



Hailan Holdings Limited
海藍控股有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 2278

Annual Report

2016





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Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Yeung Man (*Chairman*)
Mr. Huang Annan (*resigned on 29 March 2017*)
Ms. Zhou Li (*Chief Executive Officer*)
Ms. Fan Wenyi

NON-EXECUTIVE DIRECTOR

Mr. Wang Pei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Zhong
Mr. E Junyu
Dr. Chen Shimin

COMPANY SECRETARY

Mr. Chiu Ming King

AUTHORIZED REPRESENTATIVES UNDER THE LISTING RULES

Mr. Yeung Man
Mr. Chiu Ming King

AUDIT COMMITTEE

Dr. Chen Shimin (*Chairman*)
Mr. Li Zhong
Mr. E Junyu

REMUNERATION COMMITTEE

Mr. E Junyu (*Chairman*)
Mr. Huang Annan (*resigned on 29 March 2017*)
Ms. Zhou Li
Mr. Li Zhong
Dr. Chen Shimin

NOMINATION COMMITTEE

Mr. Yeung Man (*Chairman*)
Ms. Zhou Li
Mr. Li Zhong
Mr. E Junyu
Dr. Chen Shimin

AUDITOR

KPMG

COMPLIANCE ADVISOR

Haitong International Capital Limited

PRINCIPAL BANKS

Industrial and Commercial Bank of China Limited
Bank of Communications Co., Ltd.

LEGAL ADVISORS

As to Hong Kong law
Loong & Yeung Solicitors
As to PRC law
Beijing Dentons Law Offices, LLP (Guangzhou)

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

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No. 169 Yu Lin Road
Tianya District
Sanya, the Hainan Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
PO Box 1350
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75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

PLACE OF LISTING

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

COMPANY WEBSITE

www.hailanholdings.com

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Directors") (the "Board") of Hailan Holdings Limited (the "Company", together with its subsidiaries, collectively the "Group"), I am pleased to present the audited financial performance for the year ended 31 December 2016.

THE BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2016

In 2016, the growth of macro-economy of China continued to fall, with greater pressure for the real estate industry, for which solving the inventory problem is still an important challenge, particularly for the third-tier or fourth-tier cities, which are the hardest hit for the backlog of inventory. To this end, the central government of the People's Republic of China (the "PRC") has included "resolving real estate inventories and promoting sustainable development of the real estate industry" into the highlights of supply side reform in order to open up supply and demand channels to effectively resolve inventories and promote stable development of the real estate market. As to curb the soaring prices of housing and the emerging of frequent expensive lands in the first half of 2016, a number of cities introduced new policies for regulation of the real estate market after the National Day, under which emphasis was mainly placed on the restriction of purchase and mortgages. As a result, the overall real estate market suffered a significant adjustment, while at the same time market share was increasingly concentrated among excellent companies in the industry. Amidst such business environment and industry development pattern, the Company not only maintained stable performance and continuously enhanced its position in the industry, but also took advantages of the trend to grasp opportunities of the land market in advance, so that the deployment of concentrating Hainan Province was basically completed to establish a solid foundation for future strategic development of the Company.

During the year, the Group recorded a profit attributable to shareholders, but with a decrease of more than 70% over the previous year, which is mainly due to the increase in various expenses as well as the certain lag between delivery and sale of the developed properties in the real estate industry. Since part of the sales amount of the Group was recorded as pre-sales and not yet recorded as sales revenue, and while sales promotion increased in line with the market situation, sales commission also raised up, resulting in an increase in selling expenses. Meanwhile, upon the completion of several areas in the relevant projects of Sanya Phoenix Aqua City South Shore and Haikou Phoenix Aqua City, the Group no longer capitalized the relevant interest expenses, thereby resulting in an increase in the interest expense. The amortization cost of the share incentive scheme of the Group adopted prior to the initial public offering also resulted in an increase in administrative expenses. Therefore, although the overall gross profit during the year basically stayed static, the net profit was inevitably affected.

In 2016, with increasingly deployment in Hainan by giants in real estate industry of China, coupled with the continuous aggravation of haze in the mainland environment, advantages of the Hainan environment were highlighted. Under such bloom of the market, the project of Sanya Phoenix Aqua City of the Group achieved remarkable performance in 2016. The Group developed a target-oriented marketing strategy to strengthen the clearance of inventories and achieved outcomes to a certain extent. As of 31 December 2016, the Group achieved contract sales of approximately RMB1,218.1 million, representing an increase of 122.54% year-on-year, and a contract sales area of approximately 52,630.6 square meters, representing an increase of 99.12% over the same period last year. The average selling price was about RMB23,144 per square meter, representing an increase of about 11.76% year-on-year. (The above data excluded Danzhou phase I).

PROSPECTS FOR 2017

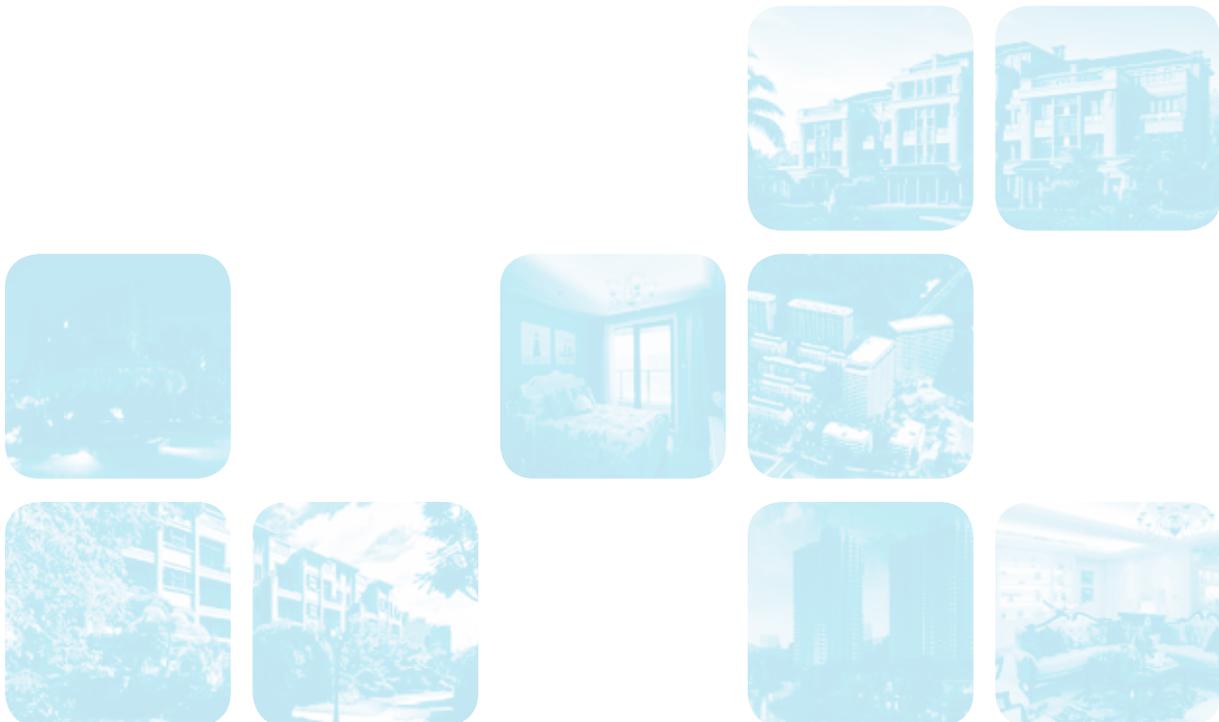
Although the development of the real estate industry of China is gradually slowing down, with feeble economic growth over China and slowdown of market demand, the Group will constantly uphold its prudence in acquisition of new land in 2017, as well as placing high agenda in accelerating the clearance of inventories, strengthening risk control, optimizing the business structure and enhancing operational capacity. The Group will continue to carry forward the development of Sanya Phoenix Aqua City Phase II with accelerated development pace. The project will target at market demand with adoption of latest design, and is expected to obtain construction planning permit at the end of this year, and commence pre-sale in 2018, upon which a new concept of green residential composite integrated with culture, travel, business and residence will be launched. Through the implementation of the above strategy, we are confident to successfully complete the operational objectives of this year to consolidate the competitive advantage and achieve healthy development in the long run.

ACKNOWLEDGEMENT

I, hereby, would like to express my sincere gratitude on behalf of the Board to all our staff for their hard work, and my heartfelt thanks to investors, customers and business partners for their strong support to the Group.

Yeung Man
Chairman

29 March 2017



Management Discussion and Analysis

BUSINESS REVIEW

Overall Performance

As of 31 December 2016, the revenue and gross profit of the Group were approximately RMB1,400.8 million and approximately RMB426.7 million, representing a decrease of approximately 10.0% and 0.3% as compared with the corresponding period of 2015, respectively. Profit as of 31 December 2016 attributable to the equity shareholders of the Company was approximately RMB65.0 million, representing a decrease of approximately 66.1% as compared with the corresponding period of 2015. Basic earnings per share was RMB25.0 cents (the corresponding period of 2015: RMB83.0 cents).

As at 31 December 2016, the net debt-to-equity ratio of the Group was 30.1%.

Performance Highlights	As of 31 December		
	2016	2015	Changes %
Contracted sales (RMB million) ³	1,268.6	710.6	78.52%
Contracted saleable gross floor area ("GFA") (sq.m.) ^{2, 3}	60,710.6	55,048.7	10.29%
Contracted average selling price ("ASP") (RMB/sq.m.) ^{2, 3}	20,895	12,909	61.86%
Revenue (RMB million)	1,400.8	1,557.0	(10.0)%
Among which: sales of properties			
– Revenue from properties delivered (RMB million) ¹	1,396.7	1,556.5	(10.3)%
– GFA of properties delivered (sq.m.)	76,434	77,432	(1.3)%
– ASP of properties delivered (RMB average sales)	18,273	20,101	(9.1)%
Rental income (RMB million) ¹	4.1	0.5	720.0%
Gross profit (RMB million)	426.7	428.2	(0.4)%
Profit for the Period			
– Attributable to shareholders (RMB million)	65.0	191.8	(66.1)%
– Attributable to non-controlling interests (RMB million)	(17.0)	(6.4)	165.6%
Total assets (RMB million)	5,264.8	5,666.9	(7.1)%
Cash and bank balances (including cash, cash equivalents & restricted cash) (RMB million)	465.8	147.1	216.7%
Total bank and other borrowings (RMB million)	973.9	927.3	5.0%
Total equity (RMB million)	1,688.5	1,385.7	21.9%
Key financial ratios			
Gross profit margin ⁴	30.5%	27.5%	
Net debt to equity ratio ⁵	30.1%	56.3%	
Gearing ratio ⁶	57.7%	66.9%	

Notes:

