,807)**	(132,362)
Other operating expenses	9	**(133,334)**	(111,280)
Operating (loss)/profit		**(51,669)**	47,769
Finance income		**2,034**	1,317
Finance costs		**(46,038)**	(40,684)
Finance costs – net	11	**(44,004)**	(39,367)
Share of net losses of an associate accounted for using the equity method	17	**(7,262)**	(5,448)
(Loss)/profit before income tax		**(102,935)**	2,954
Income tax expenses	12	**(12,236)**	(12,743)
Loss for the year		**(115,171)**	(9,789)
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
Other comprehensive income for the year, net of tax		**–**	8,167
Total comprehensive loss for the year		**(115,171)**	(1,622)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2018	2017
(Loss)/profit attributable to:			
– Owners of the Company		**(117,386)**	(11,502)
– Non-controlling interests		**2,215**	1,713
		(115,171)	(9,789)
Total comprehensive (loss)/income attributable to:			
– Owners of the Company		**(117,386)**	(3,335)
– Non-controlling interests		**2,215**	1,713
		(115,171)	(1,622)

	Note	Year ended 31 December 2018	2017
Basic and diluted losses per share (expressed in RMB per share)	14	**(0.1170)**	(0.0115)

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)

	Note	As at 31 December 2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	15	**167,242**	173,031
Investment properties	16, 40	**822,170**	740,610
Computer software		**4,911**	3,162
Goodwill	39	**2,130**	–
Investment in an associate	17	**34,300**	41,562
Deferred tax assets	18	**3,887**	9,205
Deferred assets	19	**4,044**	2,894
Financial assets at fair value through profit or loss	20	**10,568**	–
Prepayments and other receivables	2.2, 24	**7,425**	49,860
Amounts due from related parties	41(b)	**–**	1,370
Restricted cash	25	**–**	11,000
Total non-current assets		**1,056,677**	1,032,694
Current assets			
Properties under development	21	**331,727**	457,568
Completed properties held for sale	22	**141,098**	126,034
Inventories	23	**45,492**	43,273
Contract costs	2.2	**4,979**	–
Trade receivables, prepayments and other receivables	24	**189,126**	169,974
Tax prepayments		**45,096**	40,305
Amounts due from related parties	41(b)	**150,677**	107,544
Restricted cash	25	**32,242**	92,527
Term deposits	26	**69,050**	59,750
Cash and cash equivalents	27	**114,803**	90,639
		1,124,290	1,187,614
Assets classified as held for sale	28	**–**	44,600
Total current assets		**1,124,290**	1,232,214
Total assets		**2,180,967**	2,264,908
EQUITY			
Equity attributable to owners of the Company			
Share capital	29	**3,956**	3,956
Other reserves	30	**143,627**	136,310
Retained earnings		**4,031**	121,359
		151,614	261,625
Non-controlling interests		**7,846**	7,492
Total equity		**159,460**	269,117

CONSOLIDATED BALANCE SHEET

(All amounts expressed in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2018**	2017
LIABILITIES			
Non-current liabilities			
Borrowings	32	**298,676**	230,974
Deferred tax liabilities	2.2, 18	**144,153**	166,335
Deferred revenue	2.2, 33	**8,204**	1,546
Other payables	31	**57,141**	88,816
Total non-current liabilities		**508,174**	487,671
Current liabilities			
Trade and other payables	31	**855,202**	655,750
Amounts due to related parties	41(b)	**13,803**	16,996
Contract liabilities	2.2	**322,246**	–
Deferred revenue	2.2, 33	**1,740**	3,880
Advances from customers	2.2	**–**	57,983
Receipt in advance on sale of properties	2.2	**–**	282,307
Current income tax liabilities		**10,675**	699
Borrowings	32	**306,812**	487,650
Provision for a legal claim	36(b)	**2,855**	2,855
Total current liabilities		**1,513,333**	1,508,120
Total liabilities		**2,021,507**	1,995,791
Total equity and liabilities		**2,180,967**	2,264,908

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

The financial statements on pages 73 to 200 were approved by the Board of Directors on 28 March 2019 and were signed on its behalf.

Fan Xinpei **Lin Guangzheng**

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 as at 1 January 2017	3,925	159,577	133,899	297,401	5,467	302,868
(Loss)/profit for the year	–	–	(11,502)	(11,502)	1,713	(9,789)
Other comprehensive income	–	8,167	–	8,167	–	8,167
Total comprehensive income for the year	–	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 29(b))*	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
Balance as at 31 December 2017 as originally presented	3,956	136,310	121,359	261,625	7,492	269,117
Change in accounting policy (note 2.2)	–	–	7,564	7,564	–	7,564
Restated total equity as at 1 January 2018	3,956	136,310	128,923	269,189	7,492	276,681
(Loss)/profit for the year	–	–	(117,386)	(117,386)	2,215	(115,171)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive (loss)/income for the year	–	–	(117,386)	(117,386)	2,215	(115,171)
Transactions with owners in their capacity as owners:						
Appropriation to statutory reserve	–	7,506	(7,506)	–	–	–
Profit distribution by a subsidiary	–	–	–	–	(2,050)	(2,050)
Changes in ownership interests in a subsidiary without change of control	–	(189)	–	(189)	189	–
Transactions with owners in their capacity as owners	–	7,317	(7,506)	(189)	(1,861)	(2,050)
Balance as at 31 December 2018	3,956	143,627	4,031	151,614	7,846	159,460

CONSOLIDATED CASH FLOW STATEMENT

(All amounts expressed in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2018	2017
Cash flows from operating activities			
Cash generated from operations	34(a)	**208,134**	254,591
Interest received		**1,562**	918
Interest paid		**(39,791)**	(44,712)
Income tax paid		**(18,245)**	(19,471)
Net cash generated from operating activities		**151,660**	191,326
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	39	**628**	28,284
Receipt of government grants		**12,227**	1,060
Proceeds from disposal of non-current asset held for sale	28	**42,842**	–
Purchases of property, plant and equipment, computer software and other long term assets		**(9,501)**	(26,204)
Purchase of an insurance contract		**(11,573)**	–
Payment for construction costs of investment properties		**(22,172)**	(44,293)
Capital injection to investment in an associate of the Group	17	**–**	(34,000)
Payments for the Development Project incurred by an associate of the Group		**(52,872)**	(67,451)
Refund of deposit for an acquisition		**–**	8,950
Increase in term deposits		**(9,300)**	(29,772)
Payment for the consideration of an acquisition		**(1,809)**	(23,328)
Net cash used in investing activities		**(51,530)**	(186,754)
Cash flows from financing activities			
Capital injection from non-controlling shareholders		**–**	312
Proceeds from borrowings		**357,580**	379,776
Repayments of borrowings		**(480,572)**	(325,393)
Dividend distribution	13	**–**	(32,441)
Repayments of payables to former shareholders of an acquired subsidiary		**(14,915)**	(21,816)
Decrease/(increase) in guarantee deposits for borrowings		**61,558**	(53,397)
Net cash used in financing activities		**(76,349)**	(52,959)
Net increase/(decrease) in cash and cash equivalents		**23,781**	(48,387)
Cash and cash equivalents at beginning of the year		**90,639**	140,157
Exchange gains/(losses) on cash and cash equivalents	7	**383**	(1,131)
Cash and cash equivalents at end of the year		**114,803**	90,639

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) is an investing holding company. The Company and its subsidiaries (together the "Group") are principally engaged in the operations of department stores in the People's Republic of China (the "PRC"). Following various acquisitions from 2016 to 2018, the Group has also expanded its operations into property investment, property development and property management business.

The Company 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 its registered office is at the Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

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:

- A significant increase in revenue from the segment of property development as a result of completed properties delivery (note 5). This more than offset a reduction in revenue in the other segments of retailing business (note 5).

For a detailed discussion about the Group's performance and financial position please refer to our operating and financial review on pages 7 to 16.

1.1 Going concern

As at 31 December 2018, the current liabilities of the Group exceeded its current assets by approximately RMB389,043,000. Included in the current liabilities were contract liabilities primarily relating to consumption cards issued and receipt in advance from property presale of approximately RMB322,246,000, which would not result in future cash outflows. As at 31 December 2018, total borrowings of the Group amounted to RMB605,488,000, of which RMB306,812,000 are due for repayment in the coming twelve months; while the Group's cash and cash equivalents amounted to RMB114,803,000.

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 a semi-custom development agreement with a supplier with regard to a chip development project (the "Development Project"). Payments of US$6,570,000 (equivalent to RMB45,091,000) for the Development Project, have to be made to the supplier during the year ending 31 December 2019 as certain relevant development milestones have been reached. In addition, the Group has provided financial guarantees to the supplier to the extent of US$10,000,000 (equivalent to RMB68,632,000) 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 2018 amounted to RMB33,937,000 including construction costs for property, plant and equipment and properties under development (note 38(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 retailing business. In addition, with the acquisitions of the investment properties, property development and management projects during these years, it is expected that there will be cash inflows from the leasing of the investment properties, sales of properties and provision of property management service in the coming twelve months.

(ii) The Group had obtained the following additional financing for its operation after 31 December 2018:

(a) Issued bonds at interest rates of 5% to 7% per annum for total net proceeds of approximately RMB4,699,000 (note 45(a)).

(b) Obtained a total borrowing of approximately RMB31,985,000 from third parties bearing interest rates of 5% to 18% per annum (note 45(b), (c) and (d)).

(c) Obtained an advance of RMB38,439,000 from a director of the Company, Mr. Chen Daren (note 45(e)).

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)

(iii) 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.

(iv) 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 RMB47,789,000. On 11 March 2019, 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 2019 until the Group has adequate financial resources to repay.

(v) 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 2018. The Directors are of the opinion that, taking into account the Group's anticipated cash flows generated from the Group's retailing business 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 and other funding 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 2018. 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 consolidated 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 consolidated financial statements have been prepared on a historical cost basis, except for the following:

- investment properties – measured at fair value,
- assets held for sale transferred from investment properties – measured at fair value, and
- financial assets at fair value through profit or loss ("FVPL") – measured at fair value.

(iii) New standards, amendments to existing standards and interpretations adopted by the Group

The following new standards, amendments to existing standards and interpretations have been issued and effective for the annual accounting period beginning on 1 January 2018.

