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越秀房地產投資信託基金
YUEXIU REAL ESTATE INVESTMENT TRUST

(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock code: 00405)

Managed by

越秀房託資產管理有限公司
YUEXIU REIT ASSET MANAGEMENT LIMITED

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors ("Board") of Yuexiu REIT Asset Management Limited ("Manager") is pleased to announce the audited consolidated results of Yuexiu Real Estate Investment Trust ("Yuexiu REIT") and its subsidiaries for the year ended 31 December 2018 ("Reporting Year") together with comparative figures for the corresponding period in 2017 as follows:

FINANCIAL HIGHLIGHTS

The following is a summary of Yuexiu REIT's audited consolidated results (Note a) for the year ended 31 December 2018 together with comparative figures for the corresponding period in 2017:

(in Renminbi ("RMB"), unless otherwise specified)

	Financial Year ended 31 December 2018	**Financial Year ended 31 December 2017**	**Increase/ (decrease)**
Gross income (Note a)	**2,031,876,000**	1,853,899,000	9.60%
Net property income	**1,468,590,000**	1,314,104,000	11.76%
Profit after tax	**966,519,000**	1,437,095,000	(32.74)%
Earnings per unit - Basic	**0.30**	0.49	(38.78)%
Portfolio valuation (Note b)	**33,970,000,000**	32,246,000,000	5.35%
Net assets attributable to Unitholders per Unit	**4.65**	4.75	(2.11)%
Net assets attributable to Unitholders per Unit - Equivalent to HK$	**5.41**	5.68	(4.75)%
Units issued (units)	**3,106,450,427**	3,014,285,896	3.06%
Total borrowings as a percentage of gross assets (Note c)	**38.7%**	36.0%	2.7 percentage points
Gross liabilities as a percentage of gross assets (Note d)	**56.4%**	56.4%	0.0 percentage points

Distribution			
Total distribution (including additional items)	**849,713,000**	826,381,000	2.80%
Distribution per Unit (HK$)	**0.3203**	0.3335	(3.96)%

Note a: Revenue of Hangzhou Victory was recorded since 29 December 2018. Due to the disposal of Neo Metropolis, the revenue from Neo Metropolis was recorded up to 21 December 2018.

Revenue of Wuhan Properties was recorded since 22 December 2017.

Note b: *Hangzhou Victory was newly acquired in 2018. Referring to the Announcement dated 23 December 2018 for details. As at 31 December 2018, the valuation of Hangzhou Victory was RMB601,000,000. Due to the disposal of Neo Metropolis in December 2018, its property valuation was not included in 2018 and 2017 Portfolio valuation respectively.*

Note c: *Calculation of Total borrowings based on bank loan and other borrowings, excluding capitalization of debt-related expenses.*

Note d: *Calculation of Gross liabilities based on total liabilities, excluding capitalization of debt-related expenses and net assets attributable to Unitholders.*

DISTRIBUTION

In accordance with the Trust Deed, Yuexiu REIT is required to distribute no less than 90% of Total Distributable Income to the Unitholders. The Manager also has the discretion under Yuexiu REIT's trust deed, where there are surplus funds, to distribute amounts in addition to that set out in the trust deed. At the time of announcing the distribution for any particular year, the Manager shall consider whether to exercise such discretion having regard to factors including but not limited to Yuexiu REIT's funding requirements, its earnings and financial position, its growth strategy, operating and capital requirements, surplus disposal proceeds, compliance with relevant laws, regulations and covenants (including existing limitations on borrowings as prescribed in the REIT Code), other capital management considerations, the overall stability of distributions and prevailing industry practice.

In light of the above, the Manager has determined that the final distribution to the Unitholders for the period from 1 July 2018 to 31 December 2018 ("2018 Final Period") will be approximately RMB0.1371 which is equivalent to HK$0.1595 (2017: RMB0.1430 which is equivalent to HK$0.1775) per Unit. Such final distribution per Unit is subject to adjustment once new units are issued to the Manager (in satisfaction of the Managers fees) prior to the record date for the 2018 Final Period distribution. A further announcement will be made to inform Unitholders of the final Distribution per Unit for the 2018 Final Period.

The final distribution for the 2018 Final Period, together with the interim distribution of Yuexiu REIT for the six-month period from 1 January 2018 to 30 June 2018 ("2018 Interim Period") being approximately RMB0.1394 which is equivalent to HK$0.1608 (2017: RMB0.1341 which is equivalent to HK$0.1560) per Unit, represents a total distribution to each Unitholder for the Reporting Year of approximately RMB0.2765 which is equivalent to HK$0.3203 (2017: approximately RMB0.2771 (which is equivalent to HK$0.3335)).

The total distribution amount for the Reporting Year, being RMB849,713,000 (2017: RMB826,381,000), includes an amount of approximately RMB219,000,000 (2017: RMB171,000,000), that is capital in nature. The total distribution amount for the Reporting Year comprises the distributable amount calculated pursuant to the formula set out in the OC (being approximately RMB271,489,000) plus a further distribution of approximately RMB578,049,000 having regard to the abovementioned discretion of the Manager under Yuexiu REIT's trust deed to distribute excess amounts where it has surplus funds. Further details regarding the breakdown of the total distributable amount are set out in the Distribution Statement.

Distributions payable to the Unitholders will be paid in Hong Kong dollars. The exchange rate between the RMB and Hong Kong dollars adopted by the Manager is the central parity rate, as announced by the People's Bank of China, for the five business days preceding the date of declaration of distributions.

Yuexiu REIT aims at providing steady returns to its Unitholders derived from the gross income of its Properties. It has been distributing no less than 100% of Total Distributable Income for 13 consecutive years after listing in 2005.

Distribution Yield

Disregarding new units to be issued prior to the relevant record date with respect to the Manager's fees, Distribution per Unit ("DPU") for the Reporting Year is approximately HK$0.3203 (2017: HK$0.3335), of which approximately HK$0.0655 (2017: HK$0.0704) is attributable to capital items, represents a yield of approximately 6.4% (2017: 6.5%) per Unit based on the closing price of HK$5.02 per Unit as at 31 December 2018 (2017: HK$5.12).

CLOSURE OF REGISTER OF UNITHOLDERS

The record date for the final distribution will be 12 April 2019. The register of Unitholders will be closed from 12 April 2019 to 13 April 2019, both days inclusive, during which period no transfer of units will be effected. In order to be qualify for the distribution, all Unit certificates with completed transfer forms must be lodged with Yuexiu REIT's unit registrar, Tricor Investor Services Limited, at 22/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 11 April 2019. The final distribution will be paid on 27 May 2019 to the Unitholders whose names appear on the register of Unitholders on 12 April 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Maintaining REIT's long-term development by assets transfer and strategic acquisition and disposal

At the end of 2018, Yuexiu REIT sold Yuexiu Neo Metropolis for RMB1,178 million at a premium of approximately 5.8% over the assessed price. Meanwhile, as a replacement, Yuexiu REIT acquired Hangzhou Victory Business Center Tower 2 and 315 underground parking lots, thereby officially entering Hangzhou market. The acquisition of Hangzhou Victory Business Center achieved a geographical diversification of its nationwide portfolio layout, further reducing its dependence and concentration risks in Guangzhou area. Upon the acquisition, the distribution of the overall property portfolio of Yuexiu REIT covers Guangzhou, Shanghai, Wuhan, and Hangzhou, among which the proportion of Guangzhou Properties dropped from 80.2% to 78.1%.

In 2018, Chinese economy maintained a stable performance with good momentum. Yuexiu REIT continued to implement proactive leasing and asset management strategies. Its properties kept on achieving excellent results in performance, many operation indicators rose against unfavorable trend, and competitiveness of properties further increased, establishing a solid foundation for income growth and sustainable development in the future for Yuexiu REIT.

Under the concerted efforts of the Manager's team, Yuexiu REIT and the Manager were presented with a number of community awards in 2018. Among the awards, Yuexiu REIT was the winner of Main Board and Extraordinary Enterprise Award under "Hong Kong Outstanding Enterprise 2018" presented by Economic Digest, "QuamIR Awards 2017– The Most Remarkable Investor Relations Recognition - Main Board Category" presented by Quamnet in Hong Kong. The Manager will continue to improve internal management mechanism, enhance corporate governance standard persistently, with a view to bring more benefits to investors and Unitholders. In October 2018, Guangzhou International Finance Center was awarded LEED V4 Platinum Certification, which is the first super skyscraper in mainland China to receive such an award. In July 2018, Yuexiu Fortune Centre won the "2018 Award for The Most Influential Urban Landmark."

PROPERTY PORTFOLIO AND VALUATION

As at 31 December 2018, Yuexiu REIT's portfolio of properties consisted of eight properties, namely, White Horse Building Units ("White Horse Building"), Fortune Plaza Units ("Fortune Plaza"), City Development Plaza Units ("City Development Plaza"), Victory Plaza Units ("Victory Plaza"), Guangzhou International Finance Center ("GZIFC"), which are located in Guangzhou; Yue Xiu Tower ("Yue Xiu Tower"), which is located in Shanghai; Yuexiu Forture Centre, Starry Victoria Shopping Centre and certain Carpark Spaces ("Wuhan Properties"), which are located in Wuhan; and Hangzhou Victory Business Centre Units and certain Carpark Spaces ("Hangzhou Victory"), which are located in Hangzhou. The aggregate area of ownership of the properties was approximately 969,488.8 sq.m. and the total rentable area was 632,915.1 sq.m. (excluding 91,460.9 sq.m. of hotel, 51,102.3 sq.m. of serviced apartments and 76,512.3 sq.m. of parking space and 7,752.5 sq.m. other ancillary facilities area of GZIFC; and 13,502.6 sq.m. of parking space and 2,610.4 sq.m. of specific purpose area of Yue Xiu Tower; 62,785.8 sq.m. of parking space and 12,415.1 sq.m. of common facilities area of Wuhan Properties; and 17,663.6 sq.m. of parking space of Hangzhou Victory, and the following statistics of both aggregate rented area and occupancy rate have excluded the above areas), of which the area of ownership of growth properties (Wuhan Properties and Hangzhou Victory) accounted for 29.7%.

PARTICULARS OF THE PROPERTIES ARE AS FOLLOWS:

Property	Type	Location	Year of Completion	Area of Ownership (sq.m.)	Total Rentable Area (sq.m.)	Property Occupancy Rate [1]	Number of Lease [1]	Unit Rent [1] (RMB/sq.m./ month)
White Horse Building	Wholesale mall	Yuexiu District, Guangzhou	1990	50,199.3	50,128.9	100.0%	908	627.9
Fortune Plaza	Grade A office	Tianhe District, Guangzhou	2003	41,355.2	41,355.2	98.7%	74	154.1
City Development Plaza	Grade A office	Tianhe District, Guangzhou	1997	42,397.4	42,397.4	96.1%	81	137.0
Victory Plaza	Retail shopping mall	Tianhe District, Guangzhou	2003	27,698.1	27,262.3	99.4%	29	270.4
GZIFC	Commercial complex	Tianhe District, Guangzhou	2010	457,356.8	230,266.9	96.4%	281	215.2
Including:	Grade A office			267,804.4	183,539.6[2]	96.0%	231	232.5
	Retail shopping mall			46,989.2	46,727.3	97.8%	50	148.3
	Hotel			91,460.9[3]	N/A	N/A	N/A	N/A
	Serviced apartments			51,102.3	N/A	N/A	N/A	N/A
Yue Xiu Tower	Commercial complex	Pudong New District, Shanghai	2010	62,139.4	46,026.3[4]	97.3%	109	272.0
Wuhan Properties	Commercial complex	Qiaokou District, Wuhan		248,194.2	172,993.3	75.4%	190	80.6
Including:	Grade A office	Qiaokou District, Wuhan	2016	139,937.1	129,446.7[5]	67.8%	85	94.5
	Retail shopping mall		2015	45,471.4	43,546.6[6]	98.0%	105	52.1
	Commercial parking space		2015-2016	47,182.9	N/A	N/A	N/A	N/A
	Residential parking space		2014-2016	15,602.8	N/A	N/A	N/A	N/A
Hangzhou Victory	Grade A office	Jianggan District, Hangzhou	2017	40,148.4	22,484.8[7]	83.4%	21	111.5
Total				969,488.8	632,915.1	90.8%	1,693	214.4

Notes:

(1) As at 31 December 2018;

(2) Excluding 76,512.3 sq.m. of parking space area and 7,752.5sq.m. of other ancillary facilities area;

(3) Including 2,262.0 sq.m. of hotel ancillary facilities and refuge floor area;

(4) Excluding 13,502.6 sq.m. of parking space and 2,610.4 sq.m. of specific purpose area (management office, owners' committee office, bicycle parking space and refuge floor);

(5) Excluding 10,490.3 sq.m. of common facilities area and refuge floor area;

(6) Excluding 1,924.8 sq.m. of common facilities area;

(7) Excluding 17,663.6 sq.m. of parking space area.

SEGMENTS OF THE PROPERTIES ARE AS FOLLOWS:

Rental Property	Area of Ownership (sq.m.)	Rentable Area (sq.m.)	Occupancy Rate [(1)]	Percentage point increase as compared to the same period in 2017	Unit Rent (VAT exclusive) [(1)] (RMB/sq.m. /month)	Percentage increase as compared to the same period in 2017	Operating Income [(2)] (RMB'000)
Office	593,781.8	465,250.1[(3)]	87.9%	4.9	184.3	0.7%	945,942
Retail	120,158.7	117,536.1	98.3%	6.2	141.4	7.6%	175,970
Wholesale	50,199.3	50,128.9	100.0%	0.1	627.9	0.3%	367,445

Notes:

(1) As at 31 December 2018;

(2) For the year ended 31 December 2018;

(3) Excluding 76,512.3 sq.m. of parking space area of GZIFC; 13,502.6 sq.m. of parking space and 2,610.4 sq.m. of specific purpose area (management office, owners' committee office, bicycle parking space and refuge) of Yue Xiu Tower; 10,490.3 sq.m. of specific purpose area (common facilities area and refuge floor) of Wuhan Yuexiu Forture Centre, and 17,663.6 sq.m. of parking space area of Hangzhou Victory.

Operational Property	Type	Commencement of Operation	Area of Ownership (sq.m.)	No. of Units (units)	Average Occupancy Rate [(1)]	Average Daily Rate [(1)] (RMB/night)
Four Seasons Hotel Guangzhou	Five star hotel	August 2012	91,460.9	344	80.9%	2,030
Ascott Serviced Apartments GZIFC	High-end serviced apartments	September 2012	51,102.3	314	94.0%	1,007

Notes:

(1) From 1 January 2018 to 31 December 2018;

(2) Both hotel and serviced apartments are entrusted operation.

PROPERTY VALUATION

On 31 December 2018, revaluation of the portfolio of properties of Yuexiu REIT was carried out by Savills Valuation and Professional Services Limited ("Savills"), an independent professional valuer, and the revalued market value was approximately RMB33.97 billion.

The following table summarizes the valuation of each of the Properties as at 31 December 2018 and 31 December 2017:

Name of Property	Valuation as at 31 December 2018 RMB million	Valuation as at 31 December 2017 RMB million	Increase/ (Decrease) %
White Horse Building	5,061	4,906	3.2%
Fortune Plaza	1,197	1,150	4.1%
City Development Plaza	975	935	4.3%
Victory Plaza	936	904	3.5%
GZIFC	18,366	17,734	3.6%
Yue Xiu Tower	3,149	3,030	3.9%
Wuhan Properties	3,685	3,587	2.7%
Sub-total	33,369	32,246	3.5%
Hangzhou Victory	601	N/A[(1)]	N/A
Total	33,970	32,246	5.3%

Note:

(1) According to the acquisition announcement, as at 30 September 2018, the valuation of Hangzhou Victory was RMB600,000,000.

(2) According to the disposal announcement, as at 30 September 2018, the valuation of Neo Metropolis was RMB1,113,000,000 (31 December 2017: RMB1,110,000,000).

LEASE EXPIRY OF THE PROPERTIES

In respect of the rental area in the next five years and beyond, ratios of lease expiry of Yuexiu REIT Properties each year will be 21.4%, 19.0%, 25.9%, 15.8% and 17.9% respectively. In respect of basic monthly rental, ratios of lease expiry each year will be 33.2%, 16.8%, 23.1%, 15.0% and 11.9% respectively.