1. It refers to the amount of revenue net of business tax and other sales related taxes.
2. The GFA attributable to parking spaces is not counted.
3. Under the agreement among the shareholders of Danzhou Shuang Lian Property Development Co., Ltd. (“Danzhou Shuang Lian”), one of the shareholders of Danzhou Shuang Lian continued to manage, develop, bear and enjoy the risk and return of phase I of the development project located at Danzhou (“Danzhou phase I”). Acquisition of Danzhou Shuang Lian has been accounted for as business combination, and Danzhou Shuang Lian was fully consolidated into the consolidated financial statements of the Group since the acquisition date. Under the above agreement, the net profit or loss or net asset or liability arising from Danzhou phase I is accounted for as non-controlling interests in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity. For the purpose of discussion, this analysis has included the details of contract sales of Danzhou phase I.
4. Gross profit margin: $\text{Gross profit} \div \text{Revenue} \times 100\%$
5. Net debt to equity ratio: $(\text{Total bank and other borrowings} - \text{Cash and bank balances}) \div \text{Total interests} \times 100\%$
6. Gearing ratio: $\text{Total bank and other borrowings} \div \text{Total interests} \times 100\%$

CONTRACTED SALES

For the year ended 31 December 2016, the contracted sales of the Group amounted to approximately RMB1,268.6 million, representing an increase of approximately 78.52% from approximately RMB710.6 million for the year ended 31 December 2015. Total gross floor area (“GFA”) sold in 2016 was approximately 60,710.6 sq.m., representing an increase of approximately 10.29% from approximately 55,048.7 sq.m. for the year ended 31 December 2015. In terms of geographical location, the contracted sales of the Group in Sanya and Danzhou amounted to RMB1,218.1 million and RMB50.5 million respectively, representing approximately 96% and 4% of total contracted sales of the Group in 2016.

The following table sets out the geographic breakdown of the Group’s contracted sales, contracted GFA and contracted average selling price (“ASP”) by projects for the years ended 31 December 2016 and 2015:

Project	Year ended 31 December 2016			Year ended 31 December 2015		
	Contracted Sales RMB (million) (approx.)	Contracted GFA (sq.m.)	Contracted ASP (RMB) (per sq.m.)	Contracted Sales RMB (million) (approx.)	Contracted GFA (sq.m.)	Contracted ASP (RMB) (per sq.m.)
Sanya Phoenix Aqua City Left Shore	1,192.1	51,290.7	23,243.0	521.8	24,747.7	21,083.0
Sanya Phoenix Aqua City South Shore Phase I	25.9	1,339.4	19,358.0	25.6	1,684.0	15,195.0
Danzhou Phase I	50.5	8,080.0	6,247.0	163.3	28,617.0	5,705.0
Total	1,268.5	60,710.1	48,848.0	710.7	55,048.7	41,983.0

Management Discussion and Analysis

PROPERTY PROJECTS

According to the stage of development, the Group classifies its property projects into three categories: completed properties, properties under development and properties held for future development. As some of its projects comprise multiple-phases development on a rolling basis, a single project may include different phases at various stages of completion, under development or held for future development.

As at 31 December 2016, the Group had completed the construction of a total GFA of 0.3 million sq.m. and had land reserves with a total GFA of 1.64 million sq.m., comprising (a) a total GFA of 0.19 million sq.m. completed but remaining unsold or held for investment, (b) a total GFA of 0.08 million sq.m. under development, and (c) a total planned GFA of 1.37 million sq.m. with site area of 0.8 million sq.m., held for future development.

The Group retains the ownership of certain self-developed commercial properties to generate recurring income. As at 31 December 2016, the Group had investment properties with a total GFA of 12,900 sq.m..

PROPERTIES UNDER DEVELOPMENT AND PROPERTIES HELD FOR FUTURE DEVELOPMENT

The following table sets out a summary of the Group's properties under development, properties held for future development and project phases by projects as at 31 December 2016:

Project	Project Type	Expected Completion Date	Under Development			Held For Future Development		Ownership Interest %
			Site Area (sq.m.)	Under Development (sq.m.)	Saleable/Rental GFA (sq.m.)	Pre-sold GFA (sq.m.)	Planned GFA (sq.m.)	
Phoenix Aqua City South Shore Phase I	Garage and ancillary facilities	2017.12.20	-	11,672.7	-	2,415.2	-	100
Phoenix Aqua City South Shore Phase II	Planning and applying for construction	2021.10.15	365,572.1	-	-	-	617,580.0	100
Phoenix Aqua City Left Shore	Multi-storey apartments	2017.6.30	-	3,448.5	3,448.5	3,448.5	-	-
Phoenix Aqua City Left Shore	Garage and ancillary facilities	2017.11.30	-	65,165.7	-	-	-	97
Haikou Phoenix Aqua City	Planning and applying for construction	2020.2.2	61,761.0	-	-	-	48,173.8	100
Danzhou Phoenix Aqua City	Planning and applying for construction	2023.1.31	399,657.2	-	-	-	704,312.8	60
Total Attributable GFA			826,990.3	80,286.9	3,448.5	5,863.7	1,370,066.6	

INVESTMENT PROPERTIES

The following table sets out a summary of the Group's investment properties as at 31 December 2016:

Project	Project type	Total GFA		Total Rental Income	
		Held for Investment (sq.m.)	Leased GFA (sq.m.)	2016 (RMB million)	2015 (RMB million)
Sanya Phoenix Aqua City Left Shore Zone I Level 4#	Apartment for lease	11,436.5	11,436.5	4.0	0.4
Sanya Phoenix Aqua City Left Shore Zone II & III Garage	Garage and ancillary	1,465.9	1,465.9	0.1	0.1
Total		12,902.4	12,902.4	4.1	0.5

COMPLETED PROPERTIES

The following table sets out a summary of the Group's completed projects and project phases by projects as at 31 December 2016:

Project	Project Type	Site Area (sq.m.)	GFA Completed (sq.m.)	Saleable/ Rental GFA (sq.m.)	Saleable GFA Not Yet Sold (sq.m.)	Rental GFA	Ownership Interest %
						Held For Property Investment (sq.m.)	
Phoenix Aqua City South Shore Phase I	Low-rise apartments	189,921.7	23,853.0	14,661.6	911.9	-	100
	Multi-storey apartments		89,756.2	79,658.6	1,411.7	-	100
	Medium-rise		44,640.3	41,351.5	1,115.1	-	100
	High-rise		119,997.9	107,279.5	415.9	-	100
Phoenix Aqua City Left Shore	Multi-storey apartments	139,797.7	95,681.8	77,138.7	49,490.9	-	97
	Medium-rise		113,974.4	83,756.3	22,684.6	11,436.5	97
Haikou Phoenix Aqua City	Medium-rise	25,490.2	45,790.3	30,157.0	30,157.0	-	100
Danzhou Phase I	Residential	38,465.9	129,628.5	106,006.6	66,427.9	-	-
Total		393,675.5	663,322.4	540,009.8	172,615.0	11,436.5	-

LAND RESERVES

No new project was acquired by the Group for the year ended 31 December 2016.

As the year ended 31 December 2016, the total planned GFA for future development of the land bank of the Group amounted to approximately 1.4 million sq.m.. Among the total land bank of the Group, 45.1% is located in Sanya City, 51.4% is located in Danzhou City and 3.5% is located in Haikou City of the Hainan province of the PRC.

FINANCIAL REVIEW

REVENUE

Revenue of the Group mainly consists of revenue derived from (i) property development; and (ii) property investment. For the year ended 31 December 2016, turnover of the Group amounted to approximately RMB1,400.8 million, representing a decrease of approximately 10.0% from approximately RMB1,557.0 million in 2015, mainly due to a decrease of revenue from property development projects.

Property Development

The Group's revenue from property development included the sale of residential properties. The Group recognised revenue from the sale of properties when the significant risks and rewards of ownership have been transferred to the purchaser, i.e. when the relevant property has been completed, all the consideration has been received and the possession of the property has been delivered to the purchaser. For the year ended 31 December 2016, revenue derived from property development was approximately RMB1,396.7 million, representing a decrease of approximately 10.3% from approximately RMB1,556.5 million in 2015. The decrease in revenue from sales of properties was primarily attributable to the decrease in the total GFA for which the revenue was recognized and the decrease in average selling prices. In 2016, Zone C of Sanya Phoenix Aqua City South Shore Phase I and Danzhou Phase I entered the late stage of sales of remaining apartments, as such, the recognized GFA of properties sold significantly decreased as compared with that of 2015. Notwithstanding that the total GFA for which the revenue was recognized of Sanya Phoenix Aqua City Left Shore increased, but the overall GFA delivered still decreased. Meanwhile, among the properties for which the revenue was recognized in 2016, the properties of Zone III of Sanya Phoenix Aqua City Left Shore had a comparatively low unit price due to its lower market positioning.

Property Investment

The Group's property investment mainly consisted of leasing of residential properties and car parks. Revenue generated from property investment increased by approximately 720.0% to approximately RMB4.1 million in 2016 from approximately RMB0.5 million in 2015. The increase was primarily due to the first full year effect of the leasing of residential properties, as well as the increased number of car parks contracted for leasing in 2016.

Gross Profit and Margin

Gross profit decreased by approximately 0.3% to approximately RMB426.7 million in 2016 from approximately RMB428.2 million in 2015, while the Group's gross profit margin was 30.5% in 2016 as compared to a gross profit margin of 27.5% in 2015. The increase in gross profit margin was mainly attributable to the change of product mix. The increase in gross profit margin was primarily attributable to the delivery of higher portion of medium rise apartments of Sanya Phoenix Aqua City Left Shore in 2016, which were of lower unit cost and higher gross profit margin, while in 2015 the Group delivered many low-rise apartments which were of lower gross profit margin due to higher land cost associated. Despite the higher gross profit margin, the gross profit in 2016 decreased slightly due to decrease in GFA delivered.

Other Income, Gains and Losses

The Group had other net gain of approximately RMB0.1 million and RMB3.1 million in 2016 and 2015 respectively. The decrease of other net gain by approximately 96.8% was because the Group had recognized an one-off government grant income of RMB2.6 million in 2015.

Change in Fair Value of Investment Properties

The Group's change in fair value of investment properties increased to approximately RMB5.9 million in 2016 from approximately RMB4.8 million in 2015. The increase by approximately 22.9% was mainly attributable to the increased value of investment properties and the addition of new properties contracted for leasing.

Selling and Distribution Expenses

The selling and distribution expenses increased to approximately RMB67.8 million in 2016 from approximately RMB36.6 million in 2015. The increase by approximately 85.2% was mainly attributable to the increased percentage of sales commission with the introduction of a new sales agency, as well as the increased amount of sales proceeds in 2016.

Administrative Expenses

The Group's administrative expenses increased by approximately 30.2% to approximately RMB74.6 million in 2016 from approximately RMB57.3 million in 2015 due to the increase of labor costs and from the amortisation cost of the Pre-IPO Share Incentive Scheme.