Standards/Interpretations	**Subject of amendment**
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 1	First Time Adoption of HKFRS
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	Investments in Associates and Joint Ventures
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration

The Group has assessed the impact of the adoption of these new and amended standards that are effective for the current reporting period. The Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

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)

(iii) New standards, amendments to existing standards and interpretations adopted by the Group (continued)

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers

Then impact of the adoption of these standards and the new accounting policies are disclosed in note 2.2 and 2.14 below. The other standards, amendments and interpretations did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

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

Certain new accounting standards, amendments to existing standards and interpretations have been published that are not mandatory for 31 December 2018 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 HKFRS 16 Leases.

Standards/Interpretations	Subject of amendment	Effective for annual accounting periods beginning on or after
HKFRS 16	Leases	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
Amendments to HKAS 19	Employee Benefits	1 January 2019
Amendments to HKAS 28	Long-term Interests in an Associated and Joint Venture	1 January 2019
HK(IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
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, amendments to standards and interpretations that have been issued but are not effective (continued)

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, 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.

Impact

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB267,830,000 (note 38(b)). The Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

The Group expects to increase in the amount of recognised financial liabilities and right-of-use assets for significant long term lease contracts. Operating cash flows will increase and financing cash flows decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are material and hence the Group does expect some significant impact on the financial statements. Thus, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's consolidated financial statements.

(a) Impact on the consolidated financial statements

The Group applied the modified retrospective approach to adopt HKFRS 9 and HKFRS 15 without restating comparative information. The reclassifications and the adjustments arising from the new accounting policies are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Consolidated balance sheet (extract)	31 December 2017 As originally presented RMB'000	HKFRS 9 RMB'000	HKFRS 15 RMB'000	1 January 2018 Restated RMB'000
Current assets				
Contract costs	–	–	10,043	10,043
Total assets	2,264,908	–	10,043	2,274,951
Non-current liabilities				
Deferred tax liabilities	166,335	–	2,522	168,857
Current liabilities				
Contract liabilities	–	–	343,568	343,568
Deferred revenue	3,880	–	(3,321)	559
Advances from customers	57,983	–	(57,983)	–
Receipt in advance on sales of properties	282,307	–	(282,307)	–
Total liabilities	1,995,791	–	2,479	1,998,270
Net assets	269,117	–	7,564	276,681
Retained earnings	121,359	–	7,564	128,923
Total equity	269,117	–	7,564	276,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

(b) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, and impairment of financial assets.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 2.14 below.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has classified its financial instruments into the appropriate HKFRS 9 categories.

There is no impact on the Group's retained earnings as at 1 January 2018.

(ii) Impairment of financial assets

The Group has trade receivables mainly for commission income, management fee, service income, rental income and third-party payment platforms that are subject to HKFRS 9's new expected credit loss model, and the Group revised its impairment under HKFRS 9 for these receivables.

Based on the assessment undertaken, the Group does not identify material change to the loss allowance for trade debtors.

While cash and cash equivalents, other receivables and accounts due from related parties are subject to the impairment requirements of HKFRS 9, the identifiable impairment loss was immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

(c) *HKFRS 15 Revenue from Contracts with Customers*

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules modified retrospectively and therefore has not restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the consolidated balance sheet at the date of initial application (1 January 2018):

Consolidated balance sheet (extract)	HKAS 18 carrying amount 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	HKFRS 15 carrying amount 1 January 2018 RMB'000
Contract costs	–	–	10,043	10,043
Deferred tax liabilities	166,335	–	2,522	168,857
Contract liabilities	–	343,611	(43)	343,568
Deferred revenue	5,426	(3,321)	–	2,105
Advances from customers	57,983	(57,983)	–	–
Receipt in advance on sales of properties	282,307	(282,307)	–	–
Retained earnings	121,359	–	7,564	128,923

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

(c) *HKFRS 15 Revenue from Contracts with Customers (continued)*

The impact on the Group's retained earnings as at 1 January 2018 is as follows:

	RMB'000
Retained earnings as at 31 December 2017	121,359
Recognition of assets for costs to obtain a contract	10,043
Restatement of contract liabilities for customer loyalty programme	43
Increase in deferred tax liabilities	(2,522)
Adjustment to retained earnings from adoption of HKFRS 15	7,564
Retained earnings as at 1 January 2018	128,923

The amount by each financial statements line item affected in the current period and period to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows:

	As at 31 December 2018		
	Amounts without the adoption of HKFRS 15 RMB'000	**Effects of the adoption of HKFRS 15 RMB'000**	**Amounts as reported RMB'000**
Consolidated balance sheet (extract)			
Contract costs	**–**	**4,979**	**4,979**
Deferred tax liabilities	**142,896**	**1,257**	**144,153**
Contract liabilities	**–**	**322,246**	**322,246**
Deferred revenue	**13,597**	**(3,653)**	**9,944**
Advance from customers	**86,270**	**(86,270)**	**–**
Receipt in advance on sales of properties	**232,335**	**(232,335)**	**–**
Retained earnings	**7,841**	**(3,810)**	**4,031**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

(c) HKFRS 15 Revenue from Contracts with Customers (continued)

	Year ended 31 December 2018		
	Amounts without the adoption of HKFRS 15 RMB'000	Effects of the adoption of HKFRS 15 RMB'000	Amounts as reported RMB'000
Consolidated statement of comprehensive income (extract)			
Other operating expenses	(128,270)	(5,064)	(133,334)
Income tax expenses	(13,490)	1,254	(12,236)
Loss for the year	(111,361)	(3,810)	(115,171)
Attributable to:			
Owners of the Company	(113,576)	(3,810)	(117,386)
Non-controlling interests	2,215	–	2,215

(i) Accounting for costs to obtain a contract

Management expects the incremental costs, primarily sale commission, as a result of obtaining the property sale contracts are recoverable. The Group has capitalised the amounts and amortised when the related revenue are recognised. During the year 2018, the Group recognised amortisation of RMB10,043,000 and capitalised commission fee of RMB4,979,000, which increased other operating expenses by RMB5,064,000, decreased tax expense by RMB1,266,000 and increased loss for the year by RMB3,798,000. And there was no impairment loss in relation to the costs capitalised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

(c) HKFRS 15 Revenue from Contracts with Customers (continued)

(ii) Accounting for customer loyalty programme

In previous reporting periods, the consideration received from the sale of goods was allocated to the points and the goods sold using the residual method. Under this method, a part of the consideration equalling the fair value of the points was allocated to the points. The residual part of the consideration was allocated to the goods sold.

Under HKFRS 15, the total consideration must be allocated to the points and goods based on the relative stand-alone selling prices. Using this new method, the amounts allocated to the goods sold are, on average, higher than the amounts allocated under the residual value method. The financial impacts on such change in allocation method on contract liabilities, deferred revenue, deferred tax liabilities and retained earnings were not material.

(iii) Presentation of assets and liabilities related to contracts with customers

The Group has also voluntarily changed the presentation of certain amounts in the consolidated balance sheet to reflect the terminology of HKFRS 15 and HKFRS 9:

- Contract costs recognised in relation to obtaining the property sale contracts were previously presented as part of other operating expenses (RMB10,043,000 as at 1 January 2018).

- Contract liabilities in relation to customer loyalty programme were previously included in deferred revenue (RMB3,278,000 as at 1 January 2018).

- Contract liabilities in relation to consumption cards issued were previously included in advances from customers (RMB57,983,000 as at 1 January 2018).

- Contract liabilities in relation to property sales contracts were previously included in receipt in advance on sale of properties (RMB282,307,000 as at 1 January 2018).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

(c) HKFRS 15 Revenue from Contracts with Customers (continued)

(iii) Presentation of assets and liabilities related to contracts with customers (continued)

Accounting for property development activities

In prior reporting periods, the Group accounted for property development activities when significant risk and rewards of ownership has been transferred to the customers on delivery in its entirety at a single time upon vacant possession and not continuously as construction progresses.

Under HKFRS 15, revenue are 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 asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- Provides all the benefits received and consumed simultaneously by the customer; or

- Creates and enhances an asset that the customer controls as the Group performs; or

- Do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

For the year 2018, the Group has assessed that there is no enforceable right to payment from the customers for performance completed to date. Thus, the Group has concluded that the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

(c) HKFRS 15 Revenue from Contracts with Customers (continued)

(iii) Presentation of assets and liabilities related to contracts with customers (continued)

Accounting for significant financing component

For contracts where the period between the payment by the customer and transfer of the promised property or service exceeds one year, the transaction price should be adjusted for the effects of a financing component, if significant. The Group has assessed that the financing component effect was insignificant.

2.3 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 2.4).

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting (continued)

(iii) Equity method

Under the equity method of accounting, the investment in associates are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investees 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 associates 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 associates 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 2.12.

(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 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)

2.4 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 gain from bargain purchase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Business combinations (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. 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.

2.5 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.

2.6 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.

2.7 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)

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

2.8 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)

2.8 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.

2.9 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investment properties

Investment properties, principally comprising leasehold buildings, are held for long-term rental yields or for capital appreciation or both, and are 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 combinations 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 "fair value gain/(loss) on investment properties".

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.

2.11 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.

2.12 Impairment of non-financial assets

Goodwill that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each 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 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 properties that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

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 consolidated balance sheet.

2.14 Other financial assets

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement category:

- those to be measured subsequently at FVPL; and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 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 FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains/(losses). Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

FVPL: Assets that do not meet the criteria for amortised cost or financial assets measured at fair value through other comprehensive income ("FVOCI") are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within fair value gains/(losses) on financial assets in the period in which it arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Other financial assets (continued)

(iv) Impairment

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

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3.1(b) for further details.

(v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 modified retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 the Group classifies its financial assets in the following categories:

- financial assets at FVPL, and
- loans and receivables.

See note 35 for details about each type of financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Other financial assets (continued)

(v) Accounting policies applied until 31 December 2017 (continued)

(i) Subsequent measurement

The measurement at initial recognition did not change an adoption of HKFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables were subsequently carried at amortised cost using the effective interest method.

Financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised in profit or loss within "fair value gain/(loss) on financial assets". Details on how the fair value of financial instruments is determined are disclosed in note 3.3(a).

(ii) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated.

Assets carried at amortised cost

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Other financial assets (continued)

(v) Accounting policies applied until 31 December 2017 (continued)

(ii) Impairment (continued)

Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could 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 was recognised in profit or loss.

Impairment testing of trade receivables is described in note 3.1(b).

2.15 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.

2.16 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 the expected credit loss model under HKFRS 9 Financial Instruments and;

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in 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)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Properties under development

Properties under development acquired through business combinations 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.

Development cost of properties 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.

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.

2.18 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.