Properties of Yuexiu REIT

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2019	21.4%	33.2%
FY 2020	19.0%	16.8%
FY 2021	25.9%	23.1%
FY 2022	15.8%	15.0%
FY 2023 and beyond	17.9%	11.9%
Total	100.0%	100.0%

White Horse Building

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2019	48.9%	62.5%
FY 2020	16.1%	9.8%
FY 2021	4.0%	1.0%
FY 2022	31.0%	26.7%
FY 2023 and beyond	0.0%	0.0%
Total	100.0%	100.0%

Fortune Plaza

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2019	25.3%	25.7%
FY 2020	25.0%	25.6%
FY 2021	8.0%	8.3%
FY 2022	36.3%	32.4%
FY 2023 and beyond	5.4%	8.0%
Total	100.0%	100.0%

City Development Plaza

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2019	11.8%	11.3%
FY 2020	27.3%	33.6%
FY 2021	39.7%	32.1%
FY 2022	18.3%	18.0%
FY 2023 and beyond	2.9%	5.0%
Total	100.0%	100.0%

Victory Plaza

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2019	17.0%	17.2%
FY 2020	20.2%	12.9%
FY 2021	14.0%	11.5%
FY 2022	0.8%	1.8%
FY 2023 and beyond	48.0%	56.6%
Total	100.0%	100.0%

GZIFC

	Office		Retail Shopping Mall	
Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2019	25.9%	25.0%	6.9%	8.9%
FY 2020	17.7%	17.9%	1.9%	2.3%
FY 2021	43.1%	45.4%	15.6%	19.6%
FY 2022	9.6%	8.0%	9.0%	6.8%
FY 2023 and beyond	3.7%	3.7%	66.6%	62.4%
Total	100.0%	100.0%	100.0%	100.0%

Yue Xiu Tower

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2019	45.4%	47.8%
FY 2020	19.1%	19.6%
FY 2021	17.7%	18.4%
FY 2022	4.8%	5.5%
FY 2023 and beyond	13.0%	8.7%
Total	100.0%	100.0%

Wuhan Properties

	Office		Retail Shopping Mall	
Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2019	8.1%	9.6%	5.6%	11.0%
FY 2020	20.2%	21.7%	15.2%	20.4%
FY 2021	25.8%	24.7%	13.6%	14.8%
FY 2022	26.4%	26.3%	14.4%	14.0%
FY 2023 and beyond	19.5%	17.7%	51.2%	39.8%
Total	100.0%	100.0%	100.0%	100.0%

Hangzhou Victory

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2019	3.5%	3.1%
FY 2020	48.4%	48.6%
FY 2021	23.7%	27.4%
FY 2022	0.0%	0.0%
FY 2023 and beyond	24.4%	20.9%
Total	100.0%	100.0%

REVENUE CONTINUED TO INCREASE

In 2018, the properties of Yuexiu REIT recorded total revenue of approximately RMB2,031.9 million, representing an increase of 9.6% as compared to the same period of the previous year. Among which, White Horse Building, Fortune Plaza, City Development Plaza, Victory Plaza,Yue Xiu Neo Metropolis, GZIFC, Yue Xiu Tower, Wuhan Properties and Hangzhou Victory accounted for approximately 18.1%, 3.7%, 3.3%, 3.5%, 3.4%, 54.8%, 7.0%, 6.2% and 0.0% respectively of the total revenue.

No bad debt was recorded during the reporting period. The following table sets out a comparison of revenue in respect of the Properties between the reporting period and the same period of the previous year:

Name of Property	**Revenue in 2018 RMB million**	Revenue in 2017 RMB million	Increase/ (Decrease) as compared to 2017 RMB million	Increase/ (Decrease) %
White Horse Building	**367.5**	366.1	1.4	0.4%
Fortune Plaza	**75.5**	71.7	3.8	5.3%
City Development Plaza	**67.1**	64.4	2.7	4.2%
Victory Plaza	**70.8**	66.8	4.0	6.0%
Neo Metropolis	**69.5**(1)	70.2	(0.7)	(1.0)%
Sub-total of the original properties	**650.4**	639.2	11.2	1.7%
GZIFC	**1,112.1**	1,073.5	38.6	3.6%
Yue Xiu Tower	**142.8**	139.2	3.6	2.6%
Wuhan Properties	**126.4**	2.0(2)	124.4	6,220.0%
Sub-total	**2,031.7**	1,853.9	177.8	9.6%
Hangzhou Victory	**0.2**(3)	N/A	N/A	N/A
Total	**2,031.9**	1,853.9	178.0	9.6%

Note:

(1) Revenue from Neo Metropolis was recorded for the period from 1 January 2018 to 21 December 2018;

(2) Revenue from Wuhan Properties was recorded since 22 December 2017.

(3) Revenue from Hangzhou Victory was recorded since 29 December 2018.

The following table sets out a comparison of net property income in respect of the Properties between the reporting period and the same period of previous year:

Name of Property	**Net Property Income in 2018 RMB million**	Net Property Income in 2017 RMB million	Increase/ (decrease) as compared to 2017 RMB million	Increase/ (decrease) %
White Horse Building	**308.4**	307.8	0.6	0.2%
Fortune Plaza	**62.8**	59.4	3.4	5.7%
City Development Plaza	**55.9**	53.4	2.5	4.7%
Victory Plaza	**58.9**	55.4	3.5	6.3%
Neo Metropolis	**57.8**[(1)]	57.4	0.4	0.7%
Sub-total of the original properties	**543.8**	533.4	10.4	2.0%
GZIFC	**688.1**	652.5	35.6	5.5%
Yue Xiu Tower	**130.9**	126.4	4.5	3.6%
Wuhan Properties	**105.6**	1.8	103.8	5,766.7%
Sub-total	**1,468.4**	1,314.1	154.3	11.7%
Hangzhou Victory	**0.2**[(2)]	N/A	N/A	N/A
Total	**1,468.6**	1,314.1	154.3	11.7%

Note:

(1) Net Property Income from Neo Metropolis was recorded for the period from 1 January 2018 to 21 December 2018;

(2) Net Property Income from Hangzhou Victory was recorded since 29 December 2018.

GZIFC - stabilizing core customers of office buildings and preliminary results achieved on business format adjustment of the shopping mall

Due to the macro-economy and state's financial control, demand for renting Grade A office buildings in Guangzhou fluctuated by rising initially and declining subsequently during 2018. The Manager sharply identified such market movement, adjusted its leasing strategies in a timely manner targeting at the peak of expiring lease contracts of GZIFC, customized renewal plans based on customer needs, effectively avoided the loss of key customers, and achieved an annual renewal rate reaching 87.2%. The Manager adopted a proactive control in operational risks of GZIFC. For some tenants who were affected by financial policies showing potential lease termination intent or those who were not stable in their operations, the Manager built up customer reserves and carried out lease promotion in advance, thus mitigated the abnormal fluctuation in the rental rate of the property. At the same time, it continued to optimize the tenant structure, successfully introduced well-known tenants such as "China Merchants Ping An AMC" and consulate by leveraging the property's advantages as a city landmark, providing considerate service experience and a good market reputation, as well as supporting well-known enterprises to realize internal rent space expansion.

In order to better match up to the landmark image of "GZIFC Shopping Mall" and improve its brand influence, the Manager was committed to optimizing the merchant structure of "GZIFC Shopping Mall" in 2018, and enriching the operation format and upgrading the brands located in the mall. In addition to "NIO House", which opened at the beginning of the year, to provide customers with a more diversified shopping experience, GZIFC Shopping Mall also introduced six brand merchants of various industries such as light meals, hairdressing, pharmacy and finance during the year. The brand richness of the mall was further enhanced, with the average increase in rental contract reaching 26%. The Manager continuously innovated marketing methods, vigorously boosted the shopping mall's customer flow, and promoted member viscosity and consumption transformation through Key Opinion Leader (KOL) cultivation, member circle management and precise marketing guidance.

Guangzhou's international high-end brand hotels have benefited from healthy market supply and demand, showing a sound upward trend, with the average room price and occupancy rate showing concurrent growth. For serviced apartments, there was no new supply during the whole year, and the performance of the leasing market was stable. Through the continuous implementation of a cooperative and mutually beneficial merchant supervision system, the Manager supervised and managed the operation of Four Seasons Hotel and the Ascott Serviced Apartments effectively. Moreover, the Manager continued to strengthen operation supervision and cost control, and changed from analysis of operation indicators to analysis of asset efficiency indicators, focused on details of customer service quality, monitored Four Seasons Hotel and the Ascott Serviced Apartments to improve service standards and enhance operating income. During the Reporting Year, Four Seasons Hotel and Ascott Serviced Apartments continued to be leaders with benchmark positions in the industry in Guangzhou area, the average room rate, revenue per available room and customer satisfaction were all in top ranking among competitors. The average room rate in Four Seasons Hotel increased by 6.63% and revenue per available room increased by 5.99% year-on-year; the average room rate of Ascott Serviced Apartments increased by 3.34% and revenue per available room increased by 3.18% year-on-year, with good performance in operating results. As of December 2018, the average rental rate of high-end hotels in Guangzhou was 80.7%, increased 3.9 percentage points year-on-year, and the average daily price increased 2.4% to RMB1,158.62 per room. In terms of high-end service apartments, the average housing price of high-end service apartments in Guangzhou increased slightly, the rental rate was basically flat year-on-year, high quality and long-term customers reduced, and the market performance was stable and flat. As of December 2018, the average occupancy rate of high-end serviced apartments in Guangzhou was 86%, increased 0.5 percentage point year-on-year, and average rent increased 2% year-on-year.

Wuhan Properties - fully proceeding with leasing promotion of office buildings and continuously optimizing tenants of shopping malls

In the second half of 2018, numerous projects entered Wuhan's Grade A office building market, pushing the total stock in the market to 5.263 million sq.m. and the overall vacancy rate to 35.8%. The Manager actively responded to market challenges, vigorously expanded leasing channels, and carried out project promotion and roadshows for a number of intermediary agencies in Wuhan, increasing the breadth and depth of intermediary channel cooperation. At the same time, it strengthened the two-way communication with co-working and incubator enterprises, explored new channel resources and sought for potential customers. The Manager also took initiative to improve supporting service facilities. In July, the Yuexiu Fortune Center - airport/high-speed railway station line was officially opened to build Wuhan's first operation line between the Grade 5A office buildings to the airport/high-speed railway station, which in combination with the advertisement made in high-speed railway media and online media, helped Wuhan Yuexiu Fortune Center win Boao "2018 Most Influential City Landmark Award" and the project's influence was further expanded.

Due to the unfavorable environment of continuous enclosure of municipal projects, the Manager successfully introduced "Zhongbai Life Theater" supermarket to Starry Victoria Shopping Centre to be officially opened within the year. It also actively promoted the optimization of tenant structure and introduced a number of retail apparel brand merchants, thus greatly improving the shopping atmosphere of the mall. By the end of 2018, the overall merchant opening rate of the shopping mall reached more than 97%, with an average daily customer flow of 26,000 person-times. The commercial value of the shopping mall and its ability to provide supporting services in the community continued to improve.

White Horse Building - "Double-Hundred Plans" achieved expected results, and upgrade and transformation led to new growth

In 2018, the Manager fully implemented the "Double-Hundred Plans" (introducing 100 premium brand customers and supporting 100 internal leading merchants), increased business exchanges with a number of famous clothing distribution centers across mainland China, reserved for high-quality customer resources, and introduced renowned brands to White Horse Building at proper timing. Meanwhile, various effective management support measures were implemented to significantly enhance the brand image of White Horse Building's existing merchants and strengthen the influence of clothing products through participating in well-known industry activities and different marketing promotions such as apparel exhibition fairs and Guangzhou Export Commodities Fair. The confidence of merchants and purchasers were boosted, and the customer flow and transaction volume increased significantly. The Manager also continued pushing forward the renovation of the floors, successfully completed the upgrading and improvement of the public areas on the fifth floor, comprehensively improved the business and shopping environment, and took advantage of the opportunity of the floor renovation to introduce high-quality customers and designer brands to the building, which enriched the categories and original design features of the fifth floor, and enhanced the overall competitiveness of White Horse Building.

Shanghai Yuexiu Tower - attracting growth customers and filling in industry gaps

The Manager actively responded to the state's financial control policies, took initiative to terminate lease with risky tenants engaged in the P2P business, adopted flexible leasing schemes, and introduced customers with sustained and high growth. At the same time, it made full use of the advantages of integrated operation and management, and leveraged its sound relationship with agencies to stand out in the competition with benchmarking projects, and successfully introduced the media and banking customers for the first time to the industry structure of the building, further stabilizing its tenant structure.

Fortune Plaza and City Development Plaza - exploring internal resources to facilitate transactions and attracting external resources to introduce new customers

The Fortune Plaza and the City Development Plaza are both located in traditional office building districts. Due to the downturn of the real economy, the decline of tenant stability and the increased competition from new office buildings in 2018, the operation of the two office buildings were confronted with serious challenges. The Manager actively responded and mitigated the risks, and successfully leased the vacant offices of the buildings by further exploring internal resources and attracting external merchants; meanwhile, it took the opportunity of tenant withdrawal to regain the initiative out of the passive position, successfully introduced a number of industry-leading enterprises, stabilized the plaza's operation, and laid a solid foundation for their future development.

Victory Plaza - integrating resources to promote sales and optimizing brands to increase operating income

The Victory Plaza leveraged the geographical advantages of Tianhe business area and fully integrated internal and external resources. On the one hand, it held large-scale campaigns jointly with a number of financial institutions, and on the other hand, it achieved sound interaction with internal customers like "McDonald's" and "Uniqlo". Under the joint impetus of nearly 80 theme events and member activities held throughout the year, the plaza's customer flow increased significantly, with the annual customer flow increased by 24% and the business performance of the anchor tenant "Uniqlo" increased by 5.8% year-on-year. The Victory Plaza also attached importance to customer opinions to effectively improve consumer satisfaction with shopping experience through measures such as optimizing the plaza's guide visual system, providing mother and baby lounges, and improving quality in cleanliness. Benefiting from the improvement of retail atmosphere, Victory Plaza continued to optimize its brand mix, actively terminated lease with poorly operating merchants, introduced famous catering brands, and successfully renewed the lease with key tenants such as "China Merchants Bank" and "Huawei Experience Store", all of which achieved favourable rental prices.

Hangzhou Victory - successfully signing contracts with valued customers and effectively increasing property rentals

In the second half of 2018, along with continuous implementation of the state's deleveraging financial policy, P2P platforms suffered from incessant cash flow disasters. Hangzhou Victory Business Center overcame the plight of shrinking actual demand in the market, made great efforts to break through the bottleneck of leasing promotion and successfully introduced high-rental customers such as "Qiantang Smart City" and "Qianyun Community". The newly signed rentals increased by more than 18% year-on-year.

Active promotion of asset appreciation projects to achieve value preservation and appreciation of properties

In 2018, the Manager continued to carry out a number of asset renovation and upgrading projects, among which the projects completed in relation to GZIFC included: increasing the number of freight passages for office customers, providing drainage and floor drain for elevator pits and pipe wells, upgrading the fire protection system, upgrading lobby image and safety of the office buildings, adding glass doors on the first floor lobby as well as completing facilities renovation on 1F and 103F of the Four Seasons Hotel, completing image upgrade for Ascott Serviced Apartment, and upgrading the power supply cable on the north wing of Ascott Serviced Apartment. In addition, the Manager also completed the renovation of the standard floors of Fortune Plaza and the water supply pipeline of the water supply and drainage system, the replacement of the domestic water supply pipeline of the City Development Building and the renovation of the public areas on its 6th, 27th and 28th floors, the image improvement of the public areas on the 5th floor of White Horse Building, the repair of the hollow ceramic tiles on the walls of the public toilets of Shanghai Yuexiu Tower and the renovation of the first-level biochemical treatment of domestic sewage, as well as the replacement of the logo of Yuexiu REIT in Wuhan Properties and the multi-purpose joint adjustment and environmental improvement for the third floor of Hall A of Wuhan Properties. The project cost exceeded RMB30 million, improving the projects' operating efficiency and business environment on a continuous basis.

In 2019, the Manager plans to invest in a number of asset renovation projects concerning the GZIFC, White Horse Building, Fortune Plaza, City Development Plaza, Victory Plaza and Shanghai Yuexiu Tower in order to achieve the goals of preserving and increasing the value of Yuexiu REIT's assets.

Debt refinancing at maturity to effectively reduce financing cost

By the end of 2018, the Manager effectively managed the maturing debt, successfully issued USD400 million bonds and a HK$2.8 billion loan, and reduced the financing cost by optimizing the financing plan and replacing the USD 284 million loans refinanced with Hong Kong dollar. After four interest rate hikes during 2018, the growth of HIBOR and LIBOR were 1.05 percentage points and 0.94 percentage points year-on-year, respectively. The average financing cost rate of Yuexiu REIT was 4.04% by the end of 2018, up 0.88 percentage point from 3.16% at the beginning of the year. In terms of foreign exchange management, due to the devaluation of RMB, the accumulated net exchange loss for the whole year was RMB506 million, the fair value gain of hedging products was RMB57 million, and the net loss for the whole year was RMB449 million (2017 net gain: 276 million). Certain proceeds received from the sale of Yuexiu Neo Metropolis were used as the deferred payment for the acquisition of Wuhan Properties, effectively reducing Yuexiu REIT's liabilities and playing a positive role in maintaining Yuexiu REIT's rating.