Other Expenses

The Group's other expenses increased to approximately RMB7.0 million in 2016 from approximately RMB5.4 million in 2015. The increase of approximately 29.6% was mainly due to an one-off transaction tax paid for interest income from intra-group loan of RMB1.7 million in 2016.

Management Discussion and Analysis

Net Finance Costs

The Group's net finance costs increased to approximately RMB52.0 million in 2016 from approximately RMB0.9 million in 2015. The increase of approximately 5,677.8% was mainly due to the increase in interest expenses as the Group no longer capitalizes the relevant interest expenses upon completion of certain product types of the relevant projects, and the decrease in finance income due to an one-off interest income of RMB12.4 million in 2015.

Income Tax Expense

The Group's income tax expense increased to approximately RMB183.4 million in 2016 from approximately RMB158.0 million in 2015. The increase of approximately 16.1% was mainly due to the combined effect of (i) the increase of land appreciation tax ("LAT") from RMB71.6 million in 2015 to RMB132.4 million in 2016 due to the high land appreciation as a result of high profit margin of the product mix in 2016, and the decreased off-setting effect of the reversal of LAT provision of Sanya Feng Huang Xin Cheng in 2016, and (ii) the decrease of the PRC corporate income tax from RMB87.0 million in 2015 to RMB51.0 million in 2016 which was mainly due to the decrease of profit before taxation, after deducting LAT expenses, from RMB272.3 million in 2015 to RMB99.1 million in 2016.

Profit and total comprehensive income attributable to equity shareholders of the Company

As a result of the foregoing reasons, profit and total comprehensive income attributable to equity shareholders of the Company decreased by approximately 61.6% to approximately RMB73.6 million in 2016 from approximately RMB191.8 million in 2015.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash Position

As at 31 December 2016, the Group had an aggregate of pledged/restricted bank deposits and bank balances and cash of approximately RMB465.8 million (2015: approximately RMB147.1 million), representing an increase of approximately 216.7% as compared to that as at 31 December 2015. As at 31 December 2016, bank deposits of RMB14.6 million (2015: RMB4.1 million) were pledged to honor construction contracts or to secure bank borrowings raised by the Group.

Borrowings and Charges on the Group's Assets

As at 31 December 2016, the Group had bank and other borrowings of approximately RMB973.9 million (2015: approximately RMB927.3 million). Amongst the borrowings, approximately RMB272.5 million (2015: approximately RMB485.0 million) will be repayable within one year and approximately RMB701.4 million (2015: approximately RMB442.3 million) will be repayable after one year.

As at 31 December 2016, bank loans of approximately RMB408.9 million (2015: approximately RMB927.3 million) were secured by properties under development, completed properties held for sale, investment properties and restricted cash. As at 31 December 2016, the assets pledged to secure certain borrowings granted to the Group amounted to RMB1,394.0 million (2015: approximately RMB2,732.0 million).

Net Gearing Ratio

As at 31 December 2016, the gearing ratio (calculated by total debt divided by total equity; total debt includes interest-bearing bank and other borrowings) was 57.7%(31 December 2015: 66.9%).

Foreign Currency Risk

The Group mainly operates in the PRC. Except for the Company whose functional currency is Hong Kong Dollars, the Group's functional currency and the currency in which the Group denominates and settles substantially all of its transactions are Renminbi. Any depreciation of the Renminbi would affect the value of any dividends that the Group pays to the shareholders of the Company (the "Shareholders") outside the PRC. The Group currently does not engage in any hedging activities designed or intended to manage foreign exchange rate risk.

Commitments

As at 31 December 2016, the Group had authorized as budget or committed payment for the construction and land development expenditure amounting to approximately RMB7,159.6 million (2015: approximately RMB639.5 million).

Contingent Liabilities

As at 31 December 2016, the Group had provided guarantees amounting to approximately RMB247.7 million (2015: approximately RMB65.1 million) in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with accrued interests thereon and any penalty owed by the defaulted purchasers to banks. The Group is then entitled to take over the legal title of the related properties. The guarantee will be released upon the earlier of the purchaser obtaining the relevant building ownership certificate and completion of the relevant mortgage registration and the full settlement of mortgage loans by the purchaser. In the opinion of the Directors, no provision for the guarantee contracts was recognised in the financial statements for the year ended 31 December 2016 as it is not probable that the Group will sustain a loss under these guarantees.

Management Discussion and Analysis

Material Acquisitions and Disposals

For the year ended 31 December 2016, the Group had undergone material acquisitions and disposals of subsidiaries and associates for the purpose of reorganisation of the Group in preparation for the Listing. Please refer to the Company's prospectus dated 30 June 2016 (the "Prospectus") for further details. Save as disclosed in the Prospectus, the Group did not have any other material acquisitions and disposals during the year ended 31 December 2016.

Future Plans for Material Investments

The Company will continue to invest in property development projects and acquire suitable land parcels in Hainan province, if it thinks fit. It is expected that internal resources and bank borrowings will be sufficient to meet the necessary funding requirements. Save as disclosed in the Prospectus and in this announcement, the Group did not have any future plans for material investments as of the date of this announcement.

Employees, Remuneration Policies and Share Option Scheme

As at 31 December 2016, the Group had approximately 51 employees. For the year ended 31 December 2016, the Group incurred employee costs of approximately RMB24.0 million of which approximately RMB22.3 million was charged to the profit and loss accounts and approximately RMB1.7 million was capitalised in properties under development. Remuneration for the employees generally includes salary and performance-based bonuses. As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans of the municipal and provincial governments, including housing provident funds, pension, medical, maternity occupational injury and unemployment benefit plans. Remuneration also includes share-based payment expenses, which incurred approximately RMB6.8 million for the year ended 31 December 2016 (2015: nil) in relation to the Pre-IPO Share Incentive Scheme (as stated in the Prospectus).

Sales and Marketing

One of the success factors of the Group has been our good relationship with our customers, the foundation of which has been built on mutual trust, high and consistent standard and quality of work, punctual deliverables, upheld spirit of our staff, and effective communication with customers, etc. Our internal sales management division approves the overall sales and marketing planning and monitors such agencies' sales and marketing activities to ensure that our marketing strategies and plans are implemented and our products are well-positioned and presented. The Group will continue to leverage its strong network in the industry and reinforce marketing efforts to secure more projects and maximise investors' return.

FINAL DIVIDEND

The Board did not recommend payment of final dividend to shareholders of the Company for the year ended 31 December 2016 (2015: RMB29,667,000).

USE OF PROCEEDS

The Company's shares were listed on the Stock Exchange on 15 July 2016 (the "Listing Date"). The net proceeds from the listing of the shares of the Company in connection with the listing (the "Listing") was approximately HK\$249 million. During the period from the Listing Date to 31 December 2016, the net proceeds from the Listing were applied as follows:

	Percentage of proceeds as stated in the Prospectus	Use of proceeds adjusted according to actual gross proceeds less estimated listing expense (HK\$ million)	Actual use of proceeds as stated in the Prospectus during the Review Period (HK\$ million)
Finance the development of Sanya Phoenix Aqua City South Shore Phase II	90%	224.1	-
Working capital and other general corporate use	10%	24.9	-

The proceeds has not yet been applied to the development of Sanya Phoenix Aqua City South Shore Phase II as the project is at the preliminary stage of applying for the construction planning permit. It is expected that the Phoenix Aqua City South Shore Phase II will start construction officially in late 2017. The business objectives, future plans and planned use of proceeds as stated in the Company's Prospectus dated 30 June 2016 were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yeung Man (楊敏), aged 55, is the founder and strategic leader of the Group, and the executive Director and Chairman of the Company. He was appointed as a Director on 31 August 2015 and was redesignated as an executive Director on 12 April 2016. Mr. Yeung is the chairman of the nomination committee of the Company. Mr. Yeung Man is also a director of Peak Well Investment Development Limited (頂豐投資發展有限公司), Zhong Jia (Hong Kong) Investment Construction Company Limited (中嘉(香港)投資建設有限公司), Time Being Group Limited (正時集團有限公司) and Zhong Ze (Hong Kong) Investment Limited (中澤(香港)投資有限公司), all of which are subsidiaries of the Company.

Mr. Yeung is responsible for the overall strategic planning of the Group. He graduated from the Correspondence College of the Central School of the Communist Party of China (中國中共中央黨校), majoring in economics and management in December 1998. Mr. Yeung has approximately 21 years of experience in construction and real property management. Mr. Yeung was named as the “2007 Annual China Real Estate Most Influential Person” (2007年度中國房地產最具影響力人物), “1998-2007 China Real Estate 10 Year’s Revolution Top 10 Contributive Person” (1998-2007中國房地產改革十年十大貢獻人物) and “2007 Fortune China Real Estate Honesty and Creditability Elitist Enterpriser” (2007年財富中國房地產誠信經營傑出企業家). Mr. Yeung was the chairman of the board of directors of Chung Wai (Nanjing) Real Estate Development Co. Ltd. (中惠(南京)房地產開發有限公司), a company established in the PRC and engaged in the development and construction of commercial properties and ancillary services and the sales of self-developed commercial properties, from July 1995 to November 2004.

Mr. Yeung and Ms. Zhou Li, one of the executive Directors, have declared that they are cohabiting as spouse and have a daughter.

Ms. Zhou Li (周莉), aged 35, was appointed as an executive Director on 12 April 2016 and a member of the remuneration committee and nomination committee of the Company on 22 June 2016. Ms. Zhou is also a director of Lian Yun Gang Long Ji Properties Limited (連雲港隆基置業有限公司) (“Lian Yun Gang Long Ji Properties”) and the general manager of Sanya Hui Xin Trading Company Limited (三亞惠新貿易有限公司) (“Sanya Hui Xin Trading”), and the deputy general manager of Sanya Fenghuang Xincheng Industry Company Limited (三亞鳳凰新城實業有限公司) (“Sanya Fenghuang Xincheng”), Sanya Fenghuang Shuiyun Property Development Company Limited (三亞鳳凰水韻房地產開發有限公司) (“Sanya Fenghuang Shuiyun”) and Hainan Nanhai Xiang Long Properties Development Limited (海南南海翔龍房地產開發有限公司) (“Hainan Nanhai Xiang Long”), all of which are subsidiaries of the Company.

Ms. Zhou attended a long-distance course of Masters of Business Administration at the Sino-Dutch International Business Center of Nanjing University from December 2005 to December 2008, and obtained a Master of Business Administration degree from Maastricht School of Management in December 2008. Prior to joining the Group, Ms. Zhou was appointed as deputy manager in Chung Wai (Jiangsu) Decoration Park Project Company Limited (中惠(江蘇)裝飾園林工程有限公司) from March 2000 to September 2004. Ms. Zhou was the chairperson of Zhonghui Engineering Group (中惠工程產業集團) between October 2004 to July 2007.