2.19 Inventories

Inventories comprise merchandise held for direct sales, product of game console 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 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 the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 24 for further information about the Group's accounting for trade and other receivables and note 3.1(b) for a description of the Group's impairment policies.

2.21 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.

2.22 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.

2.23 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 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.

2.25 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 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 and its 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Current and deferred income tax (continued)

(ii) Deferred income tax (continued)

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.

2.27 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)

2.27 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.

2.28 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 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.

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 "contract liabilities" 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Revenue recognition (continued)

(iii) ***Sale of goods – customer loyalty programme (contract liabilities)***

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Revenue recognition (continued)

(vii) Consulting service income

Timing of recognition: Consulting service income 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.

(viii) Franchise income

Timing of recognition: Franchise income is recognised in the accounting period in which the franchise services are rendered pursuant to the contract.

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

2.30 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares

by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.31 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 38). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (note 5 and 16). The respective leased assets are included in the consolidated balance sheet based on their nature.

2.32 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.33 Bonus points liabilities

The Group operates a customer loyalty programme, 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 and supermarkets.

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 based on the relative stand-alone selling prices of the points and goods. Deferred revenue relating to bonus points liabilities is recognised as revenue when the points are redeemed for gifts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.34 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 the purchase of 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. Note 6 provides further information on how the Group accounts for government grants.

2.35 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets.

Interest income is presented as finance income where it is earned from financial assets, see note 11 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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, trade and other receivables, trade and other payables and borrowings are denominated in Hong Kong dollar ("HK$"), United States dollar ("US$") and Australia 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 2018			31 December 2017		
	HK$ RMB'000	**US$ RMB'000**	**AU$ RMB'000**	HK$ RMB'000	US$ RMB'000	AU$ RMB'000
Cash and cash equivalents	**2,397**	**7**	**4**	524	230	24
Trade and other receivables	**4,668**	**5,400**	**–**	101	–	–
Amounts due from related parties	**83**	**–**	**–**	–	–	–
Trade and other payables	**(33,170)**	**–**	**–**	(1,289)	–	(43)
Borrowings	**(261,049)**	**(8,148)**	**–**	(205,248)	(9,310)	–

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

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

	Year ended 31 December	
	2018	2017
Net foreign exchange (losses)/gains included in other operating expenses *(note 9)*	**(8,025)**	4,373
Net foreign exchange gains/(losses) included in other gains/(losses) *(note 7)*	**383**	(1,131)
Exchange (losses)/gains on foreign currency borrowings included in finance costs *(note 11)*	**(7,708)**	7,504
Total net foreign exchange (losses)/gains recognised in (loss)/profit before income tax for the year	**(15,350)**	10,746

Sensitivity

As shown in the table above, the Group is primarily exposed to changes in HK$/RMB exchange rates. As at 31 December 2018, if HK$ had weakened/strengthened by 6% against the RMB with all other variables held constant, post-tax profit for the year would have been RMB14,381,000 higher/lower (31 December 2017: RMB10,316,000 higher/lower), mainly as a result of foreign exchange gains/(losses) on translation of HK$ denominated cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

Profit is more sensitive to movements in the HK$/RMB exchange rates and 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 2018 and 2017, the Group's borrowings at variable rate were mainly denominated in RMB and HK$. Borrowings obtained at fixed 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 2018	**% of total loans**	31 December 2017	% of total loans
Variable rate borrowings	**196,285**	**32%**	335,570	47%

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*

(i) *Risk management*

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 2018 and 2017, 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)

(i) Risk management (continued)

As for trade receivables mainly related to commission income, management fee, rental income, service income and third-party payment platforms, 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.

(ii) Impairment of financial assets

The Group has one type of financial assets that are subject to the expected credit loss model:

- trade receivables mainly for commission income, management fee, service income, rental income and third-party payment platforms

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of revenue over a period of twelve months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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)

(ii) Impairment of financial assets (continued)

Trade receivables (continued)

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) was determined as follows for trade receivables:

31 December 2018	**Current**	**Past due**	**Total**
Expected loss rate	–	2.78%	
Gross carrying amount - trade receivables	22,251	7,837	30,088
Loss allowance	–	218	218

1 January 2018	**Current**	**Past due**	**Total**
Expected loss rate	–	2.78%	
Gross carrying amount - trade receivables	19,442	10,785	30,227
Loss allowance	–	300	300

The closing loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 and to the closing loss allowance as at 31 December 2018 as follows:

	Trade receivables
	2018
Closing loss allowance as at 31 December 2017 (calculated under HKAS 39)	300
Amounts restated through opening retained earnings	–
Opening loss allowance as at 1 January 2018 (calculated under HKFRS 9)	300
Increase in loss allowance recognised in profit or loss during the year	218
Unused amount reversed	(300)
Closing loss allowance as at 31 December 2018	218

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)

(ii) Impairment of financial assets (continued)

Trade receivables (continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 60 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor,
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 60 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

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)

(ii) Impairment of financial assets (continued)

Other financial assets at amortised costs

Other financial assets at amortised cost include amounts due from related parties and other receivables.

The loss allowance for other financial assets at amortised cost as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing loss allowance as at 31 December 2018 as follows:

	Amounts due from related parties	Other receivables	Total
Closing loss allowance as at 31 December 2017 (calculated under HKAS 39)	1,206	597	1,803
Amounts restated through opening retained earnings	–	–	–
Opening loss allowance as at 1 January 2018 (calculated under HKFRS 9)	1,206	597	1,803
Increase in the allowance recognised in profit or loss during the period	–	5,662	5,662
Closing loss allowance as at 31 December 2018	1,206	6,259	7,465

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)

(ii) Impairment of financial assets (continued)

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets:

	Year ended 31 December	
	2018	2017
Impairment losses		
– Individually impaired receivables (previous accounting policy)	**–**	2,103
– movement in loss allowance for trade receivables	**218**	–
– movement in loss allowance for other receivables	**5,662**	–
Net impairment losses on financial assets	**5,880**	2,103

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of 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 2017: nil) 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	
	2018	2017
Floating rate		
– Expiring within one year (bank loans)	**77,524**	60,000
– Expiring beyond one year (bank loans)	**19,775**	33,985
	97,299	93,985

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 2018					
Trade and other payables (excluding other taxes and surcharges payable)	832,688	47,865	686	8,590	889,829
Amounts due to related parties	13,803	–	–	–	13,803
Borrowings	338,897	190,127	128,187	25,105	682,317
	1,185,388	237,992	128,873	33,695	1,585,949
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

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 34(b)

divided by

Total "equity" (as shown in the consolidated balance sheet, including non-controlling interests).

The Group's gearing ratio as at 31 December 2018 and 2017 were as follows:

	As at 31 December	
	2018	2017
Net debt *(note 34(b))*	**490,685**	627,985
Total equity	**159,460**	269,117
Net debt to equity ratio	**307.7%**	233.4%

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) Financial assets

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments 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 financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements As at 31 December 2018	Note	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Financial assets at FVPL					
– An insurance contract	20	10,568	–	–	10,568

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

Level 2: The fair value of financial instruments 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 an instrument is observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

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 (continued)

(b) 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. An explanation of each level is provided in note 3.3(a).

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.

See note 20 for disclosures of the financial assets at FVPL, note 16 for disclosures of the investment properties that are measured at fair value, and note 40 for fair value assessments for 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 2018 and 31 December 2017. 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 consolidated balance sheet			Related amounts not offset	
	Gross amounts	Gross amounts set off in the consolidated balance sheet	Net amounts presented in the consolidated balance sheet	Financial instrument collateral	Net amounts
2018					
Financial assets					
Financial assets at FVPL *(note (a))*	10,568	–	10,568	(8,148)	2,420
Restricted cash *(note (a))*	32,242	–	32,242	(3,782)	28,460
Amounts due from related parties *(note (b))*	262,569	(111,892)	150,677	–	150,677
	305,379	(111,892)	193,487	(11,930)	181,557
Financial liabilities					
Borrowings *(note (a))*	605,488	–	605,488	(11,930)	593,558
Amounts due to related parties *(note (b))*	125,695	(111,892)	13,803	–	13,803
	731,183	(111,892)	619,291	(11,930)	607,361

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)

	Effects of offsetting on the consolidated balance sheet			Related amounts not offset	
	Gross amounts	Gross amounts set off in the consolidated balance sheet	Net amounts presented in the consolidated balance sheet	Financial instrument collateral	Net amounts
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

(a) Collateral against borrowings

The Group has pledged investment properties, financial assets at FVPL, properties under development, completed properties held for sale and restricted cash as collateral against a number of its borrowings. Refer to note 37 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 2018 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 RMB111,892,000 (31 December 2017: RMB78,910,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

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.

(a) PRC corporate income taxes ("CIT") 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.

(b) Provision for PRC land appreciation taxes

PRC land appreciation tax is levied at progressive rates raging 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.

The Group is subject to land appreciation taxes in the PRC which has been included in the income tax expenses of the Group. 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 various tax authorities. Accordingly, significant judgement is required in determing 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)

(c) Bonus points liabilities

The points provide a material right to customers that they would not receive without entering into a contract. Therefore, the promise to provide points to the customer is a separate performance obligation. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. Management estimates the stand-alone selling price per point on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience.

The stand-alone selling price of the product sold is estimated on the basis of the retail price. Discounts are not considered as they are only given in rare circumstance.

(d) Fair value of investment properties

The fair value of investment properties at year end is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in note 40.

(e) Impairment of trade and other receivables

The loss allowances for trade and other receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimate at the end of each reporting period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(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.

(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) Net realisable value 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.

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 etc.);

(ii) Supermarket and convenience store (trading under the brand "Yihua Lejia Supermarket" (益華樂家超市), "Wangoo Health Supermarket" (萬果健康超市) and "Wangoo Convenience Store" (萬果便利店), which offer mainly daily essential products such as food and beverages, perishables and other household products etc.);

(iii) Electrical appliance (trading under the brand "Yihua Sihai Electrical Appliance" (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 and Jiangmen store);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 SEGMENT INFORMATION AND REVENUE (CONTINUED)

(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 and provision of property management service in the PRC);

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

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

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 plus its fair value gain less property taxes; share of net losses of an associate accounted for using the equity method, when appropriate). Assets and liabilities for the operating segments are not regularly reported to the CODM.

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 revenue.