FINANCIAL REVIEW

FINANCIAL RESULTS

Both rental income and net property income of Yuexiu REIT were higher than those in 2017.

The following is a summary of Yuexiu REIT financial results for the Reporting Year:

	2018 **RMB'000**	2017 RMB'000	Increase/ (Decrease) %
Gross income	**2,031,876**	1,853,899	9.6%
Hotel and serviced apartments direct expenses	**(313,447)**	(311,233)	0.7%
Leasing agents fees	**(47,002)**	(40,471)	16.1%
Property related taxes (Note 1)	**(194,940)**	(177,669)	9.7%
Other property expenses (Note 2)	**(7,897)**	(10,422)	(24.2)%
Total property operating expenses	**(563,286)**	(539,795)	4.4%
Net property income	**1,468,590**	1,314,104	11.8%
Withholding tax	**(58,277)**	(56,581)	3.0%
Depreciation and amortisation	**(129,572)**	(145,776)	(11.1)%
Manager's fees	**(147,263)**	(133,836)	10.0%
Trustee fees	**(10,710)**	(10,230)	4.7%
Other trust expenses (Note 3)	**(3,750)**	(22,445)	(83.3)%
Total non-property expenses	**(349,572)**	(368,868)	(5.2)%
Net profit before finance expenses, finance income and income tax	**1,119,018**	945,236	18.4%
Finance income	**58,253**	573,528	(89.8)%
Finance expenses	**(1,008,160)**	(366,986)	174.1%
Net profit before income tax	**169,111**	1,151,776	(85.3)%
Income tax expense	**(458,369)**	(277,544)	65.2%
Net (loss)/profit after income tax before fair value gain on investment properties, other expenses in relation to the acquisition of subsidiaries and fair value (loss)/gain on derivative financial instruments	**(289,258)**	874,232	(133.1)%
Fair value gain on investment properties	**905,159**	885,792	2.2%
Other expenses in relation to the acquisition of subsidiaries	**(8,799)**	(64,921)	(86.4)%
Fair value gain/(loss) on derivative financial instruments	**56,638**	(258,008)	(122.0)%
Gain on disposal of subsidiaries	**302,779**	—	N/A
Net profit after income tax before transactions with Unitholders	**966,519**	1,437,095	(32.7)%

Note 1 Property related tax included urban real estate tax, land use right tax, urban construction and maintenance tax, education surcharge, local education surcharge and stamp duties.

Note 2 Other property expenses included valuation fee, insurance premium and other expenses.

Note 3 Other trust expenses included audit fees, legal counselling fees, printing charges, unit registrar fees, listing fees, exchange differences and miscellaneous expenses.

Gross income and net property income during the Reporting Year were approximately RMB2,031,876,000 (2017: RMB1,853,899,000) and RMB1,468,590,000 (2017: RMB1,314,104,000) respectively, which represented an increase of approximately 9.6% and 11.8% respectively while comparing with 2017.

Gross income included income from office, wholesales, retail, hotel and serviced apartments. Gross income analysis is listed in the following table:

	2018	2017
	RMB'000	RMB'000
Office	**945,942**	824,005
Wholesales	**367,445**	366,130
Retail	**175,970**	136,511
Hotel and serviced apartments	**542,519**	527,253
Total	**2,031,876**	1,853,899

Net property income amounted to approximately RMB1,468,590,000 (2017: RMB1,314,104,000), representing approximately 72.3% of total gross income, after deduction of hotel and serviced apartments direct expenses, property related taxes, leasing agent fees and other property operating expenses. Net property income analysis is listed in the following table:

	2018	2017
	RMB'000	RMB'000
Office	**801,568**	695,834
Wholesales	**308,371**	307,780
Retail	**147,580**	114,852
Hotel and serviced apartments	**211,071**	195,638
Total	**1,468,590**	1,314,104

Hotel and serviced apartments direct expenses were approximately RMB313,447,000, an increase of 0.7% as compared with 2017. It was mainly because of an increase of occupancy rate and rental income of hotel and serviced apartment.

Leasing agent fees increased by approximately 16.1% as compared with 2017. It was mainly because of an increase in rental income after the acquisitions of Wuhan Properties.

Property related tax increased by approximately 9.7% as compared with 2017. It was mainly because of an increase in rental income after the acquisitions of Wuhan Properties.

Depreciation and amortisation charge was mainly due to the fact that hotel and serviced apartments of GZIFC were booked as fixed assets and land use right incurring the depreciation and amortization charge.

Other trust expenses decreased by approximately 83.3%. It was mainly due to the foreign exchange gain from operation. Excluding this foreign exchange gain from operation of approximately RMB21,282,000 (2017: foreign exchange loss of approximately RMB8,395,000), other trust expenses incurred for the reporting year amounted to approximately RMB25,032,000 (2017: RMB14,552,000).

Overall, the Manager's fees increased by approximately 10.0% as a result of the increase in total assets and net property income as well as properties disposal/acquisition. The Trustee fees increased by approximately 4.7% as a result of the increase in total assets as well as properties disposal/acquisition.

As Renminbi depreciated against Hong Kong dollar and US dollar for the Reporting Year, the bank borrowings denominated in Hong Kong Dollar and United States Dollar and secured note loans denominated in United States Dollar resulted in an exchange loss of approximately RMB527,549,000 (2017: exchange gain of approximately RMB542,552,000). Excluding this exchange factor, the finance expenses incurred for the Reporting Year amounted to approximately RMB480,611,000. (2017: RMB366,987,000).

Profit after tax before transactions with Unitholders amounted to approximately RMB966,519,000 (2017: RMB1,437,095,000), which represented a 32.7% decrease, mainly due to an exchange loss incurred for the Reporting Year.

Net Asset Value

The net assets attributable to the Unitholders per unit as at 31 December 2018 was approximately RMB4.65 (2017: RMB4.75), which represented a decrease of approximately 2.11%.

Deferred Units

According to the offering circular in relation to the acquisition of GZIFC dated June 30, 2012, commencing from 31 December 2016, the REIT will, on 31 December of each year, issue to Yuexiu Property Company Limited ("YXP") (or YXP Nominee) such number of Deferred Units as shall be equal to the maximum number of Units that may be issued to YXP (or YXP Nominee) and its concert parties which, when aggregated with the Manager Fee Units that are expected to be issued during the period of 12 months after the relevant Issue Date, will not trigger an obligation on the part of Yuexiu Property (and parties acting in concert with it) to make a mandatory general offer under Rule 26 of the Takeovers Code for all Units not already owned or agreed to be acquired by them at the relevant time. Based on the Illustrative Financing Structure and assuming that no additional Units are issued post-Completion (other than Manager Fee Units), it is expected that all of the deferred units will be issued by 31 December 2023.

On 31 December 2018, Yuexiu REIT issued 67,000,000 Units to a wholly-owned subsidiary of Yuexiu Property Company Limited. The remaining balance of deferred units were approximately 535,401,000.

Support Arrangement

Support arrangement received/receivable for the Reporting Year is approximately RMB15,261,300. After deducting the amount of RMB11,096,600 paid by Yuexiu Property on 6 August 2018, the balance amounting to RMB4,164,700 should be paid by Yuexiu Property within 7 business days after the announcement of Yuexiu REIT's annual result for the Reporting Year. Please refer to the Offering Circular dated 21 December 2017 for details

New Units Issued and Unit Activity

In respect of the full settlement of the Manager's fees during the Reporting Year, Yuexiu REIT newly issued 12,837,571 and 12,326,960 units at HK$5.25 and HK$5.232 on 13 March 2018 and 24 August 2018 respectively. On 31 December 2018, referring to the terms disclosed from the Circular dated 30 June 2012, Yuexiu REIT issued 67,000,000 Units at a price of HK$4.00 per Unit to Dragon Yield Holding Limited (a wholly-owned subsidiary of Yuexiu Property (a significant holder of the Yuexiu REIT), in part satisfaction of the outstanding consideration from its investment in GZIFC in 2012.

As at 31 December 2018, a total of 3,106,450,427 units were issued by Yuexiu REIT.

The Unit price of the Yuexiu REIT reached a high of HK$5.60 and a low of HK$4.69 during the Reporting Year. The average trading volume amounted to approximately 4,239,000 Units per day during the Reporting Year (2017: 5,676,000 Units).

The closing price of the Units as at 31 December 2018 was HK$5.02, represented a discount of approximately 5.78% as compared to the net assets (including net assets attributable to deferred Unitholders) attributable to Unitholders per Unit as at 31 December 2018.

CAPITAL AND FINANCIAL STRUCTURE

Group's borrowings are as follows:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Bank borrowings and notes		
Denominated in RMB	**2,521,280**	3,021,280
Denominated in HKD	**8,624,328**	5,569,459
Denominated in USD	**2,730,120**	4,140,034
Total bank borrowings and notes	**13,875,728**	12,730,773
Maturity analysis		
Within one year	**2,276,543**	4,408,474
Two to five year	**10,420,105**	6,643,219
Beyond five year	**1,179,080**	1,679,080
The effective interest rate (per annum) of the borrowings and notes at the balance sheet		
RMB	**4.31%**	4.31%
HKD	**3.65%**	2.47%
USD	**4.99%**	3.26%

In 2018, the Manager adopted the following financial arrangements to manage the foreign exchange risk.

1) On 2 September 2016, capped forward hedging was applied to US$177million bank loan facility to fix the RMB exchange rate and manage the foreign exchange risk. The capped forward hedging had already matured on 24 August 2018.

2) From December 2016 to June 2017, capped forward hedging was fully applied to HKD2.3billion bank loan facility to fix the RMB exchange rate and manage the foreign exchange risk.

3) From December 2018, capped forward hedging was partially applied to HK$1,444,648,000 bank loan facility to fix the RMB exchange rate and manage the foreign exchange risk.

4) Referring to the revised US$1,500,000,000 guaranteed medium-term note plan, in April 2018, Yuexiu REIT issued a total principal of US$400,000,00 guaranteed note at 4.75% which would mature in 2021. The fund was used for repayment of the US$350,000,000 guaranteed note and for general corporate working capital requirement.

5) On 21 August 2018, Yuexiu REIT, through its SPV's company, entered into a facility agreement with certain lending banks in connection with a five-year unsecured and floating rate term loan facility of HK$2,800,000,000. On 23 August 2018, the loan was drawn down and used for repayment of certain matured US$ bank loan facility and for general corporate working capital requirement.

6) On 21 December 2018, Yuexiu REIT, through its SPV's company, entered into a facility agreement with certain bank in connection with a three-year unsecured and floating rate term loan facility of HK$412,677,720. On 28 December 2018, the loan was drawn down to pay for part of the acquisition cost of Hangzhou Victory.

On 31 December 2018, Yuexiu REIT held certain hedging financial derivatives with a fair value liabilities of RMB120,018,000.

As at 31 December 2018, total borrowings of Yuexiu REIT amounted to approximately RMB13,875,728,000 (calculation of total borrowings based on bank loan and other borrowings, excluding capitalization of debt-related expenses), representing approximately 38.7% of total assets of Yuexiu REIT. The gearing ratio was below the maximum borrowing limit of 45% as stipulated in the REIT Code.

As at 31 December 2018, total liabilities of Yuexiu REIT (excluding net assets attributable to the Unitholders) amounted to approximately RMB20,239,132,000, representing approximately 56.4% of total assets of Yuexiu REIT.

CASH POSITION

Cash and cash equivalents and short-term bank deposits of Yuexiu REIT as at 31 December 2018 amounted to approximately RMB1,481,388,000. Yuexiu REIT has sufficient financial resources to satisfy its financial commitments and working capital requirements.

The Manager has adopted a prudent approach in cash management to ensure flexibility to meet the operational needs and the distributions of Yuexiu REIT.

ACCOUNTING TREATMENTS

Units recorded as Financial Liabilities; Distributions to Unitholders as Finance Costs

Pursuant to Rule 7.12 of the REIT Code and the terms of the Trust Deed, Yuexiu REIT is required to distribute to the Unitholders not less than 90% of its audited annual net income after tax (subject to certain adjustments as defined in the Trust Deed).

Yuexiu REIT has a limited life of 80 years from the date of establishment. Accordingly, the Units contain contractual obligations to pay cash distributions and, upon termination of the trust, a share of all net cash proceeds derived from the sale or realisation of the assets of Yuexiu REIT less any liabilities, in accordance with Unitholders' proportionate interests in Yuexiu REIT at the date of the termination of Yuexiu REIT.

In accordance with the Hong Kong Accounting Standards 32 ("HKAS 32"), Yuexiu REIT has, for accounting purposes, classified its Units as financial (not legal) liabilities.

On the basis of the HKAS 32, distributions to be paid to the Unitholders are represented as finance costs and are therefore presented as expenses in the consolidated statement of comprehensive income. Consequently, Yuexiu REIT has, for accounting purposes, recognised distributions as finance costs in its audited consolidated statement of comprehensive income.

The above accounting treatment does not have any impact on the net assets attributable to the Unitholders.

SUMMARY OF ALL REAL ESTATE SALES AND PURCHASES

During the reporting year, Yuexiu REIT carried out the following acquisition and disposal:

(i) Acquired Victory Business Center Tower 2 and certain carpark spaces, located in Hangzhou, for the consideration of RMB590,000,000. The acquisition was completed on 28 December 2018.

(ii) Disposal of Neo Metropolis located in Guangzhou for the consideration of RMB1,178,000,000. The disposal was completed on 21 December 2018.

REAL ESTATE AGENTS ENGAGED BY YUEXIU REIT

During the Reporting Year, Yuexiu REIT had engaged Guangzhou Yuexiu Yicheng Business Operation Management Co., Ltd (formerly named as Guangzhou Yicheng Property Management Ltd) ("Yicheng"), Guangzhou Baima Business Operation Management Co., Ltd ("Baima BM") and Guangzhou Yue Xiu Asset Management Company Limited ("GZAM") to provide designated leasing, marketing, tenancy management and property management services (collectively, "Leasing Agents") to the Properties.

During the Reporting Year, Yuexiu REIT paid/payable service fees to Yicheng, Baima BM and GZAM in the amounts of RMB16,359,000, RMB11,022,000 and RMB19,621,000 respectively.

REPURCHASE, SALE OR REDEMPTION OF UNITS

Yuexiu REIT may, subject to the fulfillment of certain requirements, purchase its own Units on the Stock Exchange.

During the Reporting Year, there was no repurchase, sale or redemption of Units by Yuexiu REIT or its subsidiaries.

EMPLOYEES

As at 31 December 2018, Yuexiu REIT employed 670 and 135 employees in China for hotel operation through its branch companies and for serviced apartments operation through its subsidiaries respectively, mainly to fulfill its operating functions and provision of services for hotel and serviced apartments.

Yuexiu REIT is managed by the Manager. Except for the abovementioned, Yuexiu REIT does not employ any staff.

REVIEW OF FINANCIAL RESULTS

The final results of Yuexiu REIT for the Reporting Year have been audited by the independent auditor of Yuexiu REIT and reviewed by the Disclosures Committee and the Audit Committee of the Manager.

CORPORATE GOVERNANCE

Except from Article A.2.1 of the Corporate Governance Code, it is required that the roles of the Chairman and the Chief Executive Officer should be segregated and should not be performed by the same individual. At present, Mr. Lin Deliang is also the Chairman and Chief Executive Officer of the Manager. This structure was considered of more efficiency in business planning and decision-making for Yuexiu REIT. The Board also did not believe that the current structure of a single Chairman and Chief Executive Officer will compromise the balance of power and authority between the board and the company's management.

The Manager has adopted an overall corporate governance framework that is designed to promote the best operation of Yuexiu REIT in a transparent manner with internal audit and controls to evaluate the performance of the Manager, and consequently achieved the success of Yuexiu REIT.

The Manager has adopted a compliance manual ("Compliance Manual") for use in relation to its management and operation of Yuexiu REIT which includes key policies and procedures for maintaining a high standard of corporate governance.

During the Reporting Year, the Manager has complied with the provisions of the Compliance Manual for its management of Yuexiu REIT.

ISSUANCE OF ANNUAL REPORT

The annual report of Yuexiu REIT for the Reporting Year will be dispatched to the Unitholders on or before 30 April 2019.