Ms. Zhou and Mr. Yeung Man, the Chairman and one of our executive Directors, declared that they are cohabiting as spouse and have a daughter.

Ms. Fan Wenyi (范文燧), aged 40, was appointed as an executive Director on 12 April 2016. Ms. Fan has been the head of operation (運營總監) and deputy general manager of the Group since 3 September 2007. Ms. Fan is the chairman of Sanya Fenghuang Xincheng, Sanya Fenghuang Shuiyun, Sanya Zhong Ze Kai Industry Company Limited (三亞中澤凱實業有限公司) and Danzhou Shuang Lian Properties Development Company Limited (儋州雙聯房地產開發有限公司) and the deputy general manager of Lian Yun Gang Tai Sheng City Development Limited (連雲港泰盛城市發展有限公司) (“Lian Yun Gang Tai Sheng Development”), Lian Yun Gang Long Ji Properties, Hainan Nanhai Xiang Long and Sanya Hui Xin Trading, all of which are subsidiaries of the Company. Ms. Fan graduated from Shanxi External Services Training Academy (陝西對外服務培訓學院) majoring in foreign oriented secretary (涉外文秘) in the PRC in 1996. Ms. Fan was accredited as an intermediate accountant by MOF of the PRC (中國財政部) in May 2005. Prior to joining the Group, Ms. Fan worked as an assistant to general manager of Hainan Xinjia Tourism Co., Ltd. (海南新佳旅業有限公司) from November 2005 to February 2007.

NON-EXECUTIVE DIRECTOR

Mr. Wang Pei (王培), aged 43, was appointed as a non-executive Director on 12 April 2016. Mr. Wang is responsible for providing opinion to the Board.

Mr. Wang obtained his bachelor degree in Economics majoring in International Economics (國際經濟) from Peking University in the PRC in July 1997. Prior to joining the Group, Mr. Wang served as an executive supervisor (行政主管) of the general manager office of Nanjing Vanke Property Co., Limited (from September 2001 to May 2002), the human resources officer (人事專員) of the human resources department (from May 2002 to August 2003) and head of the general office (主任) of Nanjing Vanke (南京萬科總經理辦公室) (from August 2003 to May 2008). Mr. Wang worked at Verdure International Holding Company Limited (翠屏國際控股有限公司) consecutively as head (總監) of human resources administrative centre (人事行政中心) (from May 2008 to December 2009), general manager (總經理) of Nanjing Zhu Cheng Properties Development Company Limited (南京築城置業發展有限公司) (from January 2010 to October 2012), deputy general manager (副總經理) of Nanjing District Company (南京區域公司) (from October 2012 to October 2013), deputy general manager (副總經理) of Ning Nan City Company (寧南城市公司) (from June 2014 to April 2015) and has been the deputy general manager of the Shanghai office of Zhonghui Financial Holding (Shenzhen) Company Limited (中惠金融控股(深圳)有限公司) since May 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Zhong (李忠), aged 47, was appointed as an independent non-executive Director, a member of the audit committee, remuneration committee and nomination committee of the Company on 22 June 2016. He graduated from the faculty of architecture of Tongji University in the PRC (同濟大學) in July 1994, majoring in architecture. Since November 2013, he has been the deputy chairman (副主任) of the board of experts of the Beijing City Development Research Institute (北京城市發展研究院專家委員會). Mr. Li has been a member of the advisory board of the Architectural Planning Committee of the Architect division of the Architectural Society of China (中國建築學會建築師分會建築策劃專委會顧問委員) since May 2015.

During 1994 to 1996, Mr. Li started up his personal workshop. Mr. Li worked in Henderson (China) Investment Company Limited (恆基(中國)投資有限公司) as a deputy manager during 1996 to 1997, and worked in Vigers (China) Limited (威格斯(中國)有限公司) (a subsidiary company of Lafe Corporation Limited, a company listed on Singapore Exchange Limited, Stock Code: L05) as a general manager during 1998 to 2002. Mr. Li served as the managing director of Regal Lloyds International Real Estate Consultants Beijing Co., Ltd. (華高萊斯國際地產顧問(北京)有限公司) since June 2003. He has also been appointed as an independent director of Kun Ding Investment Management Group Co., Ltd (坤鼎投資管理集團股份有限公司) (a company listed on the National Equities Exchange and Quotations, Stock Code: 833913) since May 2015.

Directors and Senior Management

Mr. E Junyu (鄂俊宇), aged 46, was appointed as an independent non-executive Director, the chairman of the remuneration committee and a member of the audit committee, and nomination committee of the Company on 22 June 2016. Mr. E obtained an Executive Master's degree of Business Administration from Cheung Kong Graduate School of Business in the PRC in August 2006. Mr. E was awarded "The Young Leader of Chinese Property Market" (中國房地產青年領袖) in August 2005 and "The Meritorious People of Chinese Property Market in 2013-2014" (2013-2014年度中國房地產功勳人物) in January 2014.

Mr. E worked in Hong Kong Lian Hua Investment Group (香港聯華投資集團) as the Beijing representative (北京代表) during January 1991 to March 1994. He then worked as assistant to general manager (總經理助理) in Everbright Real Estate Development Limited (中國光大房地產開發公司) during March 1994 to June 2002. From July 2002 to March 2009, he worked for Yeland Group Co., Ltd (億城集團股份有限公司) (a company listed on the Shenzhen Stock Exchange, Stock Code: SZ000616) and took up various positions including deputy manager, director and president. Mr. E has been appointed as a director of Beijing Hua Fu Sheng Shi Property Investment & Management Company Limited (北京華府盛世置業投資管理有限公司) since June 2009.

Dr. Chen Shimin (陳世敏), aged 58, was appointed as our independent non-executive Director, the chairman of the audit committee and a member of the remuneration committee and nomination committee of the Company on 22 June 2016. Dr. Chen obtained a bachelor's degree and master's degree in economics from Shanghai University of Finance and Economics (上海財經大學) in the PRC in January 1983 and October 1985 respectively, before obtaining a doctorate degree in philosophy from University of Georgia in the United States of America in August 1992. He was recognised as a Certified Management Accountant by The Institute of Certified Management Accountants of the Institute of Management Accountants, United States of America, on 9 January 2008.

Dr. Chen is currently serving as a Professor of Accounting, the Associate Dean and Director of the MBA Programme in China Europe International Business School (中歐國際工商學院). Dr. Chen has also been appointed as a committee member of the Shanghai MBA Programme Postgraduate Education Steering Committee (上海工商管理專業學位研究生教育指導委員會委員) by Shanghai Graduate Institute of Education (上海市研究生教育學會) and Shanghai Academic Degrees Committee Office (上海市學位委員會辦公室) on 26 June 2014, and Honorary Chairman of Pudong, Shanghai branch of the Institute of Management Accountants (美國管理會計師協會上海浦東分會) in April 2015.

Dr. Chen was appointed as an independent director of Shanghai Oriental Pearl (Group) Co., Ltd. (上海東方明珠(集團)股份有限公司) (a deregistered company formerly listed on the Shanghai Stock Exchange, Stock Code: 600832) in June 2008, and has been appointed as an independent director of Shanghai Oriental Pearl Media Co., Ltd. (上海東方明珠新媒體股份有限公司) (a company listed on the Shanghai Stock Exchange, Stock Code: 600637) since June 2015, Huafa Industrial Co., Ltd. Zhuhai (珠海華發實業股份有限公司) (a company listed on the Shanghai Stock Exchange, Stock Code: 600325) since July 2013, Zhejiang Wolwo Bio-Pharmaceutical Co., Ltd (浙江我武生物科技股份有限公司) (a company listed on Shenzhen Stock Exchange, Stock Code: 300357) since 28 January 2011, and Hangzhou Shunwang Technology Co., Ltd (杭州順網科技股份有限公司) (a company listed on the Shenzhen Stock Exchange, Stock Code: 300113) from November 2009 to March 2016; an independent non-executive director of China High Speed Transmission Equipment Group Co., Ltd. (中國高速傳動設備集團有限公司) (a company listed on the Stock Exchange, Stock Code: 658) since 8 June 2007 and Sun.King Power Electronics Group Limited (賽晶電力電子集團有限公司) (a company listed on the Stock Exchange, Stock Code: 580) since 19 August 2010.

SENIOR MANAGEMENT

Ms. Wu Lijuan (吳莉娟), aged 41, has been the head of financial management division (財務管理部總監) of the Group since January 2013. Ms. Wu is also the chief financial officer (財務總監) of Lian Yun Gang Tai Sheng Development, Lian Yun Gang Long Ji Properties, Sanya Fenghuang Xincheng, Sanya Fenghuang Shuiyun, Hainan Nanhai Xiang Long and Sanya Hui Xin Trading and the general manager (總經理) of Nanjing Jia Pei Investment Management Consultant Company Limited (南京嘉沛投資管理諮詢有限公司), all of which are subsidiaries of the Company. Ms. Wu graduated from Nanjing Political College, the PRC (中國南京政治學院) and obtained bachelor's degree in economics, majoring in economics and administrative management (經濟與行政管理) in June 2013. Ms. Wu was accredited as a senior accountant by Human Resources and Social Security Department of Jiangsu Province (江蘇省人力資源和社會保障廳) in October 2011. Ms. Wu worked as financial accountant in Nanjing Da Di Construction Group (南京大地建設集團) from August 1994 to June 2001. From July 2002 to October 2004, Ms. Wu worked as chief financial officer in Nanjing Huaning State Construction Company Limited (南京華寧市政工程有限公司). Ms Wu worked in Verdure International Holding Company Limited consecutively as a finance manager, financial controller and general finance manager since 2005 until December 2012.

COMPANY SECRETARY

Mr. Chiu Ming King was appointed as the company secretary of the Company (the "Company Secretary") on 30 September 2016. Mr. Chiu currently serves as the executive director of Corporate Services of Vistra Corporate Services (HK) Limited. He has over 10 years of experience in the company secretarial field and provides professional services to various listed companies.

Mr Chiu has been an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries ("HKICS") since 2003 and became a fellow member of the HKICS since September 2015. He has been a member of the Membership Committee and Professional Services Panel of HKICS.

Mr Chiu obtained a bachelor of arts from University of Toronto in Canada in June 1999 and received a master of arts in professional accounting and information systems from City University of Hong Kong in November 2003.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board is committed to achieving high corporate governance standards.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as the basis of the Company’s corporate governance practices. The CG Code has been applicable to the Company with effect from the Listing Date. The Company has complied with the code provisions as set out in the CG Code throughout the period from the Listing Date to 31 December 2016. The Directors will use their best endeavours to procure the Company to continue to comply with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors’ dealings in the securities of the Company. Having made specific enquiries with all Directors, each of the Directors has confirmed that he/she has complied with the required standards in the Model Code throughout the period from the Listing Date to 31 December 2016.