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

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 2018:

	Department store RMB'000	Supermarket and convenience store RMB'000	Electrical appliance RMB'000	Furniture RMB'000	Consulting service RMB'000	Property investment RMB'000	Property development RMB'000	Others RMB'000	Total RMB'000
Segment revenue at a point of time	207,605	172,630	34,625	1,986	2,236	23,478	330,118	657	773,335
Fair value gain on investment properties	–	–	–	–	–	30,490	–	–	30,490
Provision for impairment of assets (excluding provision for impairment of property, plant and equipment)	(5,771)	(1,064)	(18)	(11)	–	–	(5,840)	–	(12,704)
Share of net losses of an associate accounted for using the equity method	–	–	–	–	–	–	–	(7,262)	(7,262)
Segment result - gross profit/(loss)	201,320	57,491	10,796	1,975	1,945	47,028	43,139	(7,218)	356,476
Fair value loss on financial assets									(1,005)
Unallocated income – other income and other losses, net									2,865
Unallocated costs									(388,631)
Provision for impairment of property, plant and equipment									(20,228)
Finance income									2,034
Finance costs									(46,038)
Loss before income tax with land appreciation tax allocated									(94,527)
Unallocated income tax expenses									(20,644)
Loss for the year									(115,171)
Depreciation and amortisation									24,871
Provision for impairment of property, plant and equipment									20,228

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 2017:

	Department store RMB'000	Supermarket and convenience store RMB'000	Electrical appliance RMB'000	Furniture RMB'000	Consulting service RMB'000	Property investment RMB'000	Property development RMB'000	Others RMB'000	Total RMB'000
Segment revenue at a point of time	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 net losses of an associate accounted for using the equity method	–	–	–	–	–	–	–	(5,448)	(5,448)
Segment result – gross profit/(loss)	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 costs									(40,684)
Loss before income tax with land appreciation tax allocated									(139)
Unallocated income tax expenses									(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)

Entity-wide information

The turnover of the Group is set out as follows:

	Year ended 31 December	
	2018	2017
Sales of properties *(note (a))*	**330,118**	263,180
Direct sales of goods	**161,235**	219,662
Commission income from concessionaire sales	**159,008**	170,682
Management fee and service income from operations	**48,755**	49,147
Rental income	**71,431**	43,836
Consulting service income *(note (b))*	**2,236**	7,805
Franchise income	**552**	–
	773,335	754,312

(a) During the year ended 31 December 2018, two subsidiaries of the Group principally engaged in property development business and delivered the properties to buyers.

(b) During the year ended 31 December 2018, the Group has provided certain consulting services to one (2017: four) independent property developer.

6 OTHER INCOME

	Year ended 31 December	
	2018	2017
Government grants	**3,888**	1,479

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

7 OTHER LOSSES - NET

	Year ended 31 December	
	2018	2017
Penalty for termination lease agreements in advance	**(5,917)**	–
Losses from disposal of a subsidiary	**(3,824)**	–
Losses from disposal of assets classified as held for sale	**(1,758)**	–
Gains from debts exemption	**6,861**	–
Subsidy provided by a lessor	**3,593**	–
Net foreign exchange gains/(losses)	**383**	(1,131)
Others	**(361)**	(1,381)
	(1,023)	(2,512)

8 PROVISION FOR IMPAIRMENT OF ASSETS

	Year ended 31 December	
	2018	2017
Provision for impairment of property, plant and equipment *(note 15)*	**20,228**	17,095
Provision for impairment of completed properties held for sale *(note 22)*	**5,840**	10,121
Provision for impairment of inventories *(note 23)*	**984**	796
Provision for impairment of trade receivables *(note 24)*	**218**	300
Provision for impairment of other receivables *(note 24)*	**5,662**	597
Provision for impairment of amounts due from related parties *(note 41)*	**–**	1,206
	32,932	30,115

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

9 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2018	2017
Utilities	**28,259**	29,539
Other taxes	**13,671**	10,802
Advertising, promotion and related expenses	**32,095**	29,652
Bank charges	**6,709**	5,203
Repairs and maintenance	**5,176**	4,374
Travelling and transportation expenses	**4,710**	4,934
Professional service expenses	**4,628**	4,588
Consumables	**2,808**	3,829
Office expenses	**4,299**	2,845
Entertainment expenses	**8,195**	5,530
Consumption cards related expenses	**904**	964
Insurance expenses	**642**	1,007
Auditor's remuneration	**2,950**	2,950
Foreign exchange losses/(gain)	**8,025**	(4,373)
Other expenses	**10,263**	9,436
	133,334	111,280

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2018	2017
Wages and salaries	**79,703**	80,122
Social security costs	**11,021**	11,515
Welfare and other benefits	**4,878**	6,232
	95,602	97,869

(a) Five highest paid individuals

All the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 and 2017 are directors. Their emoluments are reflected in the analysis shown in note 44.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

11 FINANCIAL INCOME AND COSTS

	Year ended 31 December	
	2018	2017
Finance income		
– Interest income derived from cash in banks and other deposits	**717**	256
– Interest income derived from term deposits	**1,317**	1,061
Finance income	**2,034**	1,317
Finance costs		
– Interest expense on bonds	**(11,820)**	(5,774)
– Interest expense on bank borrowings	**(13,561)**	(24,080)
– Interest expense on other borrowings	**(12,949)**	(19,295)
– Foreign exchange (losses)/gains on borrowings	**(7,708)**	7,504
	(46,038)	(41,645)
Amounts capitalised	**–**	961
Finance costs expensed	**(46,038)**	(40,684)
Net finance costs	**(44,004)**	(39,367)

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 expenses, shows how the tax expenses are 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	
	2018	2017
Current income tax		
– PRC CIT	**17,090**	10,173
– PRC land appreciation tax	**11,133**	3,093
Total current tax expense	**28,223**	13,266
Deferred income tax		
– PRC CIT	**3,554**	(523)
– PRC land appreciation tax	**(19,541)**	–
Total deferred tax expense	**(15,987)**	(523)
Income tax expenses	**12,236**	12,743

(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% (2017: 16.5%) of the estimated assessable profit.

(iii) 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	
	2018	2017
(Loss)/profit before income tax	**(102,935)**	2,954
Tax at the CIT rate of 25% (2017: 25%)	**(25,734)**	739
Tax effect of:		
– Different income tax rates of certain companies	**8,943**	(588)
– An associate result reported net of tax	**1,816**	1,362
– Expenses not deductible for tax purposes	**7,149**	1,431
– Gain from bargain purchase	**–**	(15,316)
– Utilisation of previously unrecognised tax losses	**(978)**	(107)
– Tax losses for which no deferred income tax assets were recognised	**25,789**	21,915
– Others	**3,659**	214
PRC CIT	**20,644**	9,650
PRC land appreciation income tax	**(8,408)**	3,093
Income tax expenses	**12,236**	12,743

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					
	2018			2017		
	Before tax	**Tax charge**	**After tax**	Before tax	Tax charge	After tax
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
Deferred tax *(note 18)*	**–**	**–**	**–**	–	(2,723)	–

(d) Tax losses

	As at 31 December	
	2018	2017
Unused tax losses for which no deferred tax asset has been recognised	**313,565**	214,321
Potential tax benefit at the CIT rate of 25%	**78,391**	53,580

As at 31 December 2018, the Group did not recognise deferred income tax assets of RMB78,391,000 (31 December 2017: RMB53,580,000) in respect of losses amounting to approximately RMB313,565,000 (31 December 2017: RMB214,321,000), 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	
	2018	2017
Temporary difference relating to investments in subsidiaries for which deferred tax liabilities have not been recognised:		
Undistributed earnings	**204,691**	192,038
Unrecognised deferred tax liabilities relating to the above temporary differences	**20,469**	19,204

As at 31 December 2018, deferred income tax liabilities of RMB20,469,000 (31 December 2017: RMB19,204,000) 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 RMB204,691,000 as at 31 December 2018 (31 December 2017: RMB192,038,000).

13 DIVIDEND

The dividend paid in 2017 was 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 2018 is to be proposed at the annual general meeting (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

14 LOSSES PER SHARE

(a) Basic losses per share

Basic losses per share is calculated by dividing the loss 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	
	2018	2017
Loss attributable to owners of the Company	**(117,386)**	(11,502)
Weighted average number of ordinary shares in issue (thousand shares)	**1,003,159**	1,003,159
Basic losses per share (expressed in RMB per share)	**(0.1170)**	(0.0115)

(b) Diluted losses per share

As there were no potential dilutive ordinary shares during the year ended 31 December 2018 and 2017, diluted losses per share was equal to basic losses 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 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	–	–	54	70	19	28,727	28,870
Transfer from completed properties held for sale *(note 22)*	–	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
Year ended 31 December 2018							
Opening net book amount	**92,613**	**5,907**	**4,562**	**1,617**	**12,738**	**55,594**	**173,031**
Additions	**25,942**	**5**	**1,824**	**882**	**5,526**	**8,633**	**42,812**
Acquisition of a subsidiary *(note 39)*	**–**	**–**	**26**	**–**	**–**	**–**	**26**
Disposals	**(16,526)**	**–**	**(1,945)**	**(1,110)**	**(2,072)**	**–**	**(21,653)**
Transfers	**27**	**39,918**	**–**	**–**	**–**	**(39,945)**	**–**
Depreciation	**(18,340)**	**(713)**	**(1,430)**	**(546)**	**(3,431)**	**–**	**(24,460)**
Accumulated depreciation transferred out due to assets disposal	**5,953**	**–**	**900**	**778**	**2,028**	**–**	**9,659**
Impairment charge *(note 8)*	**(20,228)**	**–**	**–**	**–**	**–**	**–**	**(20,228)**
Impairment transferred out due to disposal of a subsidiary	**8,055**	**–**	**–**	**–**	**–**	**–**	**8,055**
Closing net book amount	**77,496**	**45,117**	**3,937**	**1,621**	**14,789**	**24,282**	**167,242**
As at 31 December 2018							
Cost	**314,908**	**45,981**	**19,993**	**5,063**	**38,660**	**24,282**	**448,887**
Accumulated depreciation	**(180,533)**	**(864)**	**(16,056)**	**(3,442)**	**(22,924)**	**–**	**(223,819)**
Accumulated impairment charge	**(56,879)**	**–**	**–**	**–**	**(947)**	**–**	**(57,826)**
Net book amount	**77,496**	**45,117**	**3,937**	**1,621**	**14,789**	**24,282**	**167,242**

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 2017			
Opening balance as at 1 January	101,903	394,332	496,235
Acquisition of a subsidiary	–	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 28)*	–	(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
Year ended 31 December 2018			
Opening balance as at 1 January	107,665	632,945	740,610
Capitalised subsequent expenditure	–	51,070	51,070
Transfers	571,965	(571,965)	–
Revaluation gains recognised in profit or loss	25,940	4,550	30,490
Closing balance as at 31 December	705,570	116,600	822,170

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	
	2018	2017
Rental income	**23,478**	2,044
Direct operating expenses from property that did not generate rental income	**(6,940)**	(2,483)
Fair value gain	**30,490**	74,715

(b) Non-current assets pledged as security

Refer to note 37 for information on non-current assets pledged as security by the Group.