ANNUAL GENERAL MEETING

The Manager proposed that the annual general meeting of Yuexiu REIT for the Reporting Year to be held on 28 May 2019. Notice of the annual general meeting will in due course be published and issued to the Unitholders in accordance with the Trust Deed.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	**2018**	2017
		RMB'000	RMB'000
Revenue	5	**2,031,876**	1,853,899
Operating expenses, net	6	**(921,657)**	(973,584)
Fair value gain on investment properties	15	**905,159**	885,792
Fair value gain/(loss) on derivative financial instruments	20	**56,638**	(258,008)
Gain on disposal of subsidiaries	21	**302,779**	—
Finance income	9	**58,253**	573,527
Finance expenses	10	**(1,008,160)**	(366,987)
Profit before income tax and transactions with unitholders		**1,424,888**	1,714,639
Income tax expense	11	**(458,369)**	(277,544)
Profit after income tax before transactions with unitholders		**966,519**	1,437,095
Transactions with unitholders	29	**(876,720)**	(1,511,377)
Income/(loss) after income tax and transactions with unitholders		**89,799**	(74,282)
Other comprehensive (loss)/income for the year:			
Items that will not be reclassified to profit or loss			
Change in fair value of property, plant and equipment			
– Gross		**(49,183)**	114,231
– Tax		**13,776**	(31,993)
Other comprehensive (loss)/income for the year, net of tax		**(35,407)**	82,238
Total comprehensive income for the year		**54,392**	7,956

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to				
	Unitholders before transactions with unitholders RMB'000	Transactions with unitholders (Note 29) RMB'000	Unitholders after transactions with unitholders RMB'000	Non-controlling interests RMB'000	Total RMB'000
Profit/(loss) for the year ended 31 December 2017	1,429,996	(1,511,377)	(81,381)	7,099	(74,282)
Other comprehensive income:					
<u>Items that will not be reclassified to profit or loss</u>					
Change in fair value of property, plant and equipment, net of tax	81,381	—	81,381	857	82,238
Total comprehensive income for the year ended 31 December 2017	1,511,377	(1,511,377)	—	7,956	7,956
Profit/(loss) for the year ended 31 December 2018	**911,758**	**(876,720)**	**35,038**	**54,761**	**89,799**
Other comprehensive income:					
<u>Items that will not be reclassified to profit or loss</u>					
Change in fair value of property, plant and equipment, net of tax	**(35,038)**	**—**	**(35,038)**	**(369)**	**(35,407)**
Total comprehensive income for the year ended 31 December 2018	**876,720**	**(876,720)**	**—**	**54,392**	**54,392**

Notes:

(i) In accordance with the Trust Deed dated 7 December 2005, as amended by first supplemental deed on 25 March 2008, second supplemental deed on 23 July 2010 and third supplemental deed on 25 July 2012 (the "Trust Deed"), Yuexiu REIT is required to distribute to unitholders not less than 90% of its total distributable income for each financial year. Yuexiu REIT has a limited life of 80 years from the date of establishment. Accordingly, the units contain contractual obligations to pay cash distributions and also upon termination of the trust, a share of all net cash proceeds derived from the sale or realisation of the assets of Yuexiu REIT less any liabilities, in accordance with unitholders' proportionate interests in Yuexiu REIT at the date of the termination of Yuexiu REIT. The unitholders' funds are therefore classified as a financial liability rather than equity in accordance with HKAS 32, Financial Instruments: Disclosure and Presentation. Consistent with unitholders' funds being classified as a financial liability, the distributions to unitholders are part of finance costs which are recognised in the consolidated statement of comprehensive income. The classification does not have an impact on the net assets attributable to the unitholders. It only affects how unitholders' funds are disclosed in the consolidated balance sheet and how distributions are disclosed in the consolidated statement of comprehensive income. Total distributable income is determined in the Distribution Statement on page 40.

(ii) Earnings per unit, based upon profit after income tax before transactions with unitholders attributable to unitholders and the average number of units in issue, are presented in Note 12.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018	2017
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	13	**2,340,934**	2,451,081
Land use rights	14	**1,379,969**	1,429,254
Investment properties	15	**29,115,000**	28,706,000
Deferred assets	17	**219,847**	224,343
Goodwill	18	**859,868**	845,325
		33,915,618	33,656,003
Current assets			
Inventories		**4,337**	3,127
Trade receivables	22	**26,785**	19,746
Amounts due from related parties	32	**238,915**	266,357
Prepayments, deposits and other receivables	23	**147,852**	59,885
Tax recoverable		**8,526**	—
Support arrangement asset	19	**11,645**	—
Short-term bank deposits	24	**22,633**	26,702
Cash and cash equivalents	24	**1,458,755**	1,303,904
		1,919,448	1,679,721
Total assets		**35,835,066**	35,335,724

	Note	2018	2017
		RMB'000	RMB'000
Current liabilities			
Trade payables	26	**17,689**	17,611
Rental deposits, current portion	27	**172,221**	151,145
Receipts in advance	27	**85,625**	76,743
Accruals and other payables	27	**998,607**	1,158,000
Amounts due to related parties	32	**103,227**	887,404
Derivative financial instruments	20	**113,745**	46,457
Borrowings	28	**2,276,543**	4,408,474
Tax payable		**144,845**	89,646
		3,912,502	6,835,480
Non-current liabilities, other than net assets attributable to unitholders			
Rental deposits, non-current portion	27	**184,377**	201,109
Receipt in advance	27	**—**	2,798
Borrowings	28	**11,599,185**	8,322,299
Deferred tax liabilities	25	**4,536,795**	4,428,310
Derivative financial instruments	20	**6,273**	136,924
		16,326,630	13,091,440
Total liabilities, other than net assets attributable to unitholders		**20,239,132**	19,926,920
Net assets attributable to unitholders	29	**14,454,122**	14,321,384
Total liabilities		**34,693,254**	34,248,304
Net assets		**1,141,812**	1,087,420

	Note	2018	2017
		RMB'000	RMB'000
Equity			
Revaluation reserve		**420,174**	455,212
Retained earnings		**(420,174)**	(455,212)
		—	—
Non-controlling interests		**1,141,812**	1,087,420
Total equity		**1,141,812**	1,087,420
Units in issue ('000)	29	**3,106,450**	3,014,285
Net assets attributable to unitholders per unit (RMB)		**RMB4.65**	RMB4.75

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	**2018** **RMB'000**	2017 RMB'000
Profit after income tax before transactions with unitholders attributable to unitholders		**911,758**	1,429,996
Adjustments for the total distributable income (i)			
– Fair value gain on investment properties		**(868,555)**	(885,792)
– Fair value gain on derivative financial instruments		**(56,638)**	—
– Foreign exchange gain in financing activities		**—**	(542,552)
– Deferred taxation in respect of fair value gain on investment property charged to profit or loss		**175,807**	165,083
– Different depreciation and amortisation charge on investment properties, property, plant and equipment and land use rights under China Accounting Standards ("CAS")		**(355,727)**	(296,173)
– Gain on disposal of a subsidiary, after income tax		**(245,300)**	—
– Fair value gain on support arrangement asset		**(7,475)**	—
Total distributable loss		**(446,130)**	(129,438)
Additional items (ii)			
– Different depreciation and amortisation charge on investment properties, property, plant and equipment and land use rights under CAS		**355,727**	296,173
– Depreciation and amortisation of property, plant and equipment and land use rights under Hong Kong Financial Reporting Standards ("HKFRS")		**128,215**	145,777
– Deferred taxation in respect of the depreciation and amortisation of investment properties, property, plant and equipment and land use rights		**107,068**	83,871
– Manager's fee paid and payable in units in lieu of cash		**117,810**	107,069
– Fair value loss on derivatives financial instruments		**—**	258,008
– Foreign exchange loss in financing activities		**527,548**	—
– Expenses incurred in connection with the acquisition of subsidiaries		**8,799**	64,921
– Surplus cash from the disposal of subsidiaries		**50,500**	—

	Note	**2018**	2017
		RMB'000	RMB'000
Distributable income after additional items		**849,537**	826,381
Distributable amount at 1 January		**431,127**	440,245
Distributions paid during the year (iii)	29	**(854,762)**	(835,499)
Final distribution declared		**425,902**	431,127
Distribution per unit, declared (iv)		**RMB0.1371**	RMB0.1430

Note:

(i) Under the terms of the Trust Deed, the total distributable income is the consolidated profit after income tax before transactions with unitholders attributable to unitholders adjusted to eliminate the effects of certain non-cash adjustments which have been recorded in the consolidated statement of comprehensive income for the relevant year.

(ii) Pursuant to the circular dated 30 June 2012, Yuexiu REIT Asset Management Limited, as the manager of Yuexiu REIT (the "Manager") intends to distribute certain additional items on top of the total distributable income under the Trust Deed. For the year ended 31 December 2018, most of the expenses incurred in connection with the acquisition of subsidiaries of approximately RMB8,799,000 will be distributed.

(iii) A final distribution for the period from 1 July 2017 to 31 December 2017 of RMB0.1424 (equivalent to HK$0.1768) per unit and interim distribution for the period from 1 January 2018 to 30 June 2018 of RMB0.1394 (equivalent to HK$0.1608) per unit, totaling approximately RMB854,762,000 (2017: RMB835,499,000), were paid to unitholders on 16 May 2018 and 24 October 2018 respectively.

(iv) A final distribution for the period from 1 July 2018 to 31 December 2018 of RMB0.1371 (equivalent to HK$0.1595) per unit, totaling RMB0.2765 (equivalent to HK$0.3203) was declared by the Board of the Manager on 25 February 2019.

CONSOLIDATED STATEMENT OF NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

		Equity			
	Net assets attributable to unitholders RMB'000	Retained earnings RMB'000	Revaluation reserve RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	13,534,400	(373,831)	373,831	99,984	13,634,384
Issuance of units	111,106	—	—	—	111,106
Acquisition of a subsidiary	—	—	—	979,480	979,480
Profit/(loss) for the year ended 31 December 2017 attributable to:					
– Unitholders	1,511,377	—	—	—	1,511,377
– Equity holders	—	(81,381)	—	7,099	(74,282)
Distributions paid to unitholders	(835,499)	—	—	—	(835,499)
Change in fair value of property, plant and equipment, net of tax	—	—	81,381	857	82,238
At 31 December 2017	14,321,384	(455,212)	455,212	1,087,420	15,408,804
At 1 January 2018	**14,321,384**	**(455,212)**	**455,212**	**1,087,420**	**15,408,804**
Issuance of units	**110,780**	**—**	**—**	**—**	**110,780**
Profit/(loss) for the year ended 31 December 2018 attributable to:					
– Unitholders	**876,720**	**—**	**—**	**—**	**876,720**
– Equity holders	**—**	**35,038**	**—**	**54,761**	**89,799**
Distributions paid to unitholders	**(854,762)**	**—**	**—**	**—**	**(854,762)**
Change in fair value of property, plant and equipment, net of tax	**—**	**—**	**(35,038)**	**(369)**	**(35,407)**
At 31 December 2018	**14,454,122**	**(420,174)**	**420,174**	**1,141,812**	**15,595,934**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	**2018**	2017
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	30	**1,288,633**	986,508
Interest paid		**(438,117)**	(345,525)
Corporate income tax paid		**(86,235)**	(35,625)
Support arrangement assets received		**11,091**	—
Top-up payment received		**—**	17,184
Net cash generated from operating activities		**775,372**	622,542
Cash flows from investing activities			
Additions of investment properties		**(14,841)**	(35,708)
Additions of property, plant and equipment		**(19,325)**	(19,107)
Interest received		**35,517**	30,975
Decrease/(increase) in short-term bank deposits with original maturity of more than three months		**4,069**	(4,302)
Settlement of deferred payment		**(822,737)**	—
Acquisition of subsidiaries, net of cash acquired	31	**(530,575)**	(963,062)
Disposal of subsidiaries	21	**995,472**	—
Net cash used in investing activities		**(352,420)**	(991,204)
Cash flows from financing activities			
Distributions paid		**(854,762)**	(835,499)
Proceeds from borrowings, net of transaction costs		**5,276,630**	3,777,732
Repayment of bank borrowings		**(4,683,244)**	(2,450,495)
Settlement of derivative financial instruments		**(6,725)**	—
Net cash (used in)/generated from financing activities		**(268,101)**	491,738
Net increase in cash and cash equivalents		**154,851**	123,076
Cash and cash equivalents at beginning of the year		**1,303,904**	1,180,828
Cash and cash equivalents at end of the year	24	**1,458,755**	1,303,904

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Yuexiu Real Estate Investment Trust ("Yuexiu REIT") and its subsidiaries (together, the "Group") are mainly engaged in the leasing of commercial properties in Mainland China ("China").

Yuexiu REIT is a Hong Kong collective investment scheme constituted as a unit trust by the Trust Deed entered into between the Manager and HSBC Institutional Trust Services (Asia) Limited, as the Trustee of Yuexiu REIT (the "Trustee") on 7 December 2005 (as amended by First Supplemental Deed dated 25 March 2008, Second Supplemental Deed dated 23 July 2010 and Third supplemental deed dated 25 July 2012) (the "Trust Deed") and authorised under section 104 of the Securities and Futures Ordinance ("SFO") subject to the applicable conditions imposed by Securities and Futures Commission ("SFC") from time to time.

The address of its registered office is 17B, Yue Xiu Building, 160-174 Lockhart Road, Wanchai, Hong Kong.

Yuexiu REIT is listed on The Stock Exchange of Hong Kong Limited. These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The consolidated financial statements of Yuexiu REIT have been prepared in accordance with all applicable HKFRS, the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts (the "REIT Code"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of the investment properties and hotel and serviced apartment and derivative financial instruments which are carried at fair value.

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

As at 31 December 2018, the Group's current liabilities exceeded its current assets by RMB1,993,054,000 (2017: RMB5,155,759,000) mainly because of the borrowings of RMB2,276,543,000 (2017: RMB:4,408,474,000) which fall due within twelve months from the balance sheet date The Manager is in the process of discussing with the Group's principal bankers and believes the Group will be able to refinance the borrowings based on the Group's past experience, its assets quality and low gearing ratio. Taking into account the refinancing of bank borrowings and other financial resources available including internally generated funds and existing or new facilities and medium term notes programme, the Manager considers the Group has adequate resources to meet its liabilities and commitments as and when they fall due as well as its working capital and operating requirements for the foreseeable future. Accordingly, the going concern basis has been adopted in preparing the consolidated financial statements.

(i) New and amended standards effective for the year ended 31 December 2018

HKFRS 15 and HKFRS 15 (Amendments)	Revenue from contracts with customers
Amendments to HKAS 40	Transfer of investment properties
Amendments to HKFRS 1 HKAS 28	Annual Improvements to HKFRS 2014-2016 Cycle
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Insurance Contracts applying HKFRS 9 Financial Instructions with HKFRS 4 Insurance Contracts
HK(IFRIC) 22	Foreign currency transactions and advance consideration
HKFRS 9	Financial Instruments

The adoption of these new and amended standards did not result in any significant impact on the results and financial position of the Group.

(ii) New and amended standards have been issued but are not yet effective for the year ended 31 December 2018 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKAS 28 (Amendment)	Long-term Interests in an Associate or Joint Venture	1 January 2019
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
Annual improvements 2015-2017 Cycle (Amendments)	Improvements to HKFRSs	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The directors of the Manager anticipate that the adoption of these new and amended standards would not result in any significant impact on the results and financial position of the Group. The Group plans to adopt these new and amended standards when they become effective.

(b) Consolidation

(i) Subsidiaries

The consolidated financial statements include the financial statements of Yuexiu REIT and all of its subsidiaries made up to 31 December 2018.

A subsidiary is an entity (including a structured entity) 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 over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(ii) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(c) Segment reporting

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

(d) 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 Yuexiu REIT's functional currency and the Group's presentation currency.

(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 profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income within "finance income" or "finance expenses". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "operating expenses, net".

(e) **Property, plant and equipment**

(i) Hotel and serviced apartments comprise mainly buildings, leasehold improvements and fixtures and furniture of hotel and serviced apartment, and is stated at fair value less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is performed with sufficient regularity by independent professional qualified valuers. Changes arising on the revaluation are dealt with in other comprehensive income and are accumulated in the revaluation reserve, except that, when a deficit arises on revaluation, it will be charged to the profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to revaluation.

When a surplus arises on revaluation, it will be credited to the profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

When a revalued asset is sold, the amount included in the revaluation reserve is transferred to net assets attributable to unitholders.

(ii) All other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the 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 reliable.

Depreciation of 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:

Hotel and serviced apartment are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.

Leasehold improvements, furniture, fixtures and office supplies	3-5 years
Motor vehicles	5 years

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 "operating expenses" in the consolidated statement of comprehensive income.

(f) Investment properties

Investment property, principally comprising leasehold land, office buildings and shopping mall, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases.

Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition at cost, 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 flows projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value. Changes in fair values are recorded in the profit or loss.

(g) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets of the acquired subsidiaries.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(h) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised immediately in profit or loss.

(i) Impairment of non-financial assets

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

(j) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is 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 legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(k) Inventories

Inventories comprise primarily food, beverages and operating supplies and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

(l) Financial assets

(i) Classification

The Group classifies its financial assets in either those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), or 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. For assets measured at fair value, gains and losses will either be recorded in the profit or loss. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

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.

A financial asset is initially measured at its fair value plus, in the case of a financial asset not at fair value through profit or loss (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. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments are subsequently measured depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group's financial assets are classified into two categories:

- 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 the profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of the profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss, net in the period in which it arises.