The Company has also established written guidelines on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the above written guidelines by the relevant employees was noted by the Company.

In case when the Company is aware of any restricted period for dealings in the Company’s securities, the Company will notify its Directors and relevant employees in advance.

BOARD OF DIRECTORS

The Board comprises the following Directors:

EXECUTIVE DIRECTORS:

Yeung Man (*Chairman*)

Zhou Li (*Chief Executive Officer**)

Huang Annan (*former Chief Executive Officer*) (*resigned on 29 March 2017*)

Fan Wenyi

NON-EXECUTIVE DIRECTOR:

Wang Pei

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Li Zhong

E Junyu

Chen Shimin

* Ms. Zhou Li has been appointed as the Chief Executive Officer with effect from 29 March 2017.

The biographical information of the Directors are set out in the section headed “Directors and Senior Management” on pages 16 to 19 of this annual report.

Mr. Yeung Man and Ms. Zhou Li, our executive Directors, are cohabiting as spouse with each other. Save as disclosed, the other Board members have no financial, business, family or other material or relevant relationships with each other.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should not be performed by the same individual. To ensure a balance of power and authority, the roles of chairman and the chief executive officer are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Yeung Man assumes the role of the chairman while Ms. Zhou Li serves as the chief executive officer of the Company respectively. The Chairman provides leadership for the Board and overall strategic formulation for the Group. The chief executive officer has overall chief executive responsibility for the Group’s business development and day-to-day management generally. The division of responsibilities between the chairman and the chief executive officer is clearly established and set out in writing.

With the support of executive Directors and the company secretary, the chairman seeks to ensure that all Directors are properly briefed on issues arising at the Board meetings and receive adequate and reliable information in a timely manner.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board at all times after the Listing Date met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Each of the three independent non-executive Directors has confirmed his independence and the Company considers each of them to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The chairman of the Board holds meetings with non-executive directors (including independent non-executive directors) without executive directors present at least once a year.

NON-EXECUTIVE DIRECTORS AND DIRECTORS’ RE-ELECTION

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors is appointed for a specific term of three years and is subject to retirement by rotation at least once every three years. The Articles of Association of the Company require that at each annual general meeting one-third of the Directors for the time being (or, if the number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors shall have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances for discharging their duties to the Company at the Company's expense. The board and each director shall have a separate and independent access to the Company's senior management.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Company has arranged appropriate insurance cover in respect of legal action against its directors.

DELEGATION BY THE BOARD

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management. The delegated functions and responsibilities are periodically reviewed by the Board. Approvals has to be obtained from the Board prior to any significant transactions entered into by the management.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors shall keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

In accordance with A.6.5 of the CG Code with regards to continuous professional development, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2016, each individual Director has attended training courses or workshops or reading materials relevant to his/her professional and/or duties as Director. The Company has maintained a training record in order to assist the Directors to record the training that they have undertaken. A summary is as follows:

Name of Directors	Reading materials regarding regulatory updates and corporate governance matters	Attending in house training relating to the ongoing compliance obligations, governance and other related topics
Executive Directors		
Mr. Yeung Man (<i>Chairman</i>)	✓	✓
Mr. Huang Annan (<i>resigned on 29 March 2017</i>)	✓	✓
Ms. Zhou Li	✓	✓
Ms. Fan Wenyi	✓	✓
Non-executive Director		
Mr. Wang Pei	✓	✓
Independent Non-executive Directors		
Mr. Li Zhong	✓	✓
Mr. E Junyu	✓	✓
Dr. Chen Shimin	✓	✓

BOARD MEETING

The Board intends to hold Board meetings regularly at least four times a year at approximately quarterly intervals. Notices of not less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for regular Board meetings.

For other Board meetings, reasonable notice will generally be given. All Board committee meetings require a notice of at least seven days to be given, unless such notification is waived by all members of the respective Board committees. The agenda and accompanying Board papers are dispatched to the Directors or Board committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or Board committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting.

Minutes of the Board meetings and Board committee meetings are/will be recorded in sufficient detail to include the matters considered by the Board and the Board committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

ATTENDANCE RECORDS

The following is the attendance record of the Directors at Board and committee meetings, and general meetings held during the period from the Listing Date to 31 December 2016:

Name of Director	Attendance/Number of Meetings in 2016				
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Yeung Man	2/2	N/A	1/1	N/A	N/A
Huang Annan*	1/2	N/A	N/A	1/2	N/A
Zhou Li	2/2	N/A	1/1	2/2	N/A
Fan Wenyi	1/2	N/A	N/A	N/A	N/A
Wang Pei	2/2	N/A	N/A	N/A	N/A
Li Zhong	2/2	1/1	1/1	2/2	N/A
E Junyu	2/2	1/1	1/1	2/2	N/A
Chen Shimin	2/2	1/1	1/1	2/2	N/A

* Mr. Huang Annan resigned as an executive director with effect from 29 March 2017.

None of the meetings set out above was attended by any alternate Director.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under the section "Corporate Information" on page 2 of this annual report.

AUDIT COMMITTEE

On 22 June 2016, the Company established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 and paragraph D.3 of the CG Code. The Audit Committee currently consists of three members, comprising Chen Shimin, Li Zhong and E Junyu. All members of the Audit Committee are Independent Non-Executive Directors. The chairman of the Audit Committee is Chen Shimin, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditor, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The Audit Committee will hold at least two meetings a year.

The Board has also delegated the corporate governance duties to the Audit Committee for performing the functions set out in the code provision D.3.1 of the CG Code.

During the period from the Listing Date to 31 December 2016, the Audit Committee held one meeting to review the interim financial results of the Group for the six months ended 30 June 2016. Subsequent to 31 December 2016 and up to the date of this annual report, a meeting of the Audit Committee was held to review the Group's financial result for the year ended 31 December 2016 for submission to the Board for approval, review the internal control and risk management systems of the Group, oversee the audit process and make recommendation on the re-appointment of the external auditors.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 22 June 2016 with written terms of reference in compliance with paragraph B.1 of the CG Code. The Remuneration Committee currently consists of four members, comprising E Junyu, Zhou Li, Li Zhong and Chen Shimin. Besides Zhou Li is executive Director, all other members are Independent Non-Executive Directors. The chairman of the Remuneration Committee is E Junyu. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her close associates will participate in deciding his/her own remuneration.

The Remuneration Committee will meet at least once a year to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters.

During the period from the Listing Date to 31 December 2016, the Remuneration Committee held 2 meetings to review and recommendation to the Board regarding the remuneration of the Directors and senior management.

NOMINATION COMMITTEE

On 22 June 2016, the Company established the Nomination Committee with written terms of reference in compliance with paragraph A.5 of the CG Code. The Nomination Committee currently consists of five members, comprising Yeung Man, Zhou Li, Li Zhong, E Junyu and Chen Shimin. Besides Yeung Man and Zhou Li are executive Directors, all other members are Independent Non-Executive Directors. The chairman of the Nomination Committee is Yeung Man. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, in particular the chairman and the chief executive and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy adopted by the Company, including but not limited to educational background, professional qualifications, skills, knowledge and industry experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee will meet at least once a year to review the structure, size and diversity of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at annual general meetings.

During the period from the listing Date to 31 December 2016, the Nomination Committee held a meeting to review the structure, size and composition (including the skills, knowledge and experience) of the Board and the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy.

BOARD DIVERSITY POLICY

On 22 June 2016, the Board adopted the Board Diversity Policy. Under the Board Diversity Policy, the Nomination Committee will monitor the implementation of the Board Diversity Policy and give adequate consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board. The Board will regularly review the Board Diversity Policy and make appropriate revisions to ensure the effectiveness of the Board Diversity Policy.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the financial and other information put before them for approval. The management provides all members of the board with monthly updates on the Company's performance, positions and prospectus.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 63 to 70 of this annual report.

AUDITOR'S REMUNERATION

The remuneration paid or payable to the Company's external auditor of the Company in respect of audit services for the year ended 31 December 2016 amounted to RMB3,520,000.

INTERNAL CONTROL AND RISK MANAGEMENT

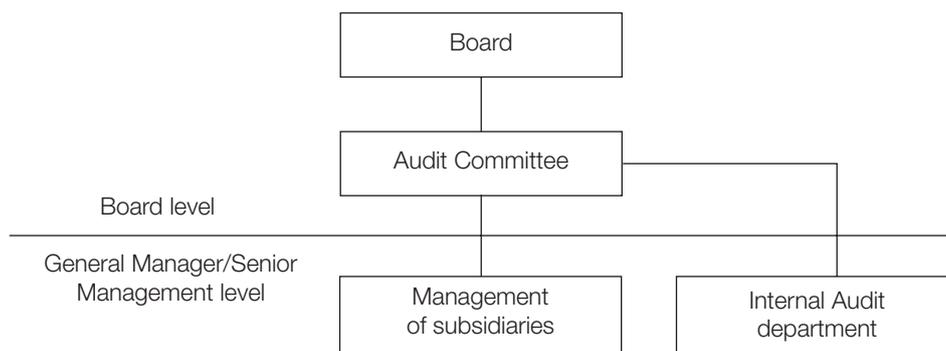
RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledge that it is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee, who oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Main features of the risk management and internal control systems

The risk management framework of the Group and main responsibilities of the members in the framework are described as follows:



Member	Main Responsibilities
The Board	<ul style="list-style-type: none"> Set up goals for risk management strategy, assess and determine the nature and extent of risk acceptable to achieve the strategy goals; Establish and maintain a proper and effective risk management and internal control systems; Review the effectiveness of the risk management and internal control systems annually.
Audit Committee	<ul style="list-style-type: none"> Assist the Board in overseeing the risk level and the design and performance of the risk management and internal control systems; Discuss the risk management and internal control systems with the management, ensure the management has fulfilled its responsibility of establishing effective systems; Ensure that the internal audit function has sufficient resources for operation and has a proper position, review and supervise its performance.

Member

Main Responsibilities

- Keep updated of various major risks confronted by the Group and the risk management status, make decisions for effective risk control;
 - Report the risk status of the Group and issues to be concerned or improved to the Board on a regular basis;
 - Facilitate risk management and assessment, regularly appoint relevant accountable persons to implement risk assessment;
 - Organise and promote the establishment of the risk management system at the group level;
 - Review material risk assessment report and various risk management reports.
 - Review major risk management measures, rectify and deal with the decisions made or actions adopted by relevant organizations or individuals beyond the risk management system;
 - Engage relevant persons to organise and coordinate various departments and projects to carry out identification and assessment of significant risks at the group level, summarise and analyse such information, submit risk assessment and various risk management reports; and
 - Carry out risk management for other major issues.
- Management of subsidiaries
- Ensure that the subsidiaries carry out the risk assessment in compliance with the risk assessment manual formulated by the Group;
 - Review and approve the risk assessment results of the subsidiaries in respect of the business;
 - Ensure that the subsidiaries implement effective risk management;
 - Monitor the principal business risks confronted by the subsidiaries and the effectiveness of relevant risk management measures;
 - Allocate resources such as fund and workforce to the subsidiaries for implementation of the risk assessment projects.
- Internal audit department
- Report directly to the Audit Committee, analyse and conduct independent assessment on the adequacy and effectiveness of the risk management and internal control systems.