(c) Contractual obligations

Refer to note 38(a) 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	
	2018	2017
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
– Within 1 year	**37,846**	38,060
– Between 1 and 5 years	**150,592**	172,616
– Over 5 years	**257,397**	346,903
	445,835	557,579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

17 INVESTMENT IN AN ASSOCIATE

As at 31 December 2018 and 2017, 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 a semi-custom development agreement with a supplier regard to a chip development project (the "Development Project"). During the year ended 31 December 2018, payment to the suppliers was US$8,000,000 (equivalent to RMB52,872,000) (2017: US$13,500,000, equivalent to RMB90,519,000) for the Development Project. Further payments of US$6,570,000 (equivalent to RMB45,091,000) for the Development Project, have to be paid to the supplier during the year ending 31 December 2019 as certain development milestones have been reached. All the costs specifically related to the Development Project have been accounted for as intangible assets when the chip development was completed in 2018.

The associate is accounted for using equity method.

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

	Year ended 31 December	
	2018	2017
As at 1 January	**41,562**	13,010
Additions	**–**	34,000
Share of post-tax loss of an associate	**(7,262)**	(5,448)
As at 31 December	**34,300**	41,562

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 2018 and for the year then ended which, in the opinion of the Directors, is material to the Group.

(a) Summarised balance sheet

	As at 31 December	
	2018	2017
Cash and cash equivalents	**547**	251
Prepayment for the Development Project*	**–**	153,738
Intangible assets*	**208,665**	–
Other assets	**32,308**	5,672
Total assets	**241,520**	159,661
Trade and other payables	**95,975**	729
Amounts due to related parties	**113,560**	111,555
Other liabilities	**–**	2,570
Total liabilities	**209,535**	114,854
Share capital	**61,986**	59,986
Accumulated losses	**(30,001)**	(15,179)
Net assets	**31,985**	44,807

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	
	2018	2017
Revenue**	**751**	7,590
Other income	**–**	4,008
Other gains**	**20,842**	9,388
Purchases of and changes in inventories	**(549)**	(6,212)
Employee benefit expenses	**(1,301)**	(5,597)
Depreciation and amortisation	**(27,592)**	(206)
Other operating expenses	**(6,973)**	(16,867)
Loss before income tax	**(14,822)**	(7,896)
Income tax expenses	**–**	(3,222)
Loss for the year	**(14,822)**	(11,118)
Other comprehensive income	**–**	–
Total comprehensive loss	**(14,822)**	(11,118)

* Upon completion of the Development Project in 2018, all the project costs were capitalised as intangible asset and amortised over a period of five years.

** In 2018, the associated company disposed of a subsidiary at a gain of RMB20,842,000 and its business was transferred out.

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	
	2018	2017
Net assets as at 1 January	**44,807**	21,925
Loss for the year	**(14,822)**	(11,118)
Other comprehensive income	**–**	–
Capital injected by and attributable to the Group	**–**	34,000
Capital injected by and attributable to other shareholders	**2,000**	–
Net assets as at 31 December	**31,985**	44,807
Reconciliation item of capital to be injected by other shareholders	**38,014**	40,014
Net assets as at 31 December reconciled	**69,999**	84,821
Interest in Subor	**34,300**	41,562
Carrying value	**34,300**	41,562

(d) The Group has provided financial guarantees to a supplier of Subor (note 36(a)).

(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:

	Year ended 31 December	
	2018	2017
Costs for technical services	**–**	136,582
Property, plant and equipment	**–**	280
	–	136,862

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:

	Year ended 31 December	
	2018	2017
– Within 1 year	**–**	4,286
– Between 1 and 5 years	**–**	8,923
	–	13,209

In 2018, the associated company disposed of a subsidiary and its operating lease commitments were transferred out.

18 DEFERRED INCOME TAX

(a) Deferred tax assets

	As at 31 December	
	2018	2017
The balance comprises temporary differences attributable to:		
Accrued expenses and deferred revenue	**635**	1,727
Tax losses	**11,491**	13,623
	12,126	15,350
Others	**2,933**	2,110
Total deferred tax assets	**15,059**	17,460
Set-off of deferred tax liabilities pursuant to set-off provisions *(note (b))*	**(11,172)**	(8,255)
Net deferred tax assets	**3,887**	9,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 2017	1,409	7,539	4,180	13,128
Acquisition of a subsidiary	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
Acquisition of a subsidiary *(note 39)*	–	877	–	877
(Charge)/credit to profit or loss	(1,092)	(3,009)	823	(3,278)
As at 31 December 2018	635	11,491	2,933	15,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

18 DEFERRED INCOME TAX (CONTINUED)

(b) Deferred tax liabilities

	As at 31 December	
	2018	2017
The balance comprises temporary differences attributable to:		
Accelerated tax depreciation	**8,030**	11,437
Fair value of investment properties over the tax bases	**90,519**	76,431
Fair value of properties under development over the tax bases	**19,504**	39,888
Land appreciation tax on acquisitions of subsidiaries	**21,221**	40,762
Fair value of completed properties held for sale over the tax bases	**7,556**	3,513
Fair value of property, plant and equipment over the tax bases	**3,343**	1,741
	150,173	173,772
Others	**5,152**	818
Total deferred tax liabilities	**155,325**	174,590
Set-off of deferred tax assets pursuant to set-off provisions *(note (a))*	**(11,172)**	(8,255)
Net deferred tax liabilities	**144,153**	166,335

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

18 DEFERRED INCOME TAX (CONTINUED)

(b) Deferred tax liabilities (continued)

Movements	Accelerated tax depreciation	Fair value of investment properties over the tax bases	Fair value of property under development over the tax bases	Land appreciation tax on acquisition of subsidiaries	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 2017	10,786	39,039	36,785	25,150	–	–	883	112,643
Acquisition of a subsidiary	–	15,990	10,646	16,912	9,658	1,741	4,239	59,186
Charge/(credit) 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
Effects of the adoption of HKFRS 15 *(note 2.2)*	–	–	–	–	–	–	2,511	2,511
As at 1 January 2018	11,437	76,431	39,888	40,762	3,513	1,741	3,329	177,101
Transfers and others	–	–	(20,384)	–	18,782	1,602	(2,511)	(2,511)
(Credit)/charge to profit or loss	(3,407)	14,088	–	(19,541)	(14,739)	–	4,334	(19,265)
As at 31 December 2018	8,030	90,519	19,504	21,221	7,556	3,343	5,152	155,325

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 FINANCIAL ASSETS AT FVPL

	Year ended 31 December	
	2018	2017
As at 1 January	**–**	–
Fair value at date of acquisition	**11,573**	–
Revaluation loss recognised in profit or loss	**(1,005)**	–
As at 31 December	**10,568**	–

On 9 February 2018, the Company purchased a life insurance with the premium amounting to US$1,831,000 (equivalent to RMB11,573,000) for Mr. Chen Zhengtao (a director of the Company) of which the beneficiary was the Company and the sum insured was US$10,000,000 (equivalent to RMB68,632,000).

As the life insurance had significant insurance risk with uncertain interest rate, it was classified as financial assets at FVPL, using cash surrender value stated at 31 December 2018 as the subsequent measurement.

Refer to note 37 for information on non-current assets pledged as security by the Group.

21 PROPERTIES UNDER DEVELOPMENT

	As at 31 December	
	2018	2017
As at 1 January	**457,568**	376,872
Fair value of properties under development at date of acquisition	**–**	267,227
Capitalised subsequent expenditure	**174,567**	116,075
Transfer to completed properties held for sale *(note 22)*	**(300,408)**	(302,606)
As at 31 December	**331,727**	457,568

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

Refer to note 37 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 COMPLETED PROPERTIES HELD FOR SALE

	As at 31 December	
	2018	2017
As at 1 January	**126,034**	–
Fair value of properties under development at date of acquisition	**–**	94,000
Transfer from properties under development *(note 21)*	**300,408**	302,606
Transfer to property, plant and equipment *(note 15)*	**–**	(5,714)
Costs of sold properties	**(279,504)**	(254,737)
Impairment charge *(note 8)*	**(5,840)**	(10,121)
As at 31 December	**141,098**	126,034

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

Refer to note 37 for information on current assets pledged as security by the Group.

23 INVENTORIES

	As at 31 December	
	2018	2017
Merchandise held for direct sales	**28,608**	43,028
Product of game console	**17,049**	–
Low value consumables	**1,189**	1,041
	46,846	44,069
Less: impairment charge	**(1,354)**	(796)
	45,492	43,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

23 INVENTORIES (CONTINUED)

The cost of inventories recognised as purchase of and changes in inventories amounted to approximately RMB139,304,000 for the year ended 31 December 2018 (2017: RMB187,319,000).

Write-downs of inventories to net realisable value amounted to RMB984,000 (2017: RMB796,000). These are recognised as an expense during the year ended 31 December 2018 and included in "provision for impairment of assets" in profit or loss (note 8).

During the year, the Group disposed of expired goods amounted to RMB426,000 and wrote off against the impairment charge provision.

24 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
Trade receivables	**30,088**	30,227
Other receivables	**114,026**	60,840
Rental and other deposits	**37,537**	11,602
Prepayments	**13,240**	97,709
Prepaid taxes	**7,540**	20,353
Total trade and other receivables	**202,431**	220,731
Less: impairment charge *(note 8)*	**(5,880)**	(897)
Less: non-current portion of prepayments and other receivables	**(7,425)**	(49,860)
	189,216	169,974

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

24 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

(a) The carrying amounts of the Group's trade and other receivables as at 31 December 2018 and 2017 approximate their fair values.

(b) As at 31 December 2018 and 2017, the ageing analysis of trade receivables based on invoice date is as follows:

	As at 31 December	
	2018	2017
Trade receivables		
– Within 2 months	**22,251**	19,442
– Over 2 months	**7,837**	10,785
	30,088	30,227

(c) The balance of trade receivables mainly including commission income, 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 2018, trade receivables of approximately RMB7,619,000 (31 December 2017: RMB10,485,000) 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) As at 31 December 2018, the Group considers it will be extremely difficult to recover any of other receivables of approximately RMB5,662,000 (31 December 2017: RMB597,000) and accordingly a full provision has been made.