(ii) Impairment

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

For trade receivables, the Group applies the HKFRS 9 simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The identified impairment loss was immaterial. While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9 the identified impairment loss was immaterial.

(m) Land use rights

The upfront prepayments made for the land use rights are expensed in the profit or loss on a straight-line basis over the period of the rights or when there is impairment, the impairment is expensed in the profit or loss.

(n) Rental deposits

Rental deposits are financial liabilities with fixed or determinable repayments. They arise when the Group enters into lease agreement directly with tenants. They are included in current liabilities, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current liabilities.

Rental deposits are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. At initial recognition, the difference between the carrying amount of the financial liability and the actual consideration received is treated as initial premiums and recognised as rental income over the lease term, on a straight-line basis.

(o) Cash and cash equivalents

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

(p) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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 payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(q) Provisions

Provisions 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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.

(r) 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 the 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 draw-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 12 months after the end of the reporting period.

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

(t) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the 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.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in China where Yuexiu REIT and its subsidiaries 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 recognised, 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 and the deferred income tax is 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 substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(u) **Revenue recognition**

Revenues are recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

(i) Rental income

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

(ii) Hotel and serviced apartment income

Hotel and serviced apartment income are recognised when services are rendered.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(v) **Distributions to unitholders**

In accordance with the Trust Deed, Yuexiu REIT is required to distribute to unitholders not less than 90% of the Group's profit for each financial year subject to adjustments allowed under the REIT Code and the Trust Deed. These units are therefore classified as financial liabilities in accordance with HKAS 32 and, accordingly, the distributions paid to unitholders represent finance costs and are therefore presented as an expense in the profit or loss. Consequently, Yuexiu REIT has recognised distributions as finance costs in the profit or loss.

(w) Employee benefits

(i) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) 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 12 months after the end of the reporting period are discounted to their present value.

3 Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Manager of Yuexiu REIT identifies and evaluates financial risks. The Manager provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, non-derivative financial instruments, and investing of excess liquidity.

(i) Market risk

(a) Foreign exchange risk

The Group operates in China with most of the transactions denominated in RMB. The Group's exposure to foreign exchange risk relates principally to its cash and cash equivalents, short-term bank deposits and bank borrowings denominated primarily in Hong Kong dollar ("HK$") and United States dollar ("USD").

At 31 December 2018 and 2017, if RMB had weakened/strengthened by 5% against HK$ and USD with all other variables held constant, post-tax profit for the year ended 31 December 2018 would have been approximately RMB570,034,000 (2017: RMB511,282,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HK$ and USD denominated cash and cash equivalents, short-term bank deposits and borrowings.

(b) Cash flow interest rate risk

The Group's interest rate risk mainly arises from borrowings obtained at variable rates which expose the Group to cash flow interest rate risk.

Under the Group's interest rate management policy, the Group generally raises borrowings at floating rates and may use floating-to-fixed interest rate swaps to manage the risk where the Group forecasts a significant rise in interest charge in the foreseeable future. The Group did not enter into any swaps for its floating-rate borrowing for the year ended 31 December 2018 and 2017. At 31 December 2018 and 2017, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been approximately RMB130,696,000 (2017: RMB124,291,000) lower/higher respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, trade receivables, amounts due from related parties, other receivables and deposits with banks and financial institutions, as well as credit exposures to tenants.

The table below shows the bank deposits balance of the five major banks at the balance sheet date. Management does not expect any losses from non-performance by these banks.

	2018	2017
	RMB'000	RMB'000
Counterparty		
The Hongkong and Shanghai Banking Corporation Ltd.	**11,868**	62,802
Bank of China	**593,825**	511,447
BNP Paribas Hong Kong Branch	**63,465**	—
DBS Bank Ltd. Hong Kong Branch	**219,070**	273,197
China Construction Bank	**378,467**	342,467
Other banks	**214,246**	140,246
Short-term bank deposits and cash and cash equivalent	**1,480,941**	1,330,159

The Group has no policy to limit the amount of credit exposure to any financial institution.

The Group has policies in place to ensure that sales are made to customers with an appropriate financial strength and appropriate deposit. It also has other monitoring procedures to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risks, with exposure spread over a number of counterparties and customers.

The carrying amount of the receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to these financial assets. The credit risk for bank deposits and bank balances is considered by the Group to be minimal as such amounts are generally placed with state-owned banks or banks with good ratings.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and operating cash flow. The Group has short-term bank deposits and cash and cash equivalents of RMB1,481,388,000 as at 31 December 2018 (2017: RMB1,330,606,000). Due to the nature of the underlying business, the Manager maintains flexibility by adjusting the amount of distributions to be paid for the percentage in excess of 90% of the distributable income.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within one year RMB'000	Between one and two years RMB'000	Between two and five years RMB'000	Over five years RMB'000	Total RMB'000
As at 31 December 2018					
Rental deposits	**172,221**	**76,026**	**123,291**	**12,241**	**383,779**
Trade payables	**17,689**	**—**	**—**	**—**	**17,689**
Accruals and other payables	**998,607**	**—**	**—**	**—**	**998,607**
Amounts due to related parties	**103,227**	**—**	**—**	**—**	**103,227**
Bank borrowings					
- Principal to be repaid	**2,276,543**	**4,112,138**	**3,577,847**	**1,179,080**	**11,145,608**
- Interest payables	**422,730**	**763,389**	**645,710**	**245,622**	**2,077,451**
Other borrowings					
- Principal to be repaid	**—**	**—**	**2,730,120**	**—**	**2,730,120**
- Interest payables	**129,681**	**129,681**	**43,227**	**—**	**302,589**
Derivative financial instruments	**113,745**	**6,273**	**—**	**—**	**120,018**
As at 31 December 2017					
Rental deposits	151,145	101,493	98,464	19,068	370,170
Trade payables	17,611	—	—	—	17,611
Accruals and other payables	1,158,000	—	—	—	1,158,000
Amounts due to related parties	887,404	—	—	—	887,404
Bank borrowings					
- Principal to be repaid	2,123,815	2,175,877	4,467,342	1,679,080	10,446,114
- Interest payables	202,909	152,798	383,892	154,651	894,250
Other borrowings					
- Principal to be repaid	2,284,659	—	—	—	2,284,659
- Interest payables	29,510	—	—	—	29,510
Derivative financial instruments	46,457	136,924	—	—	183,381

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for unitholders and benefits for other stakeholders.

Consistent with others in the industry, the Manager monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings (including current and non-current borrowings) divided by total asset value as shown in the consolidated balance sheet.

During 2018, the Group's strategy, which was unchanged from 2017, was to maintain a gearing ratio not exceeding 45%. The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018	2017
	RMB'000	RMB'000
Total borrowings (Note 28)	**13,875,728**	12,730,773
Total asset value	**35,835,066**	35,335,724
Gearing ratio	**39%**	36%

The gearing ratio increased to 39% in 2018 (2017: 36%) mainly due to the increase in borrowings during the year.

(c) Fair value estimation

The carrying amounts of the Group's current financial assets and current financial liabilities approximate their fair values due to their short maturities.

The fair value of non-current financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

See Note 13 for disclosures of property, plant and equipment, Note 15 for investment properties, and Note 20 for derivative financial instruments.

4 Critical accounting estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Manager makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimate of fair value of property, plant and equipment and investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the directors of the Manager determine the amount within a range of reasonable fair value estimates. In making its judgement, the directors of the Manager consider information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices of properties is not available, the fair values of properties are determined using discounted cash flow valuation techniques. The directors of the Manager use assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the directors of the Manager and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition. These valuations are reviewed annually by external valuers.

The fair value of property, plant and equipment and investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Notes 13 and 15 respectively.

(b) Estimate of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 18).

5 Revenue and segment information

The chief operating decision-maker has been identified as the executive directors of the Manager. Management determines the operating segments based on the Group's internal reports, which are then submitted to the executive directors for performance assessment and resources allocation.

The executive directors consider the business by nature of business activities and assess the performance of hotel and service apartments, office rental and wholesale and shopping mall.

The executive directors assess the performance of the operating segments based on a measure of segment results. This measurement basis excludes the effects of non-recurring expenditure from the operating segments and other unallocated operating costs. Other information provided, except as noted below, to the executive directors are measured in a manner consistent with that in the consolidated financial statements.

Total assets excluded corporate assets which are not directly attributable to segments.

The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the consolidated statement of comprehensive income.

	Hotel and serviced apartments RMB'000	Office rental RMB'000	Wholesale and shopping mall RMB'000	Group RMB'000
Year ended 31 December 2018				
Revenue from external customers	542,519	945,942	543,415	2,031,876
Segment results	81,648	1,366,272	796,258	2,244,178
Depreciation and amortisation	129,425	147	—	129,572
Fair value gain on investment properties	—	564,852	340,307	905,159
Year ended 31 December 2017				
Revenue from external customers	527,253	824,005	502,641	1,853,899
Segment results	51,017	1,556,271	446,832	2,054,120
Depreciation and amortisation	144,621	1,156	—	145,777
Fair value gain on investment properties	—	861,592	24,200	885,792
As at 31 December 2018				
Total reportable segments' assets	4,345,379	19,757,166	10,791,248	34,893,793
As at 31 December 2017				
Total reportable segments' assets	4,512,532	20,056,202	9,799,923	34,368,657

A reconciliation of total segment results to total profit before income tax and transactions with unitholders is provided as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Segment results	**2,244,178**	2,054,120
Unallocated operating costs (Note)	**(228,800)**	(288,013)
Operating profit	**2,015,378**	1,766,107
Fair value gain/(loss) on derivative financial instruments	**56,638**	(258,008)
Gain on disposal of a subsidiary	**302,779**	—
Finance income	**58,253**	573,527
Finance expenses	**(1,008,160)**	(366,987)
Profit before income tax and transactions with unitholders	**1,424,888**	1,714,639

Note: Unallocated operating costs include mainly asset management fee, legal and professional expenses and other operating expenses.

A reconciliation of reportable segments' assets to total assets is provided as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Total reportable segments' assets	**34,893,793**	34,368,657
Corporate assets	**941,273**	967,067
Total assets	**35,835,066**	35,335,724

	Revenue		Total assets	
	Year ended 31 December		As at 31 December	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
China	**2,031,876**	1,853,899	**34,893,793**	34,368,657
Unallocated assets			**941,273**	967,067
			35,835,066	35,335,724

The Group's revenue by nature is as follows:

	2018	2017
	RMB'000	RMB'000
Hotel and serviced apartments operations		
Room rentals	**314,698**	299,705
Food and beverages	**208,727**	209,535
Property rentals	**1,489,357**	1,326,647
Others	**19,094**	18,012
	2,031,876	1,853,899

The following is an analysis of the Group's revenue by timing of satisfaction of performance obligations:

	2018	2017
	RMB'000	RMB'000
Revenue recognised at a point in time	**224,840**	223,213
Revenue recognised overtime	**314,698**	299,705
Other sources	**1,492,338**	1,330,981
	2,031,876	1,853,899

6 Expenses by nature, net

	2018	2017
	RMB'000	RMB'000
Property management fees (i)	**47,002**	40,471
Employee benefit expenses (Note 7)	**122,187**	120,307
Real estate tax	**179,487**	164,877
Business tax, flood prevention fee, urban construction and maintenance tax, education surcharge and local education surcharge	**12,244**	10,792
Withholding tax (ii)	**58,277**	56,581
Depreciation of property, plant and equipment (Note 13)	**80,287**	96,492
Amortisation of land use rights (Note 14)	**49,285**	49,285
Cost of inventories sold or consumed in operation	**60,240**	61,612
Other direct expenses on hotel and serviced apartment	**131,020**	129,314
Manager's fee (Note 8)	**147,263**	133,836
Trustee's fee	**10,710**	10,230
Valuation fees	**1,439**	1,193
Legal and professional fee	**25,259**	65,589
Auditor's remuneration	**3,154**	3,000
Bank charges	**531**	1,390
Foreign exchange (gain)/loss arising from operating activities	**(21,282)**	8,395
Others	**14,554**	20,220
Total operating expenses, net	**921,657**	973,584

Note:

(i) The Group received leasing, marketing and tenancy management services from three leasing agents, namely, Guangzhou Yuexiu Yicheng Business Operation Management Co., Ltd. (previously known as Guangzhou Yicheng Property Management Ltd.), Guangzhou Baima Business Operation Management Co., Ltd. and Guangzhou Yuexiu Asset Management Company Limited (Note 32).

(ii) Withholding tax on the rental income and interest income in China is calculated based on the rental income and interest income at a rate of 10%.

7 Employee benefit expenses

	2018 RMB'000	2017 RMB'000
Wages, salaries and bonus	**79,856**	78,928
Pension costs	**4,735**	4,533
Medical benefits costs	**3,245**	3,155
Social security costs	**5,551**	5,301
Staff welfare	**28,800**	28,390
	122,187	120,307

Pension scheme arrangements

Certain subsidiaries of Yuexiu REIT in China are required to participate in defined contribution retirement plans organised by the respective Provincial or Municipal Government. The Group has no further obligations for the actual payment of pensions beyond its contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

8 Manager's fee

Pursuant to the Trust Deed, the Manager is entitled to receive remuneration for its services as manager of Yuexiu REIT, which is the aggregate of a base fee of 0.3% per annum of the carrying value of the deposited property; a service fee of 3% per annum of net property income; a transaction fee of 1% of the consideration for the acquisition of any real estate from external party and a transaction fee of 0.5% of the gross sale price of the disposal of any part of deposited property comprising of Real Estate, as defined in the Trust Deed.

	2018 RMB'000	2017 RMB'000
Manager's fee:		
In the form of units	**117,810**	107,069
In the form of cash	**29,453**	26,767
	147,263	133,836

Pursuant to the announcement of Yuexiu REIT dated 15 January 2018, a portion of the manager's fee for the year ended 31 December 2018 will be paid in the form of units.

9 Finance income

	2018	2017
	RMB'000	RMB'000
Interest income from bank deposits	**13,819**	9,489
Interest income from a related company	**21,698**	21,486
Foreign exchange gain on financing activities	**—**	542,552
Fair value gain on support arrangement assets (note 19)	**22,736**	—
	58,253	573,527

10 Finance expenses

	2018	2017
	RMB'000	RMB'000
Interest expense for bank borrowings	**326,066**	272,052
Interest expense for other borrowings	**112,051**	73,473
Interest expenses to a related party	**18,474**	360
Amortisation of transaction costs for borrowings	**24,020**	21,102
Foreign exchange loss on financing activities	**527,549**	—
	1,008,160	366,987

11 Income tax expense

For the subsidiaries incorporated and operate in China, they are subject to China corporate income tax at a rate of 25% under Corporate Income Tax Law of China.

For other subsidiaries with operations in China, the corporate income tax was paid by way of withholding tax as disclosed in Note 6 (ii).

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong.

	2018	2017
	RMB'000	RMB'000
Current income tax		
- China corporate income tax	**95,297**	42,742
- Under-provision in prior years	**1,562**	—
- PRC withholding tax	**15,108**	—
Deferred income tax (Note 25)	**346,402**	234,802
	458,369	277,544

The tax on the Group's profit before income tax and transactions with unitholders differs from the theoretical amount that would arise using the corporate income tax rate of China as follows:

	2018	2017
	RMB'000	RMB'000
Profit before income tax and transactions with unitholders	**1,424,888**	1,714,639
Tax calculated at domestic tax rate of 25%	**356,222**	428,660
Income not subject to tax	**(284,680)**	(349,448)
Expenses not deductible for tax purposes	**348,450**	170,352
Under-provision in prior years	**1,562**	—
Withholding tax on unremitted earnings of subsidiaries	**54,104**	27,980
Recognition of previously unrecognised tax losses	**(14,680)**	—
Utilisation of previously unrecognised tax losses	**(2,609)**	—
	458,369	277,544

12 Earnings per unit based upon profit after income tax before transactions with unitholders attributable to unitholders

(a) Basic

Basic earnings per unit based upon profit after income tax before transactions with unitholders attributable to unitholders is calculated by dividing the profit after income tax before transactions with unitholders attributable to unitholders by the weighted average number of units in issue during the year.

	2018	2017
Profit after income tax before transactions with unitholders attributable to unitholders (RMB'000)	**911,758**	1,429,996
Weighted average number of units in issue ('000)	**3,029,200**	2,937,991
Basic earnings per unit (RMB)	**0.30**	0.49

(b) Diluted

Diluted earnings per unit based upon profit after income tax before transactions with unitholders attributable to unitholders is calculated by adjusting the weighted average number of units outstanding to assume conversion of all dilutive potential units. Yuexiu REIT has deferred units outstanding and manager's fee in form of units during the year which are dilutive potential units. The number of units calculated as above is compared with the number of units that would have been issued assuming the exercise of the units. For the purpose of calculating diluted earnings per unit, the number of units calculated for manager's fee in form of units was calculated based on the closing price of Yuexiu REIT as at 31 December 2018.