The process used to identify, assess and management of principal risks

The risk management process of the Group is described as follows:

Risk identification	– identify the current risks confronted.
Risk analysis	– conduct analysis on the risk including the impact extent and possibility of occurrence.
Risk response	– choose a proper risk response method and develop a risk mitigation strategy.
Control measures	– propose up-to-date internal control measures and policy and process.
Risk control	– continuously monitor the risks identified and implement relevant internal control measures to ensure the effective operation of the risk response strategy.
Risk management report	– summarise results of risk assessment and analysis and internal audit, formulate and report an action plan.

The process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects:

The Group establishes a risk management information and communication channel that is functional within the whole basic risk control procedure, connects different levels in the reporting system and different departments and operation units, so as to ensure timely, accurate and complete communication of information, laying a solid foundation for the monitoring and improvement of risk management.

Different departments and business units of the Group regularly inspect and examine their own risk management process in order to locate the shortcomings and remedy the situation if possible. Their inspection and examination reports are delivered to the Group's risk management department in time.

The internal audit department of the enterprise may regularly or irregularly carry out supervision and evaluation in relevant departments and business units to decide if they are capable of performing regular risk management tasks and their related work performance. Reports of supervision and evaluation are delivered directly to the audit committee established by the Board of Directors.

The Board reviewed the effectiveness of risk management and internal control systems and further considers that (i) there was no material issue relating to the Group's risk management and internal controls, including financial, operational and compliance controls and risk management functions of the Group and considers these effective; and (ii) that there were adequate staff with appropriate and adequate qualifications and experience, resources for accounting, internal audit and financial reporting functions, and adequate training programmes had been provided during the year ended 31 December 2016.

Internal audit function

The Group's internal audit function is performed by an internal audit team, which reports directly to the Audit Committee.

The procedures and internal controls for the handling and dissemination of inside information:

The Company has implemented proper procedures and internal controls for the handling and dissemination of inside information. The Company has established a policy with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission, to ensure that all the Group's stakeholders and the public are provided with appropriate information relating to the Group in a timely and simultaneous manner.

COMPANY SECRETARY

The Company has engaged Mr. Chiu Ming King, the executive director of Corporate Services of Vistra Corporate Services (HK) Limited, external service provider, as the Company Secretary. Ms. He Yuan is the assistant company secretary of the Company, who acts as the main contact person of Mr. Chiu Ming King.

Mr. Chiu Ming King is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures and applicable laws, rules and regulations are followed. Details of biography of the Company Secretary are set out in the section headed "Directors and Senior Management" of this annual report. Mr. Chiu Ming King will take no less than 15 hours of relevant professional training in each financial year as required under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

CONVENING AN EXTRAORDINARY GENERAL MEETING (“EGM”) AND PUTTING FORWARD PROPOSALS

Pursuant to Article 64 of the Company’s Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 2/F, No.1 Building Hampton By Hilton
No. 169 Yu Lin Road
Tianya District
Sanya, the Hainan Province
The PRC (For the attention of the Board of Directors/Company Secretary)

Email: hailankonggu@hailanholdings.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders’ information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders. In this regard, the Company established a shareholders' communication policy and review it on a regular basis to ensure its effectiveness. The Board is committed in providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. In addition to the circulars, notices and financial reports sent to shareholders, additional information of the Group is also available to shareholders on the website of the Company.

Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice is given. The chairman of the Board and Directors are available to answer questions on the Group's business at the meeting. All resolutions at the general meeting are decided by a poll which is conducted by the Company's branch share registrar and transfer office in Hong Kong.

The Group values feedbacks from shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are always welcomed.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to shareholders' approval, members of the independent Board committee will also make an effort to address shareholders' queries.

CONSTITUTIONAL DOCUMENTS

Save for the adoption of the amended and restated Memorandum and Articles of Association of the Company for the purpose of the Listing, there are no changes in the Company's constitutional documents for the year ended 31 December 2016.

Report of the Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are property development and property investment in the Hainan Province of the PRC. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 71 to 72 of this annual report.

BUSINESS REVIEW

A fair review of the business of the Group as required pursuant to Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), comprising analysis of the Group performance during the year, a discussion on the Group's future business development and a description of the principal risks and uncertainties facing the Group, are set out in the sections "Chairman's Statement", "Management Discussion and Analysis", from pages 4 to 15 of this annual report. Discussions on the environmental policies and performance, compliance by the Group with the relevant laws and regulations that have a significant impact on the Group and the account of the key relationships of the Group with its stakeholders are contained in the "Environmental, Social and Governance Report" on pages 49 to 62 of this annual report. These discussions forms part of this Directors' Report.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting of the Company which will be held on Tuesday, 27 June 2017 (the "**Annual General Meeting**"), the register of members of the Company will be closed from Thursday, 22 June 2017 to Tuesday, 27 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 21 June 2017.

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group during the year ended 31 December 2016 are set out in note 12 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year ended 31 December 2016 are set out in note 13 to the consolidated financial statements.

BANK AND OTHER BORROWINGS

Details of movements in the bank and other borrowings of the Group during the year ended 31 December 2016 are set out in note 23 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2016 are set out in note 26 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2016 are set out in the note 26 to the consolidated statement of changes in equity and the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company did not have any distributable reserves available for distribution to shareholders of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the single largest supplier and the five largest suppliers for the Group (exclusive of Danzhou Phase I) accounted for approximately 33% and 73% of our total purchases under our supply contracts respectively. The percentage of revenue attributable to the Group's single largest customer and five largest customers accounted for less than 30% of the total revenue of the Group respectively.

To the best of the knowledge of the Directors, save for Nanjing Huizhi Construction Installation Engineering Co., Ltd, one of the five largest suppliers for the Group, none of the Directors, their respective close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have any interest in any of the Group's five largest customers or suppliers.

DIRECTORS

The Directors of the Company during the year ended 31 December 2016 and up to the date of this report were:

EXECUTIVE DIRECTORS:

Yeung Man (*Chairman*)

Zhou Li (*Chief Executive Officer**)

Huang Annan (*former Chief Executive Officer*) (*resigned on 29 March 2017*)

Fan Wenyi

NON-EXECUTIVE DIRECTOR:

Wang Pei

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Li Zhong

E Junyu

Chen Shimin

* Ms. Zhou Li has been appointed as the Chief Executive Officer with effect from 29 March 2017.

In accordance with Article 108 of the Articles of Association of the Company, Mr. Yeung Man, Ms. Zhou Li and Mr. Wang Pei shall hold office until the Annual General Meeting. All of the above retiring Directors, being eligible, will offer themselves for re-election at the Annual General Meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out in the section headed "Directors and Senior Management" on pages 16 to 19 of this annual report.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed herein, at no time during the year ended 31 December 2016 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Group or any other body corporate; and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Group, or had exercised any such right during the year ended 31 December 2016.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, non-executive Director and independent non-executive Directors has entered into a service agreement with the Company on 22 June 2016 for a term of three years commencing from the Listing Date, and such service agreements may be terminated in accordance with the terms of the service agreements.

All the Directors are subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the Articles of Association of the Company.

Saved as disclosed herein, no Director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract that is not determinable within one year without payment of compensation, other than statutory compensation.

Each of the executive Directors is entitled to a basic salary pursuant to their respective service agreements, which is determined with reference to their responsibilities, experience, performance and the prevailing market conditions. In addition, each of them is entitled to a bonus of such amount as the Board may determine in respect of each complete financial year of the Company.

Each of the non-executive Director and independent non-executive Directors is entitled to a director's fee pursuant to their respective letters of appointment, which is determined with reference to their responsibilities, experience, performance and the prevailing market conditions. Save for director's fee, each of the non-executive Director and independent non-executive Directors is not expected to receive any other remuneration for holding his office as a non-executive Director or an independent non-executive Director respectively.

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

Details of remuneration of the Directors during the year ended 31 December 2016 are set out in note 8 to the consolidated financial statements.

Details of remuneration paid to members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration band	Number of individual(s)
RMB500,000 or below	4
RMB500,000 to RMB1,000,000	1
RMB1,000,000 to RMB1,500,000	2

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the three independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

NON-COMPETITION UNDERTAKINGS

Each of the controlling shareholders of the Company has confirmed to the Company of his/its compliance with the non-competition undertakings provided to the Company under the Deed of Non-Competition (as defined in the Prospectus). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the controlling shareholders during the period commencing from the Deed of Non-Competition and up to 31 December 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As disclosed in the section headed "Relationship with the Controlling Shareholders" in the Prospectus, Mr. Yeung Man also engages in other real estate development apart from our Group through other Companies that is not part of our Group (the "Private Group") entered into the Deed of Non-Competition to provide certain non-compete undertakings in favour of the Company. Since the Listing Date and up to 31 December 2016, the Directors were not aware of any competing business between the private Group controlled by Mr. Yeung Man and the Group.

Save as disclosed above, none of the Directors had any direct or indirect interest in a business which competed or might compete with the business of the Group as required to be disclosed under Rule 8.10 of the Listing Rules since the Listing Date and up to 31 December 2016.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, there was no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at 31 December 2016 or at any time during the year ended 31 December 2016.

Saved as disclosed, there was no contract of significance between the Company or one of its subsidiaries on the one hand, and a controlling shareholder or any of its subsidiaries on the other, subsisting during or at the end of the year ended 30 December 2016.

Saved as disclosed, there was also no other contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries during or at the end of the same period.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto subject to the Hong Kong Companies Ordinance. Such provision was in force during the year ended 31 December 2016 and remained in force as of the date of this report. The Company has also arranged appropriate directors' and officers' liability insurance for the Directors and officers of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

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

As of 31 December 2016, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(A) INTEREST IN SHARES OF THE COMPANY

Name of Director	Capacity	Position (Long/ Short)	Number of Shares held/ interested in	Approximate shareholding percentage
Mr. Yeung Man ("Mr. Yeung")	Interest of a controlled corporation (Note 1)	Long	225,000,000 Shares	75%
Ms. Zhou Li	Interest of spouse (Note 2)	Long	225,000,000 Shares	75%

Notes:

- (1) 225,000,000 shares of the Company are held by Zhong Jia (International) Investment Construction Company Limited ("Zhong Jia (International)") and Zhong Ze (International) Investment Company Limited ("Zhong Ze (International)") as to 224,325,000 shares and 675,000 shares, respectively. Mr. Yeung beneficially owns 100% of the issued share capital of Zhong Jia (International) and Zhong Ze (International) and is deemed, or taken to be, interested in all the shares held by Zhong Jia (International) and Zhong Ze (International) for the purposes of the SFO. Mr. Yeung is the sole director of Zhong Jia (International) and Zhong Ze (International).
- (2) Mr. Yeung and Ms. Zhou Li have declared that they are cohabiting as spouse. Accordingly, Ms. Zhou Li is deemed, or taken to be, interested in the Shares in which Mr. Yeung is interested for the purpose of the SFO.
- (3) As of the date of this report, the total number of issued shares of the Company was 300,000,000.