(f) 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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25 RESTRICTED CASH

	As at 31 December	
	2018	2017
Guarantee deposits for construction of pre-sold properties *(note (a))*	**21,606**	29,712
Guarantee deposits for consumption cards issued *(note (b))*	**4,204**	1,045
Guarantee deposits for borrowings *(note (c))*	**3,782**	65,340
Others	**2,650**	7,430
	32,242	103,527

All restricted cash was denominated in RMB.

(a) 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.

(b) As at 31 December 2018 and 2017, the restricted cash was deposited in a designated bank account for the pledge of certain consumption cards issued.

(c) 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.

26 TERM DEPOSITS

As at 31 December 2018, 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 (31 December 2017: from 1.5% to 1.75%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

27 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2018	2017
Cash at bank	**110,793**	85,873
Cash on hand	**4,010**	4,766
	114,803	90,639

28 NON-CURRENT ASSETS HELD FOR SALE

	As at 31 December	
	2018	2017
Investment properties under construction *(note 16)*	**–**	44,600

In November 2017, the Directors decided to sell the fifth to twenty-second floors of Block C of one property. The sale was completed in 2018 and a loss on disposal of RMB1,758,000 was recognised.

29 SHARE CAPITAL

Movement in ordinary shares:

	Number of ordinary share (thousands)	**Share capital** RMB'000
As at 1 January 2017	497,904	3,925
Share Subdivision *(note (a))*	497,904	–
Issue of shares upon 2016 Scip Dividend Scheme *(note (b))*	7,351	31
As at 31 December 2017	1,003,159	3,956
As at 1 January 2018 and 31 December 2018	**1,003,159**	**3,956**

(a) 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").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

29 SHARE CAPITAL (CONTINUED)

(b) 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 ("2016 Scrip Dividend Scheme"). Accordingly, an aggregate of 7,351,000 shares of HK$0.005 each were issued and allotted in lieu of cash.

30 OTHER RESERVES

	Share premium	Statutory reserve *(note (a))*	Capital reserve *(note (b))*	Other reserves	Total
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
Balance as at 1 January 2018	**91,562**	**14,273**	**16,250**	**14,225**	**136,310**
Appropriation to statutory reserve	**–**	**7,506**	**–**	**–**	**7,506**
Changes in ownership interests in a subsidiary without change of control	**–**	**–**	**–**	**(189)**	**(189)**
Balance as at 31 December 2018	**91,562**	**21,779**	**16,250**	**14,036**	**143,627**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

30 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.

31 TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
Trade payables	**55,088**	79,712
Notes payable	**8,680**	3,100
Staff salaries, bonuses and welfare payables	**12,348**	11,389
Payables to concessionaires and lessees	**210,168**	201,801
Other taxes and surcharges payable	**22,514**	37,621
Rental and other deposits	**55,225**	66,102
Payables for construction costs	**167,068**	118,845
Unpaid cash consideration for completed acquisitions	**45,912**	47,721
Payables to former shareholders of an aqcuired subsidiary	**29,437**	44,352
Deemed acquisition cost of land use right	**45,895**	52,622
Deposits received on sale of properties	**82,296**	16,493
Others	**177,712**	64,808
	912,343	744,566
Less: non-current portion of other payables	**(57,141)**	(88,816)
	855,202	655,750

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

31 TRADE AND OTHER PAYABLES (CONTINUED)

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

(b) As at 31 December 2018 and 2017, the ageing analysis of trade payables based on invoice date is as follows:

	As at 31 December	
	2018	2017
Trade payables		
– Within 3 months	**48,209**	68,000
– Over 3 months	**6,879**	11,712
	55,088	79,712

32 BORROWINGS

	As at 31 December	
	2018	2017
Non-current		
Long-term borrowings		
– Bonds – unsecured *(note (a))*	**178,697**	68,108
– Bonds – secured *(note (b))*	**42,910**	22,951
– Bank borrowings – secured *(note (c))*	**111,785**	300,603
– Other borrowings – unsecured *(note (d))*	**96,621**	118,698
– Other borrowings – secured *(note (e))*	**23,000**	–
Less: current portion of long-term borrowings	**(154,337)**	(279,386)
	298,676	230,974
Current		
Short-term borrowings		
– Bonds – unsecured *(note (f))*	**2,015**	47,730
– Bonds – secured *(note (g))*	**3,255**	–
– Bank borrowings – unsecured *(note (h))*	**35,000**	35,000
– Bank borrowings – secured *(note (i))*	**89,500**	115,918
– Other borrowings – unsecured *(note (j))*	**12,705**	9,616
– Other borrowings – secured *(note (k))*	**10,000**	–
Current portion of long-term bonds	**17,113**	4,980
Current portion of long-term bank borrowings	**40,603**	189,622
Current portion of other borrowings	**96,621**	84,784
	306,812	487,650
Total borrowings	**605,488**	718,624

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

32 BORROWINGS (CONTINUED)

(a) During the year 2018, the Company issued bonds at interest rate of 2% to 18% per annum with maturity period of two to six years. The aggregated principal amount of these bonds amounted to HK$133,060,000 (equivalent to RMB116,312,000). The net proceeds of these bonds, after deducting the transaction costs, amounted to RMB113,300,000.

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.

(b) During the period from January 2018 to October 2018, the Company issued bonds at interest rate of 6.5% or 7% per annum with maturity period of one and a half to three years. The aggregated principal amount of these bonds amounted to HK$22,000,000 (equivalent to RMB18,608,000), which were secured by guarantees given by a director of the Company. The net proceeds of these bonds, after deducting the transaction costs, amounted to RMB16,511,000.

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 a 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 2018, the long-term bank borrowings were secured by guarantees given by the Company and subsidiaries within the Group.

Certain portions of the long-term bank borrowings, amounting to HK$24,500,000 (equivalent to RMB21,470,000) (31 December 2017: HK$48,000,000, equivalent to RMB40,124,000) and US$1,178,000 (equivalent to RMB8,148,000) (31 December 2017: Nil), were collectively pledged by restricted cash of the Group of RMB3,782,000 (31 December 2017: RMB8,584,000).

Certain portions of the long-term bank borrowings, amounting to RMB82,170,000 (31 December 2017: RMB251,168,000), were collectively pledged by investment properties of the Group of RMB373,400,000 (31 December 2017: collectively pledged by investment properties of the Group of RMB381,100,000, completed properties held for sale and properties under development of the Group of RMB65,170,000, restricted cash of the Group of RMB2,980,000, properties and term deposit owned by some third parties).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

32 BORROWINGS (CONTINUED)

(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 were unsecured, bearing fixed interest rates of 4.35% per annum and to be repaid from 30 September 2017 to 30 June 2019.

(e) During the period from November 2018 to December 2018, the Group obtained borrowings of RMB23,000,000 from a third party bearing interest rate of 5% per annum. The borrowings were secured by a guarantee given by the Company and to be repaid on 31 July 2020.

(f) In July 2018, the Company issued bonds at interest rate of 0.1% per annum with maturity period of five months. The aggregated principal amount of these bonds amounted to HK$2,300,000 (equivalent to RMB2,015,000). There were no transaction cost of these bonds.

(g) During the period from July 2018 to October 2018, the Company issued bonds at interest rate of 7% per annum with maturity period of one year. The aggregated principal amount of these bonds amounted to HK$3,800,000 (equivalent to RMB3,328,000), which were secured by guarantees given by a director of the Company. The net proceeds of these bonds, after deducting the transaction costs, amounted to RMB3,222,000.

(h) During the period from April 2018 to August 2018, the Group obtained approximately one-year bank borrowings, amounting to RMB35,000,000. The borrowings were unsecured, bearing fixed interest rates and had fixed repayment terms.

(i) As at 31 December 2018, the short-term bank borrowings were secured by guarantees given by the Company and subsidiaries within the Group.

Certain portions of the short-term bank borrowings, amounting to RMB60,000,000 (31 December 2017: RMB99,200,000), were collectively pledged by investment properties of the Group of RMB449,000,000 (31 December 2017: RMB388,000,000), and guarantees given by a director of the Company.

(j) In August and September 2018, the Company obtained three-month borrowings of HK$9,500,000 (equivalent to RMB8,324,000) and six-month borrowings of HK$5,000,000 (equivalent to RMB4,381,000) respectively from third parties. The borrowings were unsecured, bearing fixed interest rates and had fixed repayment terms.

(k) In December 2018, the Company obtained one-year borrowings of RMB10,000,000 from a third party bearing interest rate of 16.8% per annum. The borrowings were pledged by properties under development of the Group of RMB26,022,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

32 BORROWINGS (CONTINUED)

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

	Year ended 31 December	
	2018	2017
Bank borrowings	**5.26%**	5.31%
Bonds	**6.17%**	5.98%
Other borrowings	**5.25%**	11.99%

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

	As at 31 December	
	2018	2017
Within 1 year	**306,812**	487,650
Between 1 and 2 years	**169,549**	88,953
Between 2 and 5 years	**106,898**	119,848
Over 5 years	**22,229**	22,173
	605,488	718,624

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

33 DEFERRED REVENUE

	As at 31 December	
	2018	2017
Government grants classified as non-current liabilities	**8,204**	1,546
Government grants classified as current liabilities	**1,740**	559
Bonus points liabilities classified as current liabilities	**–**	3,321
	9,944	5,426

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

34 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December	
	2018	2017
(Loss)/profit before income tax	**(102,935)**	2,954
Adjustments for:		
– Gain from bargain purchase	**–**	(61,263)
– Fair value gain on investment properties	**(30,490)**	(74,715)
– Fair value loss on financial assets at FVPL	**1,005**	–
– Disposal of property, plant and equipment and intangible assets	**3,947**	2,991
– Losses from disposal of a subsidiary	**3,824**	–
– Loss from disposal of assets classified as held for sale	**1,758**	–
– Depreciation of property, plant and equipment	**24,460**	27,483
– Amortisation of computer software	**411**	323
– Amortisation of government grant relating to assets	**(2,283)**	(1,479)
– Provision for impairment of assets	**32,932**	30,115
– Finance income	**(2,034)**	(1,317)
– Finance costs	**46,038**	40,684
– Share of net losses of an associate accounted for the equity method	**7,262**	5,448
Changes in working capital:		
– Deferred assets	**(1,150)**	(756)
– Trade receivables, prepayment and other receivables, and amounts due from related parties	**35,409**	(46,498)
– Restricted cash	**9,727**	(15,670)
– Properties under development	**125,841**	190,261
– Completed properties held for sale	**(20,904)**	(42,155)
– Inventories	**(3,203)**	15,275
– Contract costs	**(4,979)**	–
– Tax prepayments	**(4,791)**	(12,178)
– Trade and other payables, amounts due to related parties, deferred revenue, advances from customers and contract liabilities related to consumption cards issued	**138,261**	159,766
– Receipt in advance from property presale	**(49,972)**	35,322
Cash generated from operations	**208,134**	254,591