	2018	2017
Profit after income tax before transactions with unitholders attributable to unitholders (RMB'000)	**911,758**	1,429,996
Weighted average number of units in issue ('000)	**3,029,200**	2,937,991
Adjustments for deferred units ('000)	**535,401**	602,401
Adjustments for manager's fee in form of units ('000)	**13,984**	10,338
Weighted average number of units for diluted earnings per unit ('000)	**3,578,585**	3,550,730
Diluted earnings per unit (RMB)	**0.25**	0.40

13 Property, plant and equipment

	Hotel and serviced apartments RMB'000	Office supplies RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2017				
Cost	2,305,808	12,692	9,503	2,328,003
Accumulated depreciation	(418,545)	(12,627)	(7,868)	(439,040)
Fair value gain on revaluation	524,736	—	—	524,736
Net book amount	2,411,999	65	1,635	2,413,699
Year ended 31 December 2017				
Opening net book amount	2,411,999	65	1,635	2,413,699
Additions	19,106	1	—	19,107
Depreciation (Note 6)	(95,336)	(13)	(1,143)	(96,492)
Acquisition of subsidiaries (Note 30)	—	390	146	536
Fair value gain on revaluation	114,231	—	—	114,231
Closing net book amount	2,450,000	443	638	2,451,081
At 31 December 2017				
Cost	2,324,914	13,083	9,649	2,347,646
Accumulated depreciation	(513,881)	(12,640)	(9,011)	(535,532)
Fair value gain on revaluation	638,967	—	—	638,967
Net book amount	2,450,000	443	638	2,451,081

	Hotel and serviced apartments RMB'000	Office supplies RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2018				
Opening net book amount	2,450,000	443	638	2,451,081
Additions	19,325	—	—	19,325
Disposal	(2)	—	—	(2)
Depreciation (Note 6)	(80,140)	(76)	(71)	(80,287)
Fair value loss on revaluation	(49,183)	—	—	(49,183)
Closing net book amount	2,340,000	367	567	2,340,934
At 31 December 2018				
Cost	2,344,185	13,083	9,649	2,366,917
Accumulated depreciation	(593,969)	(12,716)	(9,082)	(615,767)
Fair value gain on revaluation	589,784	—	—	589,784
Net book amount	2,340,000	367	567	2,340,934

If hotel and serviced apartments had not been revalued, it would have been included in these consolidated financial statements at historical cost less accumulated depreciation of RMB1,750,216,000 (2017: RMB1,811,033,000).

As at 31 December 2018, property, plant and equipment with an aggregate carrying amount of RMB2,023 million (2017: RMB2,171 million) were pledged as collateral for the Group's bank borrowings (Note 28).

The following table analyses the property, plant and equipment carried at fair value:

	2018	2017
	RMB'000	RMB'000
Opening balance	**2,450,000**	2,411,999
Additions	**19,325**	19,106
Disposal	**(2)**	—
Depreciation	**(80,140)**	(95,336)
Unrealised (losses)/gains recognised in reserve	**(49,183)**	114,231
Closing balance	**2,340,000**	2,450,000
Unrealised (losses)/gains for the year included in other comprehensive income at the end of the year	**(49,183)**	114,231

Valuation processes of the Group

The Group measures hotel and serviced apartments at fair value. Hotel and serviced apartments were revalued by Savills Valuation and Professional Services Limited being independent qualified valuer not related to the Group at 31 December 2018 and 2017 respectively.

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and the valuer at least once every six months, in line with the Group's interim and annual reporting dates.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report
- Assesses property valuations movements when compared to the prior year valuation report
- Holds discussions with the independent valuer

Valuation techniques

Fair value measurements using significant unobservable inputs

Fair value of the building portion of hotel and serviced apartments of Guangzhou International Financial Center ("Guangzhou IFC'') is derived using depreciated replacement cost method.

The depreciated replacement cost method involves estimation of the market redevelopment costs of the building portion of hotel and serviced apartments of Guangzhou IFC which includes building costs, finance costs and professional fee. Depreciation is also considered to reflect the physical deterioration, functional and economic obsolescence to derive the fair value.

The overall fair value (including land and building elements) of hotel and serviced apartments in China is generally derived using the discounted cash flow analysis. Due to lack of land transaction in market, fair value of land, for disclosure purpose only as set out in Note 14, is therefore calculated as the difference between the fair value under discounted cash flow analysis and the value under depreciated replacement cost method.

In the course of discounted cash flow analysis, both income and expenses over the coming ten years from the date of valuation are itemised and projected annually taking into account the rental revenue, associated revenues and the expected growth of income and expenses. The net cash flow over the ten-year period is discounted at an appropriate rate of return.

The net cash flow from eleventh year onwards to the expiry date of the land use rights from the government under which both portions are held is capitalised at a market yield expected for the particular type of property investment in the market.

There were no changes to the valuation techniques during the year.

Significant inputs used to determine fair value

Building costs are estimated by reference to market construction costs of other similar buildings. The higher the building costs, the higher the fair value.

Discount rates are estimated by Savills Valuation and Professional Services Limited based on the risk profile of hotel and serviced apartments being valued. The higher the rates, the lower the fair value. Prevailing market room rents are estimated based on recent lettings for hotel and serviced apartments in China, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

The adopted valuation assumptions in the depreciated replacement cost method are summarised as follows:

As at 31 December 2017

	Depreciated replacement cost method		
	Building cost (RMB/m²)	**Finance cost (% on construction cost)**	**Professional fee (% on construction cost)**
Hotel	19,000	4.75	6
Serviced apartments	15,000	4.75	6

As at 31 December 2018

	Depreciated replacement cost method		
	Building cost (RMB/m²)	**Finance cost (% on construction cost)**	**Professional fee (% on construction cost)**
Hotel	18,500	4.75	6
Serviced apartments	15,300	4.75	6

14 Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2018	2017
	RMB'000	RMB'000
At 1 January	**1,429,254**	1,478,539
Amortisation (Note 6)	**(49,285)**	(49,285)
At 31 December	**1,379,969**	1,429,254

The Group's land use rights at their net book amounts are analysed as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
In China:		
Land use rights between 10 and 50 years	**1,379,969**	1,429,254

As at 31 December 2018, the fair value of land use rights is approximately RMB2,515 million (2017: RMB2,200 million). The change in fair value is not reflected in the consolidated financial statements.

As at 31 December 2018, land use rights were pledged with an aggregate net book amount of approximately RMB1,288 million (2017: RMB1,343 million) as collateral for the Group's bank borrowings (Note 28).

15 Investment properties

	2018 RMB'000	2017 RMB'000
At 1 January	**28,706,000**	24,197,500
Additions during the year	**14,841**	35,708
Acquisition of subsidiaries (Note 31)	**601,000**	3,587,000
Disposal of subsidiaries (Note 21)	**(1,112,000)**	—
Fair value gain during the year, included in profit or loss under 'Fair value gain on investment properties'	**905,159**	885,792
At 31 December	**29,115,000**	28,706,000
Fair value gain for the year included in profit or loss for assets held at the end of the year, under 'Fair value gain on investment properties'	**905,159**	885,792

The investment properties were located in China held on land use rights of 40 years to 50 years, expiring in 2045 through 2055.

In the consolidated statement of comprehensive income, direct operating expenses relating to investment properties amounted to RMB228,673,000 (2017: RMB208,594,000). Included in the direct operating expenses, RMB9,381,000 (2017: RMB3,072,000) was related to investment properties that were vacant.

Yuexiu REIT acquired Hangzhou Victory Business Centre Tower 2 and the related carparks ("Hnagzhou Property") on 28 December 2018. In accordance with the REIT Code, Yuexiu REIT is prohibited from disposing of its properties for at least two years from the time such properties are acquired, unless the unitholders have passed a special resolution consenting to the proposed disposal.

As at 31 December 2018, investment properties with an aggregate carrying value of approximately RMB3,551 million (2017: RMB3,471 million) were pledged as collateral for the Group's bank borrowings (Note 28).

Valuation processes of the Group

The Group measures its investment properties at fair value. The investment properties were revalued by Savills Valuation and Professional Services, being independent qualified valuers not related to the Group at 31 December 2018 and 2017 respectively.

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuer at least once every six months, in line with the Group's interim and annual reporting dates.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report
- Assesses property valuations movements when compared to the prior year valuation report
- Holds discussions with the independent valuer

Valuation techniques

Fair value measurements using significant unobservable inputs

Fair values of completed commercial properties in China are derived using both the income capitalisation method and discounted cash flow analysis.

The income capitalisation method is used to capitalise the unexpired rental income of contractual tenancies. It has also taken into account the reversionary market rent after the expiry of tenancies in capitalisation. The prevailing market rents adopted in the valuation have made reference to recent lettings and other similar comparable properties in the vicinity.

For the discounted cash flow analysis, both income and expenses over the coming ten years from the date of valuation are itemised and projected annually taking into account the current rental revenue and the expected growth of income and expenses of each of the properties. The net cash flow over the ten-year period is discounted at an appropriate rate of return.

The net cash flow from eleventh year onwards to the expiry date of the land use rights from the government under which each of the properties is held is capitalised at a market yield expected for the particular type of property investment in the market.

There were no changes to the valuation techniques during the year.

Significant inputs used to determine fair value

Capitalisation and discount rates are estimated by Savills Valuation and Professional Services Limited for 2018 and 2017 respectively based on the risk profile of the properties being valued. The higher the rates, the lower the fair value.

Prevailing market rents are estimated based on recent lettings, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

The adopted valuation assumptions in the income capitalisation method are summarised as follows:

As at 31 December 2017

	Monthly Market Unit Rent (RMB per sq.m.)	**Capitalisation Rate (per annum)**
Office	96 to 312	4.00% to 7.25%
Wholesale and shopping mall	83 to 1,335	4.00% to 7.75%

As at 31 December 2018

	Monthly Market Unit Rent (RMB per sq.m.)	**Capitalisation Rate (per annum)**
Office	98 to 322	4.00% to 7.25%
Wholesale and shopping mall	41 to 1,400	4.00% to 7.75%

The adopted valuation assumptions in discounted cash flow analysis are summarised as follows:

As at 31 December 2017

	Monthly Market Unit Rent (RMB per sq.m.)	Discount Rate	Stabilised Occupancy Rate
Office	96 to 312	6.50% to 8.50%	95.00% to 99.00%
Wholesale and shopping mall	83 to 1,335	6.75% to 8.75%	98.00% to 99.50%

As at 31 December 2018

	Monthly Market Unit Rent (RMB per sq.m.)	Discount Rate	Stabilised Occupancy Rate
Office	98 to 322	6.50% to 8.50%	95.00% to 99.00%
Wholesale and shopping mall	41 to 1,400	6.75% to 8.75%	98.00% to 99.50%

16 Subsidiaries

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Interest held (Note)
GZI REIT (Holding) 2005 Company Limited ("HoldCo 2005")	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share	100%
Yuexiu REIT 2012 Company Limited ("REIT 2012")	British Virgin Islands, limited liability company	Investment holding	1 ordinary share of USD1	100%
Yuexiu REIT MTN Company Limited ("REIT MTN")	British Virgin Islands, limited liability company	Investment holding	1 ordinary share of USD1	100%

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Interest held (Note)
Yuexiu REIT 2013 Company Limited ("REIT 2013")	British Virgin Islands, limited liability company	Investment holding	1 ordinary share of USD1	100%
Partat Investment Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of USD1	100%
Moon King Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of USD1	100%
Full Estates Investment Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of USD1	100%
Keen Ocean Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of USD1	100%
Tower Top Development Ltd. ("Tower Top")	British Virgin Islands, limited liability company	Investment holding	10,000 ordinary share of USD1 each	99.99%
Bliss Town Holdings Ltd.	British Virgin Islands, limited liability company	Investment holding	1 ordinary share of USD1	99.99%
Hoover Star International Ltd.	British Virgin Islands, limited liability company	Investment holding	1 ordinary share of USD1	99.99%
Miller Win Group Ltd.	British Virgin Islands, limited liability company	Investment holding	1 ordinary share of USD1	99.99%

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Interest held (Note)
Shinning Opal Management Ltd.	British Virgin Islands, limited liability company	Investment holding	1 ordinary share of USD1	99.99%
Ever Joint Investment International Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	99.99%
Long Grace Holdings Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	99.99%
Profit Link Investment International Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	99.99%
San Bright Holdings Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	99.99%
Guangzhou Yuecheng Industrial Ltd.	China, Limited liability company	Investment holding in China	Registered capital of HK$300 million	99.99%
Guangzhou Yuesheng Industrial Ltd.	China, limited liability company	Investment holding in China	Registered capital of HK$300 million	99.99%
Guangzhou Yuehui Industrial Ltd.	China, limited liability company	Investment holding in China	Registered capital of HK$300 million	99.99%
Guangzhou Yueli Industrial Ltd.	China, limited liability company	Investment holding in China	Registered capital of HK$300 million	99.99%
Guangzhou Yue Xiu City Construction International Finance Centre Co., Ltd	China, limited liability company	Property management and property leasing in China	Registered capital of RMB2,650 million	98.99%

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Interest held (Note)
Guangzhou IFC Hospitality Management Co. Ltd	China, limited liability company	Hospitality management in China	Registered capital of RMB5 million	98.99%
Shanghai Hong Jia Real Estate Development Co., Ltd.	China, limited liability company	Leasing of commercial properties in China	Registered capital of USD28.5 million	100%
Bestget Enterprises Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	257,614,000 ordinary shares of HK$257,614,000	100%
Fully Cheer Management Ltd.	British Virgain Islands, limited liability company	Investment holding	1 ordinary share of USD1	100%
Sure Win International Holding Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	100%
Wuhan Yuexiu Property Development Limited	China, limited liability company	Leasing of commercial properties in China	Registered Capital of RMB 2,200,000,000	67%
Yuexiu REIT 2017 Company Limited ("REIT 2017")	British Virgain Islands, limited liability company	Investment holding	1 ordianry share of USD1	100%
Wealthy Reach Holdings Limited[1]	British Virgain Islands, limited liability company	Investment holding	1 ordinary share of USD1	100%
Prime Glory Group Holdings Limited[1]	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	100%

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Interest held (Note)
Guangzhou Xiujiang Industries Development Co., Limited[1]	China, limited liability company	Investment holding in China	Registered Capital of RMB 550,000,000	100%
Hangzhou Yuehui Real Estate Development Co., Limited[1]	China, limited liability company	Leasing of commercial properties in China	Registered Capital of RMB 470,000,000	100%
Yuexiu REIT 2018 Company Limited[2]	British Virgain Islands, limited liability company	Investment holding	1 ordinary share of USD1	100%
Yuexiu REIT Secure Shell Limited[2]	British Virgain Islands, limited liability company	Investment holding	1 ordinary share of USD1	100%

1 These subsidiaries are acquired during the year ended 31 December 2018.

2 These subsidiaries are incorporated during the year ended 31 December 2018.

Note:

Shares of HoldCo 2005, REIT 2012, REIT 2013, MTN, REIT 2017, REIT 2018 and Secure Shell are held directly by Yuexiu REIT. Shares of all the other subsidiaries are held indirectly by Yuexiu REIT.

17 Deferred assets

Rental income is recognised on an accrued 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 temporary difference between the rental income as set out in the lease agreements and accounting rental income is reflected as deferred assets. Deferred assets which are expected to be realised twelve months after the balance sheet date are classified as non-current assets. The deferred assets are denominated in RMB.

18 Goodwill

	2018	2017
	RMB'000	RMB'000
At 1 January		
Cost	**845,325**	824,459
Accumulated impairment	**—**	—
Net book amount	**845,325**	824,459
Year ended 31 December		
Opening net book amount	**845,325**	824,459
Acquistion of a subsidiary (Note 31)	**15,833**	20,866
Disposal of subsidiaries	**(1,290)**	—
Net book amount	**859,868**	845,325
At 31 December		
Cost	**859,868**	845,325
Accumulated impairment	**—**	—
Net book amount	**859,868**	845,325

Impairment test for goodwill

For the purpose of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget.

Key assumptions used in the cash flow projections are as follows:

	2018	2017
Growth rate per annum	**3.00% - 5.50%**	3.00% - 5.50%
Discount rate per annum	**7.75% - 8.50%**	7.75% - 8.50%

These assumptions have been used for the analysis of the cash-generating unit ("CGU"). Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Management estimates the discount rate using pre-tax rates that reflect market assessments of the time value of money and the specific risks relating to the CGU. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

19 Support arrangement asset

On 21 December 2017, through a wholly-owned subsidiary, the Group acquired Fully Cheer Management Limited and its subsidiaries, Sure Win International Holdings Limited and Wuhan Yuexiu Property Development Limited (hereafter collectively referred to as "Fully Cheer Group"), from Guangzhou Construction & Development Holdings (China) Limited ("GCD (China)"), a subsidiary of Yuexiu Property Company Limited ("YXP"). The Fully Cheer Group holds 67% interest in Wuhan Properties. Pursuant to the acquisition, YXP agreed to provide a support arrangement to Yuexiu REIT for the period from 1 January 2018 until 31 December 2020. The support arrangement is the shortfall of actual adjusted net income and baseline adjusted net income, and shall be payable semi-annually. Support arrangement asset is denominated in RMB and the fair value of the balance approximated its carrying amount.