(B) LONG POSITION IN THE SHARES OF ASSOCIATED CORPORATION

(i) Long position in Zhong Jia (International) and Zhong Ze (International)

Name of Director or Chief executive	Name of associated corporation	Capacity	Position (Long/Short)	Number and class of securities held/interested in	Approximate shareholding percentage
Mr. Yeung Man ("Mr. Yeung")	Zhong Jia (International)	Beneficial owner (Note 1)	Long	1 ordinary share	100%
	Zhong Ze (International)	Beneficial owner (Note 1)	Long	7,000 ordinary shares	100%
Ms. Zhou Li	Zhong Jia (International)	Interest of spouse (Note 2)	Long	1 ordinary share	100%
	Zhong Ze (International)	Interest of spouse (Note 2)	Long	7,000 ordinary shares	100%

Note:

- Mr. Yeung, the Chairman and an executive Director, owns 100% interest in Zhong Jia (International) and Zhong Ze (International). Mr. Yeung is also the sole director of Zhong Jia (International) and Zhong Ze (International).
- Mr. Yeung and Ms. Zhou Li have declared that they are cohabiting as spouse. Accordingly, Ms. Zhou Li is deemed, or taken to be, interested in the Shares of Zhong Jia (International) and Zhong Ze (International) in which Mr. Yeung is interested for the purpose of the SFO.
- As of the date of this report, the total number of issued shares of the Company was 300,000,000.

(ii) Long position in Sanya Hui Xin Trading

Name of Director or Chief Executive	Capacity	Position (Long/Short)	Approximate shareholding percentage
Mr. Yeung	Interest of spouse (Note 1)	Long	6.56%
Ms. Zhou Li	Beneficiary of a trust (Note 2)	Long	6.56%
Mr. Wang Pei	Beneficiary of a trust (Note 2)	Long	0.525%
Ms. Wu Lijuan	Beneficiary of a trust (Note 2)	Long	0.525%
Ms. Fan Wenyi	Beneficiary of a trust (Note 2)	Long	1.75%
Mr. Huang Annan	Beneficiary of a trust (Note 2)	Long	6.56%

Note:

- Mr. Yeung and Ms. Zhou Li have declared that they are cohabiting as spouse. Accordingly, Mr. Yeung is deemed, or taken to be, interested in the equity interest in which Ms. Zhou Li is entitled under the pre-IPO Share Incentive Scheme in Sanya Hui Xin Trading for the purpose of the SFO.
- Each of the target participants and their percentage of equity interest to be interested in Sanya Hui Xin Trading are set out on page 46 of this annual report.

Save as disclosed above, as at the date of this report, none of the Directors and chief executive of the Company and their respective close associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND/OR SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARE CAPITAL OF THE COMPANY

So far as the Directors are aware as of 31 December 2016, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Substantial Shareholder	Nature of interest	Position (Long/Short)	Number and class of securities held/interested in	Approximate shareholding percentage
Zhong Jia (International)	Beneficial owner	Long	224,325,000	74.78%

Save as disclosed above, as at 31 December 2016, the Directors are not aware of any person who had an interest or short position in the shares and the underlying shares of the Company which would require to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

The Group entered into certain related party transactions with related parties during the year ended 31 December 2016 which constituted connected transactions or continuing connected transactions of the Group, details of which are set out in note 30 to the consolidated financial statements.

During the year, the Group entered into various transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules and will continue after the Listing. All the continuing connected transactions during the year that need to be disclosed herein are in compliance with the Listing Rules. The historical transaction amount of the continuing connected transactions of the Group for the year ended 31 December 2016 is set out below:

Connected Person	Nature of Transaction	Transaction Amount for Year ended 31 December 2016 RMB'000
<i>Exempt continuing connected transactions</i>		
Zhong Hui Nanjing Real Estate Development Company Limited (<i>Note 1</i>)	Tenancy Agreements	–
Zhong Hui Nanjing Real Estate Development Company Limited (<i>Note 1</i>)	Trademark License Agreement	–
<i>Non-exempt continuing connected transactions</i>		
Nanjing Huizhi Construction Installation Engineering Company Limited (<i>Note 2</i>)	Construction Cooperation Framework Agreement	46,083

Notes:

- (1) Zhong Hui Nanjing Real Estate Development Company Limited (中惠(南京)房地產開發有限公司), a company established in the PRC with limited liability on 20 July 1995, which is indirectly held as to 100% by Mr. Yeung.
- (2) Nanjing Huizhi Construction Installation Engineering Company Limited (南京惠智建築安裝工程有限公司), a company established in the PRC with limited liability which is indirectly held as to 100% by Mr. Yeung.

On 8 April 2016, Nanjing Huizhi Construction Installation Engineering Company Limited has entered into a Construction Cooperation Framework Agreement with the Company and its subsidiaries, Sanya Fenghuang Xincheng, Sanya Fenghuang Shuiyun, Hainan Nanhai Xiang Long and Danzhou Shuang Lian effective from the Listing Date up to 31 December 2018.

Under the Construction Cooperation Framework Agreement, Nanjing Huizhi Construction Installation Engineering Company Limited has agreed, where it is selected following the relevant tender processes, to provide the construction services to the Group according to the construction contracts entered into between Nanjing Huizhi Construction Installation Engineering Company Limited and the Group from time to time. The construction fee would be specified in the construction contracts to be entered into between Nanjing Huizhi Construction Installation Engineering Company Limited and the Group from time to time.

The annual caps for the transactions under the Construction Cooperation Framework Agreement for each of the three years ending 31 December 2016, 2017 and 2018 will be approximately RMB50,540,000, RMB399,404,000 and RMB501,722,000, respectively. For more details of these transactions, please refer to the section headed "Connected Transactions" in the Prospectus.

CORPORATE GOVERNANCE RELATING TO THE CONSTRUCTION COOPERATION FRAMEWORK AGREEMENT WITH NANJING HUIZHI CONSTRUCTION INSTALLATION ENGINEERING COMPANY LIMITED

Summaries of corporate governance mechanisms in place after the Listing in the reporting period regarding the non-exempt continuing connected transaction with Nanjing Huizhi Construction Installation Engineering Company Limited under the Construction Cooperation Framework Agreement:

(i) *Independence in Selection Process*

The Group has adopted an independent mechanism with the following features to govern and monitor the selection process for our potential bidders:

- (a) the Internal Tender Review Committee, which comprises members appointed by the independent non-executive Directors and accountable to the independent non-executive Directors, is responsible for reviewing the terms and conditions of tenders and screen out unsuitable tenders, which shall also comply with the requirements of the relevant laws and regulations. The members of the Internal Tender Review Committee include the heads of our Group's tender department and the relevant project general managers of our Group. The appointment of the members of the Internal Tender Review Committee by the independent non-executive Directors is based on nominations by the executive Directors and relevant senior management of our Group. Mr. Yeung and Ms. Zhou Li shall abstain from such nomination process;
- (b) objective criteria for identifying potential bidders, such as the price, quality of construction work, size of the project, construction schedule and other required services, is prescribed by the Internal Tender Review Committee in relation to each of our projects and each criterion must be approved by the Internal Tender Review Committee;
- (c) the relevant project company will contact qualified potential bidders and require them to provide information regarding their qualifications, industry experience and the size and composition of their management teams; and
- (d) the relevant project company will be responsible for compiling a list of qualified potential bidders in accordance with the prescribed criteria laid down by the Internal Tender Review Committee and the relevant project company will issue tender application documents to three to five qualified bidders. In the event that Nanjing Huizhi Construction Installation Engineering Company Limited is chosen as one of the potential construction companies after the selection process described above and it submits a completed tender application document to the relevant project company, the relevant project company will submit Nanjing Huizhi Construction Installation Engineering Company Limited's tender application document to the Internal Tender Review Committee for review and approval. The Internal Tender Review Committee will only approve Nanjing Huizhi Construction Installation Engineering Company Limited's application if Nanjing Huizhi is considered to have a competitive advantage in the relevant market in which the relevant project will be situated.

Shortlisted qualified bidders shall submit tender documents to us or the tendering agency appointed by us. The assessment committee established by us is responsible for reviewing tenders and selecting a tender for acceptance according to applicable laws and regulations. According to the Measures on the Tender and Commencement of Construction Projects (工程項目建設施工招標投標辦法), the selected industry expert(s) will be disqualified if he/she is found to have a conflict of interest. After the assessment committee has selected a tender for acceptance, we will award the constructions contract to the successful bidder.

(ii) *Independent Review of Construction Services Provided by Nanjing Huizhi Construction Installation Engineering Company Limited*

In addition, we have also put in place the following procedures with a view to monitoring the quality of construction work carried out by Nanjing Huizhi Construction Installation Engineering Company Limited if it is selected to provide construction services to the Group after the above tender and selection procedures:

- (a) monthly reports regarding the construction progress and the quality of construction services prepared by independent qualified engineering supervisory companies will be provided to the independent non-executive Directors, and the views and recommendations of the independent non-executive Directors will be adopted by the Company; and
- (b) written approval from the Internal Tender Review Committee is required if Nanjing Huizhi Construction Installation Engineering Company Limited seeks to modify the scope of work, construction schedule or other relevant information as provided in the construction contract.

The Directors believe that the above selection and review mechanism will ensure that the terms of the Construction Cooperation Framework Agreement are conducted on normal commercial terms and are in the best interests of our Company and our independent Shareholders as a whole. In the reporting period after Listing, the mechanisms have been effective and operated accordingly.

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

All the independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that those transactions had been entered into:

- (1) in the ordinary and usual course of business of the Company and the Group (where appropriate);
- (2) either on normal commercial terms or better; and
- (3) according to the relevant agreements governing the relevant transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONFIRMATIONS FROM THE COMPANY'S INDEPENDENT AUDITORS

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditor of the Company to perform review procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditor of the Company had provided a letter to the Board confirming that the aforesaid continuing connected transactions:

- (i) have been approved by the Directors;
- (ii) were entered into in accordance with the pricing policies of the Group;
- (iii) were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- (iv) did not exceed the annual cap amounts.

EMOLUMENT POLICY

A Remuneration Committee was set up to make recommendations on the Company's emolument policy and structure for all remuneration of the Directors and senior management of the Group on the basis of their merit, qualifications and competence.