There were no significant non-operating non-cash transactions during the year ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

34 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	
	2018	2017
Cash and cash equivalents	**114,803**	90,639
Borrowings – repayable within one year	**(306,812)**	(487,650)
Borrowings – repayable after one year	**(298,676)**	(230,974)
Net debt	**(490,685)**	(627,985)
Cash	**114,803**	90,639
Gross debt – fixed interest rates	**(409,203)**	(383,054)
Gross debt – variable interest rates *(note 3.1(a)(ii))*	**(196,285)**	(335,570)
Net debt	**(490,685)**	(627,985)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

34 CASH FLOW INFORMATION (CONTINUED)

(b) Net debt reconciliation (continued)

	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)
Net debt as at 1 January 2018	90,639	(487,650)	(230,974)	(627,985)
Cash flows	23,781	335,810	(212,818)	146,773
Foreign exchange adjustments	383	(2,813)	(4,895)	(7,325)
Transfer	–	(152,159)	152,159	–
Other non-cash movements	–	–	(2,148)	(2,148)
Net debt as at 31 December 2018	114,803	(306,812)	(298,676)	(490,685)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

35 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2018	2017
Financial assets		
– Financial assets at FVPL	**10,568**	–
– Loans and receivables		
– Deferred assets	**4,044**	2,894
– Trade and other receivables excluding prepayments and prepaid taxes	**175,771**	101,772
– Amounts due from related parties	**150,677**	108,914
– Restricted cash	**32,242**	103,527
– Term deposits	**69,050**	59,750
– Cash and cash equivalents	**114,803**	90,639
	557,155	467,496
Financial liabilities at amortised cost		
– Trade and other payables excluding other taxes and surcharges payable and deemed acquisition cost of land use right	**843,934**	654,323
– Amounts due to related parties	**13,803**	16,996
– Borrowings	**605,488**	718,624
	1,463,225	1,389,943

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

36 FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

(a) Financial guarantees

The face value of the financial guarantees issued by the Group as at 31 December 2018 are analysed as follows:

	As at 31 December	
	2018	2017
Guarantees to an associate *(note (i))*	**68,632**	65,342
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties *(note (ii))*	**312,686**	286,486
	381,318	351,828

(i) 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 RMB68,632,000). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

36 FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES (CONTINUED)

(a) Financial guarantees (continued)

(ii) 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.

(b) Contingent liabilities

A contingent liability of RMB2,855,000 had been recognised arising from the acquisition of Yunfu Tairui Baisheng Real Estate Development Co., Ltd. ("**Yunfu Baisheng**") in 2017. It was related to a litigation regarding building damages instituted by certain residents of a nearby building of the Yunfu Baisheng project. This litigation was rejected by the court in October 2018. As of today's date, no other legal proceedings have been taken by all the residents against the Company for damages. Management considered that this building damages allegation has to be lasted for three to five years before it could be fully settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

37 ASSETS PLEDGED AS SECURITY

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

	Note	As at 31 December	
		2018	2017
Current			
Properties under development	21	**26,022**	–
Completed properties held for sale	22	**–**	65,170
Restricted cash	25	**3,782**	65,340
Total current assets pledged as security		**29,804**	130,510
Non-current			
Investment properties	16	**449,000**	444,200
Financial assets at FVPL	20	**8,148**	–
Total non-current assets pledged as security		**457,148**	444,200
Total assets pledged as security		**486,952**	574,710

38 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	
	2018	2017
Property, plant and equipment	**2,339**	178
Investment properties	**–**	22,824
Properties under development	**31,598**	116,109
	33,937	139,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

38 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	
	2018	2017
– Within 1 year	**53,229**	78,597
– Between 1 and 5 years	**149,769**	55,183
– Over 5 years	**64,832**	93,282
	267,830	227,062

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	
	2018	2017
– Within 1 year	**71,270**	65,048
– Between 1 and 5 years	**202,819**	204,511
– Over 5 years	**259,577**	348,537
	533,666	618,096

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

39 BUSINESS COMBINATIONS

(a) Yunfu Yongxiang Property Service Company Limited ("Yongxiang Service")

On 12 November 2018, the Group acquired 100% equity of Yongxiang Service, a third party company that principally engaged in property management in Yunfu City, Guangdong Province, for a cash consideration of zero. The acquisition is expected to diversify the Group's business.

A goodwill of RMB2,130,000 arises from the excess amount of the fair value of the consideration given by the Group over the fair value of the net identifiable liabilities of Yongxiang Service as at 12 November 2018.

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

	12 November 2018 RMB'000
Purchase consideration	–
Total purchase consideration paid and fair value of purchase consideration	–
Recognised amounts of identifiable assets acquired and liabilities assumed	
Provisional fair value	
Property, plant and equipment	**26**
Deferred tax assets	**877**
Other receivables	**141**
Account receivables	**65**
Cash and cash equivalents	**628**
Accruals and other payables	**(3,867)**
Total identifiable net liabilities	**(2,130)**
Goodwill *(note (i))*	**(2,130)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

39 BUSINESS COMBINATIONS (CONTINUED)

(a) Yunfu Yongxiang Property Service Company Limited ("Yongxiang Service") (continued)

	31 December 2018 RMB'000
Inflow of cash to acquire business, net of cash acquired	
Cash consideration paid in the year ended 31 December 2018	–
Less: cash and banks in Yongxiang Service acquired	(628)
Cash inflow on acquisition	(628)

(i) ***Goodwill***

The excess amount of the fair value of the consideration given by the Group over the fair value of the net identifiable liabilities of Yongxiang Service as at 12 November 2018 was recognised as goodwill.

(ii) ***Revenue and profit/(loss) contribution***

The revenue and profit contributed by Yongxiang Service in the consolidated statement of comprehensive income since 12 November 2018 was RMB1,069,000 and RMB128,000 respectively.

Had Yongxiang Service been consolidated from 1 January 2018, the consolidated statement of comprehensive income would show pro-forma revenue of RMB775,453,000 and loss of RMB116,174,000.

(b) Yunfu Baisheng

The acquisition of Yunfu Baisheng on 28 June 2017 had resulted in a negative goodwill of RMB61,263,000 which was recognised as gain from bargain purchase for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES AT YEAR-END

(a) Fair value hierarchy

Independent valuations of the Group's investment properties at year-end were performed by independent and professionally qualified valuers to determine the fair values of the respective properties.

As at 31 December 2018, 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.

(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; and
- Holds discussion with the independent valuers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

40 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES AT YEAR-END (CONTINUED)

(c) Valuation techniques

Valuations as at 31 December 2018 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.

The fair values of investment properties at year-end have been determined by LCH (Asia-Pacific) Surveyors Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES AT YEAR-END (CONTINUED)

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

(i)

Property category	Description	Fair value as at 31 December 2018	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties	Hotel	RMB432,400,000	Income approach	Market rents (RMB/ square metre/ month)	Block A: 46 Ancillary Block: 65	The higher the market rents, the higher the fair value, and vice versa
Completed investment properties	Industrial land	RMB4,170,000	Market approach	Market price (RMB/ square metre)	291	The higher the market rates, the higher the fair value, and vice versa
Completed investment properties	Enping shopping mall	RMB28,100,000	Income approach	Market rents (RMB/ square metre/ month)	First Floor: 48-203	The higher the market rents, the higher the fair value, and vice versa
Completed investment properties	Yufun shopping mall	RMB211,900,000	Income approach	Market rents (RMB/ square metre/ month)	Cinema at Basement and First Floor: 18 First Floor: 71-313 Second Floor: 51-263 Third Floor: 35-243 Fourth Floor: 57	The higher the market rents, the higher the fair value, and vice versa
Completed investment properties	Yufun shopping mall	RMB29,000,000	Market approach	Market price (RMB/unit)	Parking space: 145,000	The higher the market rates, the higher the fair value, and vice versa
Investment properties under construction	Hotel	RMB38,900,000	Income approach	Market rents (RMB/ square metre/ month)	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	RMB77,700,000	Income approach	Market rents (RMB/ square metre/ month)	Second Floor: 33-37 Third Floor: 25	The higher the market rents, the higher the fair value, and vice versa

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(All amounts expressed in RMB thousands unless otherwise stated)

40 FAIR VALUE ASSESSMENTS FOR 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 as 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

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40 FAIR VALUE ASSESSMENTS FOR 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 as at 31 December 2017	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
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 space: 146,000	The higher the market rates, the higher the fair value, and vice versa

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41 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 Guomao Hotel Company 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) Zhongshan Dongfu Guomao 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

41 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Name	Relationship with the Group
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
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 Guomao 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

41 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Name	Relationship with the Group
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
江門市逸豪物業服務有限公司 Jiangmen Yucca Properties Service Limited	A company controlled by Mr. Chen Daren
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 Company Limited	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
中山市威信置業有限公司 Zhongshan Weixin Properties Limited	A company jointly controlled by Mr. Chen Daren and third parties
中山市聯潤投資有限公司 Zhongshan Lianrun Investment 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

41 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Name	Relationship with the Group
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)

41 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 Group 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 2018, the Group had the following significant transactions with related parties:

(i) Rental expenses and property management fee

	Year ended 31 December	
	2018	2017
Companies controlled by Mr. Chen Daren	**70,847**	64,897
Companies jointly controlled by Mr. Chen Daren and third parties	**–**	7,461
	70,847	72,358

(ii) Purchase of services

	Year ended 31 December	
	2018	2017
Companies controlled by Mr. Chen Daren	**634**	1,308

(iii) Sales of goods

	Year ended 31 December	
	2018	2017
Companies controlled by Mr. Chen Daren	**857**	1,376

(iv) Provision of financial guarantees

	As at 31 December	
	2018	2017
An associate of the Group *(note 36(a))*	**68,632**	65,342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

41 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant transactions with related parties (continued)

(v) Financial guarantees for borrowings (note 32)

	As at 31 December	
	2018	2017
Mr. Chen Zhengtao	**40,000**	40,000
Mr. Chen Daren	**46,165**	22,951
	86,165	62,951