Support arrangement asset is initially recoginsed at fair value. In determining the fair value of the support arrangement asset, Yuexiu REIT applied a valuation model that has taken into account the expected future cashflows due to the shortfall for the period from 1 January 2018 until 31 December 2020. Support arrangement asset is subsequently carried at amortised cost using the effective interest method. The expected future cash flows are revisited regularly. The carrying amount of support arrangement asset will be adjusted to reflect the actual and revised estimated cash flows, by computing the present value of estimated future cash flows at the original effective interest rate. The adjustment is recognised in "finance income" (Note 9).

20 Derivative financial instruments

	2018	2017
	RMB'000	RMB'000
Non-current liabilties		
Capped foreign exchange forward contracts	**6,273**	136,924
Current liabilities		
Capped foreign exchange forward contracts	**113,745**	46,457

The derivative financial instruments are classified as non-current assets or liabilities if the settlement date is beyond 12 months after the balance sheet date.

The notional principal amounts of the outstanding capped foreign exchange forward contracts at 31 December 2018 were HK$2,900,000,000 (2017: USD177,000,000 and HK$2,300,000,000).

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

The fair values of capped forward exchange contracts are calculated by reference to the present values of the estimated future cash flows, taking into account market observable forward exchange rates at each reporting date. If significant inputs required to fair value an instrument are observable, the instrument is included in level 2 of the fair value hierarchy.

21 Disposal of subsidiaries

On 14 December 2018, the Trustee (in its capacity as the trustee of Yuexiu REIT) and the Manager entered into a sale and purchase agreement with an independent third party to dispose 100% equity interest in Metrogold Development Limited ("Metrogold") and its subsidiary of the Group, including an investment property named Neo Metropoils Plaza. The transaction was completed on 21 December 2018 for a total cash consideration of RMB1,100 million.

Details of the assets and liabilities of Metrogold disposed of and the gain on disposal are as follows:

	2018
	RMB'000
Assets and liabilities disposed of:	
Investment properties	**1,112,000**
Goodwill	**1,290**
Cash and cash equivalents	**37,372**
Other assets	**6,772**
Deferred tax liabilities	**(251,952)**
Amounts due to related parties	**(100,000)**
Other liabilities	**(22,145)**
Net assets disposed of	**783,337**
Cash consideration received	**1,032,844**
Less: Cash disposed	**(37,372)**
Net cash consideration received	**995,472**
Consideration receivable	**67,155**
Less: Net assets disposed of, excluding cash	**(745,965)**
Less: Transaction costs	**(13,883)**
Gain on disposal of Metrogold	**302,779**

22 Trade receivables

	2018 RMB'000	2017 RMB'000
Trade receivables	**26,785**	19,746

The fair values of trade receivables approximate their carrying amounts.

The credit terms of the Group are generally within three months. The ageing analysis of trade receivables by invoice date is as follows:

	2018 RMB'000	2017 RMB'000
0 - 30 days	**22,405**	16,293
31 - 90 days	**3,182**	3,040
91 - 180 days	**905**	413
181-365 days	**293**	—
	26,785	19,746

As at 31 December 2018, trade receivables of approximately RMB25,587,000 (2017: RMB19,333,000) were fully performing.

As at 31 December 2018, the Group has insignificant trade receivables which are past due but not impaired.

Majority of the Group's trade receivables are denominated in RMB.

23 Prepayments, deposits and other receivables

The balance of prepayments, deposits and other receivables mainly represents prepaid business tax on rental deposits and deposits for utilities. The carrying amounts of prepayments, deposits and other receivables approximate their fair values.

All prepayments, deposits and other receivables are denominated in RMB.

24 Short-term bank deposits and cash and cash equivalents

	2018 RMB'000	2017 RMB'000
Cash at bank and on hand	**1,345,300**	1,299,718
Short-term bank deposits with original maturity of less than three months	**113,455**	4,186
Cash and cash equivalents	**1,458,755**	1,303,904
Short-term bank deposits with original maturity of more than three months	**22,633**	26,702
Total	**1,481,388**	1,330,606
Maximum exposure to credit risk	**1,480,941**	1,330,159

As at 31 December 2018, included in the cash and cash equivalents of the Group are bank deposits of approximately RMB1,167,013,000 (2017: RMB1,086,661,000) denominated in RMB, which is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China. The remittance of these funds out of China is subject to exchange control restrictions imposed by the Chinese government.

The credit quality of short-term bank deposits and cash and cash equivalents has been assessed by reference to external credit ratings (if available) or to historical information about the counterparty default rates as disclosed in Note 3(a)(ii). The existing counterparties do not have defaults in the past.

Short-term bank deposits and cash and cash equivalents are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
HK$	**231,073**	204,766
RMB	**1,167,653**	1,099,367
USD	**82,662**	26,473
	1,481,388	1,330,606

25 Deferred tax liabilities

	2018	2017
	RMB'000	RMB'000
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	**4,536,795**	4,428,310

The movements in the deferred tax liabilities are as follows:

	2018	2017
	RMB'000	RMB'000
Beginning of the year	**4,428,310**	3,891,364
Deferred taxation charged to profit or loss (Note 11)	**346,402**	234,802
Deferred taxation (credited)/charged to reserve	**(13,776)**	31,993
Acqusition of a subsidiary (Note 31)	**27,811**	270,151
Disposal of subsidiaries (Note 21)	**(251,952)**	—
End of the year	**4,536,795**	4,428,310

The movements in deferred tax assets (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

	Tax losses
	RMB'000
At 1 January 2017	113,889
Credited to profit or loss	26,040
Acquisition of subsidiaries	14,500
At 31 December 2017	154,429
At 1 January 2018	154,429
Credited to profit or loss	(37,433)
Acquisition of subsidiaries (Note 31)	284
At 31 December 2018	117,280

The movements in deferred tax liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

	Fair value gains RMB'000	Withholding tax in respect of unremitted earnings of subsidiaries RMB'000	Accelerated depreciation allowance and others RMB'000	Total RMB'000
Year ended 31 December 2017				
At 1 January 2017	3,097,222	438,268	469,763	4,005,253
Charged to profit or loss	165,083	26,634	69,125	260,842
Charged to reserve	31,993	—	—	31,993
Acquisition of subsidiaries (Note 31)	257,976	20,742	5,933	284,651
At 31 December 2017	3,552,274	485,644	544,821	4,582,739
Year ended 31 December 2018				
At 1 January 2018	**3,552,274**	**485,644**	**544,821**	**4,582,739**
Charged to profit or loss	**225,571**	**38,087**	**45,311**	**308,969**
Charged to reserve	**(12,296)**	**(1,480)**	**—**	**(13,776)**
Acquisition of subsidiaries (Note 31)	**7,623**	**20,063**	**409**	**28,095**
Disposal of subsidiaries (Note 21)	**(206,754)**	**(9,637)**	**(35,561)**	**(251,952)**
At 31 December 2018	**3,566,418**	**532,676**	**554,981**	**4,654,075**

26 Trade payables

	2018 RMB'000	2017 RMB'000
Trade payables	**17,689**	17,611

The fair values of trade payables approximate their carrying amounts.

The ageing analysis of the trade payables is as follows:

	2018	2017
	RMB'000	RMB'000
0 - 30 days	**10,157**	10,394
31 - 90 days	**5,896**	4,473
91 - 180 days	**1,636**	2,744
	17,689	17,611

Majority of the Group's trade payables are denominated in RMB.

27 Rental deposits, receipts in advance, accruals and other payables

	2018	2017
	RMB'000	RMB'000
Rental deposits		
Current portion	**172,221**	151,145
Non-current portion	**184,377**	201,109
	356,598	352,254
Receipts in advance		
Current portion	**85,625**	76,743
Non-current portion	**—**	2,798
	85,625	79,541
Accrued urban real estate tax	**15,455**	13,509
Accrued withholding tax payable	**9,493**	11,697
Accrued urban land use tax, value-added tax, urban construction and maintenance tax, education surcharge and local education surcharge	**11,412**	11,272
Construction fee payable	**796,897**	943,171
Accruals for operating expenses	**165,350**	178,351
Accruals and other payables	**998,607**	1,158,000
	1,440,830	1,589,795

The carrying amounts of rental deposits, receipts in advance and accruals and other payables approximate their fair values.

Majority of the Group's rental deposits, receipts in advance and accruals and other payables are denominated in RMB.

28 Borrowings

	2018	2017
	RMB'000	RMB'000
Current portion of long term borrowings		
Bank borrowings, secured	**268,440**	268,440
Bank borrowings, unsecured	**2,008,103**	1,855,375
Other borrowings, unsecured (Note b)	**—**	2,284,659
	2,276,543	4,408,474
Long-term borrowings		
Bank borrowings		
- Secured (Note a)	**2,521,280**	3,021,280
- Unsecured	**8,624,328**	7,424,834
Other borrowings, unsecured (Note b)	**2,730,120**	2,284,659
	13,875,728	12,730,773
Less: current portion of long-term borrowings	**(2,276,543)**	(4,408,474)
Total long-term borrowings	**11,599,185**	8,322,299
Analysed into:		
Unsecured	**11,354,448**	9,709,493
Secured	**2,521,280**	3,021,280
	13,875,728	12,730,773

Note a:

Syndicated and entrustment loans totalling to RMB2,521 million (2017: RMB3,021 million) which are secured by certain parts of Guangzhou IFC with carrying value of RMB6,862 million (2017: RMB7,107 million).

The Group's borrowings are repayable as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	**2,276,543**	4,408,474
Between one year and five years	**10,420,105**	6,643,219
Over five years	**1,179,080**	1,679,080
	13,875,728	12,730,773

The effective interest rates (per annum) of the borrowings at the balance sheet date were as follows:

	2018	2017
RMB	**4.31%**	4.31%
HK$	**3.65%**	2.47%
USD	**4.99%**	3.26%

The carrying amounts of the borrowings are denominated in RMB, HK$ and USD and approximate their fair values.

	2018	2017
	RMB'000	RMB'000
RMB	**2,521,280**	3,021,280
HK$	**8,624,328**	5,569,459
USD	**2,730,120**	4,140,034
	13,875,728	12,730,773

The Group has no undrawn bank borrowing facility as at 31 December 2017 and 2018.

Note b:

On 27 April 2018, Yuexiu REIT MTN Company Limited, a wholly owned subsidiary of Yuexiu REIT, issued and sold a total of US$400 million principal amount of 4.75% notes due 2021 (the "USD Bond") to investors under the US$1.5 billion guaranteed medium term note programme established on 16 April 2018 pursuant to the subscription agreement dated 23 April 2018. During the year, the US$350 million principal amount of 3.10% notes was matured and settled.

29 Net assets attributable to unitholders

	2018	2017
	RMB'000	RMB'000
At 1 January	**14,321,384**	13,534,400
Issuance of units	**110,780**	111,106
Transfer from the consolidated statement of comprehensive income	**876,720**	1,511,377
Distributions paid during the year	**(854,762)**	(835,499)
At 31 December	**14,454,122**	14,321,384

The movements in the number of existing units are as below:

Units in issue ('000)	2018	2017
At 1 January	**3,014,285**	2,921,780
Units issued during the year (Note a)	**25,165**	26,505
Issuance of deferred units during the year (Note b)	**67,000**	66,000
At 31 December	**3,106,450**	3,014,285

Note a:

During 2018, 25,164,531 units were issued for payment of manager's fee (2017: 26,505,412 units).

Note b:

Pursuant to the terms disclosed in the circular dated 30 June 2012, Yuexiu REIT will, on 31 December of each year, issue to YXP certain number of units starting from 31 December 2016. The number of units to be issued to YXP each year, when aggregated with the Manger Fee Units to be issued within 12 months of the issue, will be limited to the maximum number of units which will not trigger an obligation on the part of YXP to make a mandatory general offer under Rule 26 of the Takeovers Code for all units not already owned or agreed to be acquired by YXP at the relevant time. During 2018, 67,000,000 units were issued and the outstanding deferred units at 31 December 2018 was 535,401,000 units (31 December 2017: 602,401,000 units).

30 Notes to the consolidated statement of cash flows

(a) Reconcilation of profit before income tax and transactions with unitholders to cash generated from operations:

	2018	2017
	RMB'000	RMB'000
Profit before income tax and transactions with unitholders	**1,424,888**	1,714,639
Adjustments for:		
- Depreciation expenses	**80,287**	96,492
- Amortisation of land use right	**49,285**	49,285
- Amortisation of transaction costs for bank borrowings	**24,020**	21,102
- Foreign exchange loss/(gain) on financing activities	**527,549**	(542,552)
- Fair value gains on investment properties	**(905,159)**	(885,792)
- Fair value (gain)/loss on derivative financial instruments	**(56,638)**	258,008
- Fair value gain on support arrangement asset	**(22,736)**	—
- Gains on disposal of a subsidiary	**(302,779)**	—
- Loss on disposal of property, plant and equipment	**2**	—
- Interest income	**(35,517)**	(30,975)
- Interest expenses	**456,471**	345,885
Changes in working capital:		
- Deferred assets	**2,455**	11,741
- Inventories	**(1,210)**	1,210
- Trade receivables	**(6,748)**	8,916
- Amounts due from related parties	**27,442**	(135,006)
- Prepayments, deposits and other receivables	**(26,882)**	(18,311)
- Trade payables	**78**	1,099
- Rental deposits	**13,640**	15,187
- Receipts in advance	**3,847**	(4,128)
- Accruals and other payables	**(83,771)**	79,908
- Amounts due to related parties	**120,109**	(200)
Cash generated from operations	**1,288,633**	986,508

(b) Major non-cash transaction:

During the year ended 31 December 2018, 25,164,531 units (2017: 26,505,412 units) amounting to RMB110,780,000 (2017: RMB111,106,000) were issued for payment of manager's fee.

31 Business combination

On 23 December 2018, the Group, through a wholly-owned subsidiary, entered into a sale and purchase agreement with Guangzhou Construction & Development Holdings (China) Limited ("GCD (China)"), a subsidiary of YXP, to acquire Wealthy Reach Holding Limited and its subsidiaries, Prime Glory Group Holdings Limited, GuangzhouXiujiang Industries Development Co Ltd and Hangzhou Yuehui Real Estate Development Co Ltd (hereafter collectively referred to as "Wealthy Reach Group"). The Wealthy Reach Group holds 100% interest in Hangzhou Property. The transaction was completed on 28 December 2018.

The financial impact to the Group from acquisition date to 31 December 2018 was insignificant.

The following table summarises the consideration paid for Wealthy Reach Group, the fair value of assets acquired and liabilities assumed at the acquisition date and the relating goodwill.

	2018
	RMB'000
Purchase consideration	
At 28 December 2018	
Total cash consideration	**563,421**
Fair value of net assets acquired – shown as below	**(547,588)**
Goodwill	**15,833**

	Fair value
Investment property	601,000
Deferred assets	978
Trade and other receivables and prepayments	9,538
Tax recoverable	4,072
Cash and cash equivalents	26,136
Accruals and other payables	(28,494)
Rental deposits	(5,930)
Receipts in advance	(4,888)
Amount due to a fellow subsidiary	(97)
Tax payable	(26,916)
Deferred income tax liabilities	(27,811)
Net assest acquiried	547,588

	2018
	RMB'000
Cash outflow to acquire business, net of cash acquired:	
Purchase consideration settled in cash	**556,711**
Cash and cash equivalents acquired	**(26,136)**
Cash outflow on acquisition	**530,575**
Consideration payable	**6,710**
Total consideration less cash acquired	**537,285**

Acquisition-related costs of RMB8,799,000 have been charged to operating expenses in the consolidated statement of comprehensive income for the year ended 31 December 2018.

The goodwill from the acquisition was calculated based on the total consideration less the fair value of total identifiable net assets acquired. As a result of the acquisition, the Group expanded its footprint beyond Guangzhou, Shanghaiand Wuhan and diversified its property portfolio. It also benefits through economies of scale. None of the goodwill recognised is expected to be deductible for income tax purposes.

On 14 November 2017, the Group, through a wholly-owned subsidiary, entered into a sale and purchase agreement with Guangzhou Construction & Development Holdings (China) Limited ("GCD (China)"), a subsidiary of YXP, to acquire Fully Cheer Management Limited and its subsidiaries, Sure Win International Holdings Limited and Wuhan Yuexiu Property Development Limited (hereafter collectively referred to as "Fully Cheer Group"). The Fully Cheer Group holds 67% interest in Wuhan Property. The transaction was completed on 21 December 2017.

The following table summarises the consideration paid for Fully Cheer Group, the fair value of assets acquired and liabilities assumed at the acquisition date and the relating goodwill.

	2017
	RMB'000
Purchase consideration	
At 21 December 2017	
– Cash	1,205,705
– Deferred completion payment	803,803
Total consideration	2,009,508
Non-controlling interest	979,480
Fair value of net assets acquired – shown as below	(2,968,122)
Goodwill	20,866

	Fair value
	RMB'000
Property, plant and equipment	536
Deferred assets	16,171
Investment property	3,587,000
Trade and other receivables	13,797
Cash and cash equivalents	242,643
Trade payables	(1,236)
Rental deposits, current portion	(712)
Receipts in advance	(70)
Accruals and other payables	(530,090)
Amount due to a related party	(1,088)
Tax payable	(72,108)
Rental deposits, non-current portion	(16,570)
Deferred tax liabilities (Note 24)	(270,151)
Net assest acquiried	2,968,122
Cash outflow to acquire business, net of cash acquired:	
Purchase consideration settled in cash	1,205,705
Cash and cash equivalents acquired	(242,643)
Cash outflow on acquisition	963,062

32 Connected party transactions and significant related party transactions and balances

As at 31 December 2018, the Group was significantly influenced by Yuexiu Property Company Limited (incorporated in Hong Kong), which owns approximately 36% (2017: 37%) of Yuexiu REIT's units. The remaining 64% (2017: 63%) of the units are widely held.

The table set forth below summarised the names of connected/related companies and nature of relationship with Yuexiu REIT as at 31 December 2018:

Connected/related companies	Relationship with Yuexiu REIT
Yuexiu Property Company Limited ("YXP")[1]	A major unitholder of Yuexiu REIT
Yuexiu REIT Asset Management Limited (the "Manager")[1]	A subsidiary of YXP
Guangzhou Yuexiu Asset Management Company Limited ("GZ AM")[1]	A subsidiary of YXP
Guangzhou Yuexiu Yicheng Business Operation Management Co.,Ltd. (previously known as "Guangzhou Yicheng Property Management Ltd." ("Yicheng"))[1]	A subsidiary of YXP
Guangzhou White Horse Clothings Market Ltd. ("White Horse JV")[1]	A subsidiary of YXP
Guangzhou Baima Business Operation Management Co. Ltd. ("Baima BM")[1]	A subsidiary of YXP
Guangzhou City Construction & Development Xingye Property Agent Ltd. ("Xingye")[1]	A subsidiary of YXP
Guangzhou City Construction and Development Co. Ltd. ("GCCD")[1]	A subsidiary of YXP
Guangzhou Construction & Development Holdings (China) Limited ("GCD (China)")[1]	A subsidiary of YXP
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu")[1]	A major shareholder of YXP
Guangzhou Yuexiu Holdings Limited ("GZYX")[1]	Immediate holding company of Yue Xiu
Guangzhou Yue Xiu Enterprises (Holdings) Ltd. ("YXE")[1]	A subsidiary of GZYX
Guangzhou City Construction and Development Group Co., Ltd.[1]	A subsidiary of YXE
Guangzhou Grandcity Development Ltd.[1]	A subsidiary of YXP
Guangzhou Yue Xiu City Construction Jones Lang LaSalle Property Services Co., Ltd. ("GZ JLL")[1]	A subsidiary of YXP

Connected/related companies	Relationship with Yuexiu REIT
廣州市祥港房地產開發有限公司[1]	A subsidiary of YXP
廣州市宏錦房地產開發有限公司[1]	A subsidiary of YXP
廣州東耀房地產開發有限公司[1]	A subsidiary of YXP
Guangzhou Suiqiao Development Co., Ltd. ("Suiqiao")[1]	A subsidiary of Yue Xiu
Guangzhou Yuexiu Financial Holdings Group Co., Ltd. ("GZYFHG")[1,2]	A subsidiary of GZYX
Guangzhou Yuexiu Financial Holdings Co., Ltd.[1,2]	A subsidiary of GZYFHG
Guangzhou Guang Zheng Hang Seng Research Co., Ltd. ("Guang Zheng")[1,2]	A subsidiary of GZYFHG
Guangzhou Securities Co., Limited[1,2]	A subsidiary of GZYFHG
Guangzhou Futures Co., Ltd[1,2]	A subsidiary of GZYFHG
Guangzhou Yuexiu Industrial Investment Fund Management Co., Ltd.[1,2]	A subsidiary of GZYFHG
Guangzhou Yuexiu Financial Leasing Co., Ltd.[1,2]	A subsidiary of GZYFHG
Guangzhou Yue Tong Expressway Operations and Management Company Limited ("Yue Tong")[1]	A subsidiary of Yue Xiu
Guangzhou Yue Peng Information Ltd. ("Yue Peng")[1]	A subsidiary of Yue Xiu
Yuexiu (China) Transport Infrastructure Investment Company Limited [1]	A subsidiary of Yue Xiu
Chong Hing Bank Limited Guangzhou Tianhe Sub-Branch (previously known as Chong Hing Bank Ltd. Guangzhou Sub-Branch) ("Chong Hing Tianhe")[1]	A subsidiary of Yue Xiu
Chong Hing Bank Limited Guangzhou Sub-Branch ("Chong Hing Guangzhou")[1]	A subsidiary of Yue Xiu
Chong Hing Bank Limited Shanghai Branch ("Chong Hing Shanghai")[1]	A subsidiary of Yue Xiu
Guangzhou Paper Group Ltd. [1]	A subsidiary of YXE
Guang Zhou Titanium Dioxide Factory [1]	A subsidiary of YXE
廣州市城建開發集團名特網絡發展有限公司[1]	A subsidiary of YXP
廣州悦停網絡科技有限公司[1]	A subsidiary of YXP
廣州鵬燁貿易有限公司[1]	A subsidiary of YXP
廣州友誼集團有限公司[1,2]	A subsidiary of GZYFHG
Guangzhou Yuexiu Financial Technology Co., Ltd. [1,2]	A subsidiary of GZYFHG

Connected/related companies	Relationship with Yuexiu REIT
Shanghai Yuexiu Finance Leasing Co., Ltd. [1,2]	A subsidiary of GZYFHG
武漢越秀商業管理有限公司 (previously known as "武漢越秀維港商業管理有限公司")[1]	A subsidiary of YXP
武漢康景實業投資有限公司[1]	A subsidiary of YXP
廣州城建開發設計院有限公司[1]	A subsidiary of YXP
廣州越秀地產工程管理有限公司[1]	A subsidiary of YXP
廣州越秀商業地產投資管理有限公司[1]	A subsidiary of YXP
Yue Xiu Consultants (Shenzhen) Co., Ltd [1]	A subsidiary of Yue Xiu
杭州越秀房地產開發有限公司[1]	A subsidiary of YXP
杭州越榮房地產開發有限公司[1]	A subsidiary of YXP
杭州盛寅房地產開發有限公司[1]	A subsidiary of YXP
杭州豐勝房地產開發有限公司[1]	A subsidiary of YXP
HSBC Institutional Trust Services (Asia) Limited (the "Trustee")	The Trustee of Yuexiu REIT
Savills Valuation and Professional Services Limited (the "Incumbent Valuer")	The current principal valuer of Yuexiu REIT
Vigers Appraisal and Consulting Limited (the "Former Valuer")	The former principal valuer of Yuexiu REIT
The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries (the "HSBC Group")	Associates of the Trustee

[1] These connected companies are also considered as related companies of the Group, transactions and balances carried out with these related companies are disclosed in notes (a) and (b) below.

[2] These connected companies became related companies of the Group from 17 August 2017.

The following transactions and balances were carried out with connected companies and related companies:

(a) Transactions with connected/related companies

	2018	2017
	RMB'000	RMB'000
Asset management fee paid/payable to the Manager	**(147,263)**	(133,836)
Management fee paid/payable to Yicheng	**(16,359)**	(10,851)
Management fee paid/payable to Baima BM	**(11,022)**	(10,964)
Management fee paid/payable to GZAM	**(19,621)**	(18,656)
Rental income received/receivable from Xingye	**6,567**	5,132
Rental income received/receivable from Yicheng	**14,387**	2,409
Rental income received/receivable from GCCD	**11,018**	10,533
Rental income received/receivable from White Horse JV	**1,203**	1,236
Rental income received/receivable from Guangzhou Securities Company Limited	**31,706**	11,580
Rental income received/receivable from Guangzhou Yuexiu Industrial Investment Fund Management Co., Ltd.	**5,184**	1,513
Rental income received/receivable from GZ JLL	**15,323**	14,572
Rental income received/receivable from Guangzhou Yuexiu Financial Leasing Co., Ltd.	**423**	304
Rental income received/receivable from GZAM	**9,812**	9,120
Rental income received/receivable from Guangzhou Yuexiu Financial Holdings Co., Ltd	**9,060**	4,604
Rental income received/receivable from GZYFHG	**3,039**	—
Rental income received/receivable from Yue Tong	**773**	769
Rental income received/receivable from Yue Peng	**789**	786
Rental income received/receivable from Yuexiu (China) Transport Infrastructure Investment Company Limited	**8,718**	8,678
Rental income received/receivable from YXE	**34,028**	32,102
Rental income received/receivable from Chong Hing Tianhe	**2,070**	2,698
Rental income received/receivable from Chong Hing Guangzhou	**417**	305
Rental income received/receivable from Chong Hing Shanghai	**518**	519

	2018	2017
	RMB'000	RMB'000
Rental income received/receivable from Guangzhou Paper Group Ltd.	**271**	271
Rental income received/receivable from Guangzhou Titanium Dioxide Factory	**271**	271
Rental income received/receivable from 廣州市祥港房地產開發有限公司	**—**	2,801
Rental income received/receivable from 廣州市宏錦房地產開發有限公司	**17,619**	17,619
Rental income received/receivable from Guangzhou Futures Company Limited	**2,843**	1,067
Rental income received/receivable from 廣州東耀房地產開發有限公司	**4,331**	3,891
Rental income received/receivable from 廣州市城建開發集團名特網絡發展有限公司	**100**	92
Rental income received/receivable from 廣州悦停網絡科技有限公司	**191**	145
Rental income received/receivable from 廣州鵬燁貿易有限公司	**1,104**	683
Rental income received/receivable from 廣州友誼集團有限公司	**32,328**	12,131
Rental income received/receivable from Guangzhou Yuexiu Financial Technology Co., Ltd.	**1,147**	326
Rental income received/receivable from Shanghai Yuexiu Finance Leasing Co., Ltd	**3,768**	1,414
Rental income received/receivable from 武漢越秀商業管理有限公司	**1,954**	40
Rental income received/receivable from 武漢康景實業投資有限公司	**20,096**	136
Rental income received/receivable from 廣州城建開發設計院有限公司	**390**	5
Rental income received/receivable from 廣州越秀地產工程管理有限公司	**2,319**	7
Rental income received/receivable from Guangzhou Grandcity Development Ltd	**2,113**	2,113
Rental income received/receivable from Guang Zheng	**2,226**	854
Rental income received/receivable from Suiqiao	**595**	592

	2018	2017
	RMB'000	RMB'000
Rental income received/receivable from 廣州越秀商業地產投資管理有限公司	**527**	—
Rental income received/receivable from Yuexiu Consultants (Shenzhen) Limited	**523**	—
Rental income received/receivable from 杭州越秀房地產開發有限公司	**31**	—
Rental income received/receivable from 杭州越榮房地產開發有限公司	**5**	—
Rental income received/receivable from 杭州盛寅房地產開發有限公司	**4**	—
Rental income received/receivable from 杭州豐勝房地產開發有限公司	**9**	—
Interest income received/receivable from GCCD	**21,698**	19,568
Trustee fee paid/payable to Trustee	**(10,710)**	(10,230)
Valuation fee paid/payable to the Former Valuer	**—**	(875)
Valuation fee paid/payable to the Incumbent Valuer	**(1,439)**	(318)
Interest expense paid/payable to GCD (China)	**(18,474)**	(360)
Interest expense paid/payable to the HSBC Group	**(22,158)**	(10,327)
Interest income revceived/receivable from the HSBC Group	**3**	—
Interest expense paid/payable to the Chong Hing Tianhe	**(14,662)**	(16,604)
Interest income revceived/receivable from the Chong Hing Tianhe	**399**	—

Note:

(i) All transactions with connected/related companies were carried out in accordance with the terms of the relevant agreements governing the transactions.

(ii) The Manager's fee is calculated as the aggregate of a base fee of 0.3% per annum of the value of the deposited property; a service fee of 3% per annum of net property income; a transaction fee of 1% of the consideration for the acquisition of any real estate from external party and a transaction fee of 0.5% of the gross sale price of the disposal of any part of deposited property comprising of real estate, as defined in the Trust Deed (Note 8).

(b) Balances with related companies

	2018	2017
	RMB'000	RMB'000
Amount due from GCCD (i)	**238,915**	266,357
Amount due to Yicheng	**(6,456)**	(1,930)
Amount due to Baima BM	**(696)**	(698)
Amount due to the Manager	**(77,670)**	(68,883)
Amount due to GZAM	**(1,676)**	(1,610)
Amount due to GCD (China)	**(6,729)**	(804,283)
Amount due to Guangzhou City Construction and Development Group Co., Ltd.	**(10,000)**	(10,000)
Bank borrowing from Chong Hing Tianhe	**(290,400)**	(361,000)
Rental deposits from related companies (ii)	**(51,897)**	(40,883)

An amount due from GCCD of approximately RMB227 million (2017: RMB254 million) is unsecured, interest bearing at 9% per annum and repayable on settlement of the related construction fee payable. The remaining amount is unsecured, interest free and repayable on demand.

All other balances with related companies are unsecured, interest-free, repayable on demand and a reasonable approximation to their fair value.

All the balances are denominated in RMB, except for the amount due to the Manager which is denominated in HK$.

Note:

(i) Pursuant to the settlement agency agreement entered into between GCCD and Tower Top, GCCD would be responsible for settling the outstanding construction costs related to the construction of Guangzhou IFC. On 7 May 2012, an initial amount of RMB1,293 million was transferred to GCCD by Tower Top. The receivable balance of RMB239 million (2017: RMB266 million) as at year end represents the initial amount transferred to GCCD less the settlement of construction payable. The remaining amount will be paid to GCCD when the receivable balance is less than or equal to RMB100 million.

(ii) Rental deposits from related companies are included as rental deposits in the consolidated balance sheet.

(c) Key management compensation

There was no key management compensation for the year ended 31 December 2018 (2017: nil).

33 Capital commitments

	2018	2017
	RMB'000	RMB'000
Capital commitments in respect of property, plant and equipment and investment properties		
Contracted but not provided for	**21,832**	16,120

34 Future minimum rental receivable

The future minimum rental receivable under non-cancellable operating leases are as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	**1,202,567**	1,161,671
Between one year and five years	**1,918,346**	1,564,887
Over five years	**133,985**	176,550
	3,254,898	2,903,108

35 Net debt reconciliation

	Other assets		Liabilities from financing activities		
	Cash and cash equivalents	Short term deposits	Borrowings - repayable within one year	Borrowings - repayable after one year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 1 January 2017	1,180,828	22,400	(1,503,357)	(10,421,629)	(10,721,758)
Cash flows	123,076	4,302	—	—	127,378
Proceeds from new bank borrowings	—	—	—	(3,777,732)	(3,777,732)
Repayment of bank borrowings	—	—	1,543,257	907,238	2,450,495
Other non-cash movements	—	—	(4,448,374)	4,969,824	521,450
Net debt as at 31 December 2017	1,303,904	26,702	(4,408,474)	(8,322,299)	(11,400,167)
Net debt as at 1 January 2018	1,303,904	26,702	(4,408,474)	(8,322,299)	(11,400,167)
Cash flows	154,851	(4,069)	—	—	150,782
Proceeds from new bank borrowings	—	—	—	(5,276,630)	(5,276,630)
Repayment of bank borrowings	—	—	500,000	4,183,244	4,683,244
Other non-cash movements	—	—	1,631,931	(2,183,500)	(551,569)
Net debt as at 31 December 2018	1,458,755	22,633	(2,276,543)	(11,599,185)	(12,394,340)

By order of the board of directors of

Yuexiu REIT Asset Management Limited

(as manager of Yuexiu Real Estate Investment Trust)

LIN Deliang

Chairman

Hong Kong, 25 February 2019

As at the date of this announcement, the board of directors of the Manager is comprised as follows:

Executive Directors:	*Messrs. LIN Deliang (Chairman) and CHENG Jiuzhou*
Non-executive Directors:	*Messrs. LI Feng and LIANG Danqing*
Independent Non-executive Directors:	*Messrs. CHAN Chi On, Derek, CHAN Chi Fai, Brian, CHEUNG Yuk Tong and CHEN Xiaoou*