(b) Balances with related parties

(i) Amounts due from related parties

	As at 31 December	
	2018	2017
Companies controlled by Mr. Chen Daren	**83,283**	86,064
Companies jointly controlled by Mr. Chen Daren and third parties	**15,687**	4,875
An associate of the Group	**51,707**	17,975
	150,677	108,914

The amounts due from related parties as at 31 December 2018 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)

41 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 2018 and 2017, the ageing of trade receivables due from related parties based on invoice date, amounting RMB1,509,000 (31 December 2017: RMB4,551,000), are as follows:

	As at 31 December	
	2018	2017
Trade receivables due from related parties		
– Within 2 months	**773**	2,922
– Over 2 months	**736**	1,629
	1,509	4,551

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 2018, trade receivables due from related parties of approximately RMB736,000 (31 December 2017: RMB1,629,000) 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 2018, there were not other receivables due from related parties impaired (31 December 2017: RMB1,206,000 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	
	2018	2017
Companies controlled by Mr. Chen Daren	**10,431**	12,216
Companies jointly controlled by Mr. Chen Daren and third parties	**3,372**	4,780
	13,803	16,996

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

41 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	Year ended 31 December	
	2018	2017
Basic salaries and allowances	**8,729**	7,907
Other benefits including retirement benefit contribution	**302**	182
	9,031	8,089

42 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2018:

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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

42 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 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%
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%
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%
益華萬果商業科技有限公司 Yihua Wangoo Commercial Technology Limited	Hong Kong, 30 October 2015 limited liability company	HK$10,000,000	Investment holding, Hong Kong	100%
Subsidiaries – Incorporated in the PRC and indirectly owned				
廣東益華百貨有限公司 Guangdong Yihua Department Store Company Limited*	PRC, 24 October 1994 limited liability company	RMB80,000,000	Department store operations, PRC	100%
清遠城市廣場益華百貨有限公司 Qingyuan City Plaza Yihua Department Store Company Limited*	PRC, 16 October 2003 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 Company Limited*	PRC, 24 August 2004 limited liability company	RMB5,000,000	Department store operations, PRC	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

42 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)				
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%
中山市古鎮益華百貨有限公司 Zhongshan Guzhen Yihua Department Store Company Limited*	PRC, 29 March 2006 limited liability company	RMB5,000,000	Department store operations, PRC	100%
韶關市益華百貨有限公司 Shaoguan Yihua Department Store Company Limited*	PRC, 3 August 2007 limited liability company	RMB5,000,000	Department store operations, PRC	59%
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 and investment, PRC	100%
陽春市益華百貨有限公司 Yangchun Yihua Department Store Company 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 Suncity Yihua Department Store Company Limited*	PRC, 9 November 2012 limited liability company	RMB1,000,000	Department store operations, PRC	100%
恩平市康盛酒店管理有限公司 Enping Kangsheng Hotel Management Company Limited*	PRC, 11 July 2012 limited liability company	RMB153,000,000	Property investment, PRC	100%
恩平市益華百貨有限公司 Enping Yihua Department Store Compnay Limited*	PRC, 16 April 2014 limited liability company	RMB5,000,000	Department store operations, PRC	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

42 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)				
肇慶市益華購物廣場有限公司 Zhaoqing Yihua Plaza Company Limited*	RRC, 3 August 2015 limited liability company	RMB1,000,000	Department store operations, PRC	100%
廣東益華商業發展有限公司 Guangdong Yihua Commerce Company Limited*	PRC, 15 December 2015 limited liability company	RMB10,000,000	Investment holding PRC	100%
中山益華萬果商貿有限公司 Zhongshan Yihua Wangoo Commerce Company Limited*	PRC, 27 July 2015 limited liability company	RMB5,000,000	Supermarket operations, PRC	100%
中山市南朗益華購物廣場有限公司 Zhongshan Nanlang Yihua Plaza Company Limited*	PRC, 1 June 2015 limited liability company	RMB1,000,000	Department store operations, PRC	100%
肇慶益華商業投資有限公司 Zhaoqing Yihua Commerce Investment Company Limited*	PRC, 25 June 2016 limited liability company	RMB5,000,000	Investment holding, PRC	100%
雲浮市益華商業發展有限公司 Yunfu Yihua Commerce Investment Company Limited*	PRC, 24 January 2017 limited liability company	RMB5,000,000	Investment holding, PRC	100%
廣東益華粵東產業城發展有限公司 Guangdong Yihua Yuedong Industrial Development Company Limited*	PRC, 3 May 2017 limited liability company	RMB10,000,000	Investment holding, PRC	100%
五華益華萬果粵東智能科技有限公司 Wuhua Yihua Wangoo Yuedong Intelligence Technology Company Limited*	PRC, 29 August 2017 limited liability company	RMB9,990,000	Investment holding, PRC	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

42 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)				
五華益華萬果商貿有限公司 Wuhua Yihua Wangoo Commerce Company Limited*	PRC, 19 July 2017 limited liability company	RMB9,990,000	Convenience store operations, PRC	100%
肇慶益華萬果商貿有限公司 Zhaoqing Yihua Wangoo Commerce Company Limited*	PRC, 24 January 2017 limited liability company	RMB5,000,000	Supermarket operations, PRC	100%
廣東萬購便利店有限公司 Guangdong Wangou Convenient Stores Company Limited*	PRC, 11 August 2017 limited liability company	RMB10,000,000	Convenience store operations, PRC	100%
廣東小霸王如意文化科技有限公司 Guangdong Subor Culture Technology Company Limited*	PRC, 14 December 2017 limited liability company	RMB100,000,000	High-tech company, PRC	100%
雲浮市萬購商貿有限公司 Yunfu Wangou Commerce Company Limited*	PRC, 9 April 2018 limited liability company	RMB5,000,000	Supermarket operations, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

43 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	As at 31 December 2018	2017
Non-current assets			
Investment in subsidiaries		**28,276**	28,276
Financial assets at FVPL		**10,568**	–
Amounts due from subsidiaries		**80,428**	88,401
		119,272	116,677
Current assets			
Prepayments and other receivables		**7,021**	900
Amounts due from subsidiaries		**158,386**	160,596
Amounts due from an associate		**33,101**	13,952
Cash and cash equivalents		**1,890**	231
		200,398	175,679
Total assets		**319,670**	292,356
Equity attributable to equity holders of the Company			
Share capital		**3,956**	3,956
Other reserves	(a)	**119,562**	119,562
Accumulated losses	(b)	**(69,229)**	(37,714)
Total equity		**54,289**	85,804
Current liabilities			
Other payables		**25,799**	48,835
Borrowings		**35,089**	63,306
		60,888	112,141
Non-current liabilities			
Borrowings		**204,493**	94,411
Total liabilities		**265,381**	206,552
Total equity and liabilities		**319,670**	292,356

The balance sheet of the Company was approved by the Board of Directors on 28 March 2019 and was signed on its behalf.

Fan Xinpei **Lin Guangzheng**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

43 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Movement of other reserves

	Share premium	Capital reserve	Total
As at 1 January 2017	124,034	28,000	152,034
Issue of shares upon 2016 Scrip Dividend Scheme *(note 29(b))*	(31)	–	(31)
Dividend distributed *(note 13)*	(32,441)	–	(32,441)
As at 31 December 2017	91,562	28,000	119,562
As at 1 January 2018 and as at 31 December 2018	**91,562**	**28,000**	**119,562**

(b) Movement of accumulated losses

	Year ended 31 December	
	2018	2017
At the beginning of the year	**(37,714)**	(20,000)
Loss for the year	**(31,515)**	(17,714)
At the end of the year	**(69,229)**	(37,714)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

44 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 2018:

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))*	–	1,231	–	–	1,231
Mr. Chen Jianren *(note (i))*	–	1,308	–	–	1,308
Mr. Su Weibing	–	820	7	15	842
Mr. Lin Guangzheng	–	819	13	37	869
Mr. Chen Zhengtao *(note (ii))*	–	1,060	13	37	1,110
Mr. Leung Wai Kwan *(note (iii))*	–	759	–	–	759
Mr. Wei Chaoling *(note (iv))*	–	1,004	5	39	1,048
Non-executive director					
Mr. Chen Daren	–	60	–	–	60
Independent non-executive directors					
Mr. Sun Hong	81	–	–	–	81
Mr. Xu Yinzhou	81	–	–	–	81
Ms. Hung Wan Fong, Joanne *(note (v))*	102	–	–	–	102
Ms. Lai Pou Lam, Mina *(note (vi))*	102	–	–	–	102
	366	7,061	38	128	7,593

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

44 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (continued)

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. Chen Jianren *(note (i))*	–	1,280	–	–	1,280
Mr. Su Weibing	–	802	15	34	851
Mr. Lin Guangzheng	–	803	15	34	852
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)

44 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) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2017: 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 (2017: 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 2018, there were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors (31 December 2017: Nil).

(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 (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

45 EVENTS AFTER THE CONSOLIDATED BALANCE SHEET DATE

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2018:

(a) On 8 January 2019, the Group issued bonds at interest rate of 5% per annum with maturity period of four years. On 8 February 2019, the Group issued bonds at interest rate of 7% per annum with maturity period of one year. The aggregated principal amount of the bonds amounted to HK$5,500,000 (equivalent to RMB4,725,000). In this connection, the Group raised net proceeds of approximately RMB4,699,000. One of the bonds amounted to HK$500,000 (equivalent to RMB430,000) is secured by a guarantee given by a director of the Company.

(b) On 25 January 2019, the Group obtained an 6-month borrowing of HK$20,000,000 (equivalent to RMB17,318,000) from a third party bearing interest rate of 18% per annum. The borrowing is secured by a guarantee given by six directors of the Company. The Group raised net proceeds of approximately RMB16,885,000.

(c) During the period from February 2019 to March 2019, a wholly owned subsidiary of the Group obtained a 12-month borrowing of RMB10,000,000 from a third party bearing interest rate of 16.8% per annum. This borrowing is secured by a guarantee given by a subsidiary within the Group and a related party of the Group, and pledged by properties under development of the Group.

(d) During the period from February 2019 to March 2019, a wholly owned subsidiary of the Group obtained a borrowing of RMB5,100,000 from a third party bearing interest rate of 5% per annum. This borrowing is secured by a guarantee given by the Company and to be repaid on 31 July 2020.

(e) In March 2019, the Group obtained an advance from a director, Mr Chen Daren, amounting to RMB38,439,000. 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 2020.