The Company has adopted a Pre-IPO Share Incentive Scheme on 5 January 2016 to recognize and reward the contribution of certain directors and senior management (the "**Target Participants**") who have or may have made to the growth and development of the business(es) of the Group.

Under the Pre-IPO Share Incentive Scheme, the Group allocated 17.5% of the total equity interest (the "**Incentive Equity Interest**") in Sanya Hui Xin Trading (representing approximately 3% effective interest in Sanya Fenghuang Shuiyun) held by Mr. Yang Jinhe or Mr. Fang Jing, both of whom held such interest on trust for Mr. Yeung to the Target Participants. The Target Participants entered into trust agreements with Mr. Yeung, Mr. Yang Jinhe, Mr. Fang Jing, Zhonghui (China) Investment Company Limited and the Company on 5 January 2016, pursuant to which the Incentive Equity Interest shall be held on trust by Mr. Yang Jinhe or Mr. Fang Jing for the Target Participants until such Incentive Equity interest are vested in the relevant Target Participant in accordance with the provision of the Pre-IPO Share Incentive Scheme. The Target Participants can exercise his/her rights in the abovementioned Incentive Equity Interest at nil consideration after their completion of three service years (commenced from the date of trust agreement) in the Group and satisfaction of the achievement targets in these three consecutive years.

Report of the Directors

The table shows the details of each Target Participant under the Pre-IPO Share Incentive Scheme in Sanya Hui Xin Trading as at 31 December 2016.

Holders	Outstanding equity interest in Sanya Hui Xin to be acquired under the options	Position	Consideration of Pre-IPO Equity Interest	Equity Interest in Sanya Hui Xin being granted	Exercise Price	Date of Grant	Vesting Period	The period during which share options are exercisable	Cancelled/lapsed options (where applicable)
Ms. Zhou Li	6.5625%	Executive Director	Nil	6.5625%	Nil	January 5, 2016	Three years from the date of grant	No expiration date	Nil
Mr. Huang Annan	6.5625%	Executive Director and general manager	Nil	6.5625%	Nil	January 5, 2016	Three years from the date of grant	No expiration date	Nil
Ms. Fan Wen Yi	1.75%	Executive Director and deputy general manager of operation	Nil	1.75%	Nil	January 5, 2016	Three years from the date of grant	No expiration date	Nil
Ms. Wu Lijuan	0.525%	Chief Financial Officer	Nil	0.525%	Nil	January 5, 2016	Three years from the date of grant	No expiration date	Nil
Mr. Wang Tao	0.525%	Chief Marketing Officer	Nil	0.525%	Nil	January 5, 2016	Three years from the date of grant	No expiration date	Nil
Ms. Zhao Lin	0.525%	Chief Administration Officer	Nil	0.525%	Nil	January 5, 2016	Three years from the date of grant	No expiration date	Nil
Mr. Chen Xiang	0.525%	Chief Cost Controller	Nil	0.525%	Nil	January 5, 2016	Three years from the date of grant	No expiration date	Nil
Ms. Wang Pei	0.525%	Non-executive Director	Nil	0.525%	Nil	January 5, 2016	Three years from the date of grant	No expiration date	Nil
Total	17.50%			17.50%					

Save as disclosed above, no further Incentive Equity Interest has been offered under the Pre-IPO Share Incentive Scheme and no further Incentive Equity Interest will be offered thereunder on or after the Listing Date. For further details, please refer to note 24 of the financial statements.

None of the Directors waived any emoluments during the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the period from the Listing Date to 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE REPORTING PERIOD

There is no significant events occurring after the end of reporting period.

AUDIT COMMITTEE

The annual results and the audited consolidated financial statements of the Group for the year ended 31 December 2016 have been reviewed by the Audit Committee of the Company. Information on the work of the Audit Committee and its composition are set out in section headed "Corporate Governance Report" on page 25 of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code from the Listing Date to 31 December 2016.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" in this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 have been audited by KPMG who shall retire at the forthcoming annual general meeting of the Company (the “Annual General Meeting”). A resolution will be proposed at the Annual General Meeting to re-appoint KPMG as the auditor of the Company for the ensuring year.

On behalf of the Board

Yeung Man
Chairman

Hong Kong, 29 March 2017

Environmental, Social and Governance Report

ABOUT THIS REPORT

This is the first Environmental, Social and Governance Report issued by Hailan Holdings Limited (“Hailan Holdings” or “the Group”). It sets out the Group’s actions and performance on sustainability issues in a transparent and open manner with the intention of increasing stakeholders’ confidence in and understanding of the Group.

REPORTING YEAR

Information in the report reflects the performance of Hailan Holdings’ environmental stewardship and social responsibility from 1 January 2016 to 31 December 2016. In future, the Group will publish an Environmental, Social and Governance Report on an annual basis and make it available for public at any time to enhance transparency and accountability.

REPORTING BOUNDARY

This report focuses on the operations of the Group headquarters located in Sanya, representing the operations of the subsidiaries – Sanya Fenghuang Shuiyun and Sanya Fenghuang Xincheng. The Group will extend the scope of disclosures and will ultimately cover all operations of the Group when the data collection system is better established and the environmental, social and governance work is strengthened. The Group will disclose the environmental Key Performance Indicators (KPIs) next year to further refine and standardise the indicators for reporting.

REPORTING GUIDELINES

The report is published in accordance with the Environmental, Social and Governance Reporting Guide (“ESG Guide”) issued by The Stock Exchange of Hong Kong Limited (“HKEX”). The report outlines the environmental, social and governance performance of Hailan Holdings in a concise manner. Information contained herein is sourced from the official documents and statistical data of the Group, and is aggregated from the monitoring, management and operational information provided by the subsidiaries in accordance with the relevant rules of the Group. A complete index is inserted in the last chapter of the report for reference. The report is written in the Chinese and English languages and both are uploaded onto the Group’s website at www.hailanholdings.com. In case of any conflict or inconsistency between the Chinese version and the English version, the Chinese version shall prevail.

We Value Your Feedback

Our continuous improvement relies on your valuable feedback on both the content and the form of this report. If you have any questions or comments, please send us your views via hailankonggu@hailanholdings.com to help with our continued improvement in environmental, social and governance performance.

STAKEHOLDER ENGAGEMENT

The HKEX has set forth four principles for reporting in the ESG Guide: Materiality, Quantitative, Balance and Consistency. These should form the basis for preparing the Environmental, Social and Governance Report. As the HKEX emphasizes, stakeholder engagement is the method by which materiality is assessed. Through stakeholder engagement, companies can understand wide ranging views and identify material environmental and social issues.

For Hailan Holdings, stakeholders refer to groups and individuals materially influencing or affected by the Group's business. The Group's stakeholders include employees, management and directors, as well as external stakeholders such as clients, business partners, investors, regulatory authorities and various types of community groups. In the past year, we communicated with the key stakeholders through a variety of methods. While preparing the report, we commissioned a professional consultancy firm to conduct the materiality analysis in the form of management interviews. With expert advice, we identified the material aspects for this report and these will in turn guide the formulation of the Group's sustainability roadmap.

METHODS OF STAKEHOLDER ENGAGEMENT IN REPORTING PERIOD

Internal Stakeholders	External Stakeholders
<ul style="list-style-type: none"> • Board of Directors • Management • Administration Staff • Employees 	<ul style="list-style-type: none"> • Shareholders • Investors • Customers • Government/Regulatory Authorities • Banks
Engagement methods: Meetings, Telephone conversations, E-mail, Interviews, Instant Messaging Tools, Visits, Workshops, Roadshows and Announcements	

The business of Hailan Holdings affects different stakeholders, and these stakeholders have various expectations of the Group. To enhance the materiality analysis, the Group will in future continue and expand stakeholder engagement and collect a diverse range of stakeholders' views through various activities. At the same time, the Group will consider advancing the reporting principles of Quantitative, Balance and Consistency in order to present the report in a way that continues to improve alignment with stakeholder expectations.

MESSAGE FROM THE MANAGEMENT

In order to respond to stakeholder concerns and the need for transparency of corporate sustainability performance disclosure, Hailan Holdings is delighted to present our first Environmental, Social and Governance Report. This report not only stands for the Group's latest milestone in environmental, social and governance standards, but also reviews the business from different perspectives which enables us to further explore the Group's new impetus towards sustainable development.

The property development projects of Hailan Holdings are located in Hainan Province. We cannot over-emphasise the importance of environmental protection for a tourism area. In the project development process, the Group not only strictly abides by local environmental laws and regulations, but also makes use of Hainan's abundant solar resources to promote the application of renewable energy in our projects. In the past, we have taken a range of measures to upgrade the environmentally friendly elements of the Group's projects. In the coming year, we will further increase the disclosures of key performance indicators on environmental action so that our stakeholders will have a better understanding of Group's performance in environmental protection.

Enhancing staff cohesion and talent development is also an important focus for Hailan Holdings. The Group hopes to increase systematic staff training policies, scientific performance evaluation systems and to develop a corporate culture to improve the construction of a talented team. We aim to provide support to staff for their individual career development as well as personal value enhancement. Only when we increase the effective use of our human resources can the achievement of Group's strategic objectives be guaranteed and pushed forward.

As a responsible property developer, Hailan Holdings is fully aware that closely working with business partners in the supply chain can further enhance our ability to manage our social responsibility. We are actively engaging our business partners, particularly contractors and subcontractors, with on-site Occupational Health and Safety Management. The Group applies strict safety inspection, education and training, third-party security risk assessment and other initiatives to ensure safety in our construction projects.

Sustainability is a process of continuous improvement for any company. Hailan Holdings will adhere to the Group's core values, and steadily improve the sustainability of its business models. We believe this will continuously enhance the Group's position in the industry.

Mr. YEUNG Man

Executive Director and Chairman of the board

Hailan Holdings Limited

ENVIRONMENTAL PROTECTION

EMISSIONS

Hailan Holdings is principally engaged in the business of residential property development in Hainan Province, China. In its daily operations, the Group is committed to complying with standards for effluent discharge, waste disposal, air pollution and noise associated with construction work. The Group actively cooperates with the environmental monitoring work of the local government.

Properly handling the emissions generated in construction has been a priority task for Hailan Holdings during 2016. The design engineering division has issued a “Design and Construction Plan Management Flow” which requires consideration of operational needs of the property at the project design stage and compliance with the relevant laws and regulations on effluent, flow design and construction during the development process. The Group has also strengthened the internal regulatory process to prevent unauthorized discharge of sewage and implemented the system of accountability for the project design and construction processes. The Group has implemented a “Rainwater and Sewage Separation System” in project sites. During business operations, the generated sewage which can be divided into kitchen sewage, domestic sewage and, construction waste water, will enter the municipal sewage network only after treatment of different sewage facilities. In terms of construction waste disposal, the property construction management division is responsible for contacting the project contractors and suppliers to plan, supervise and manage construction waste. During the reporting period, the Group did not find any non-compliance cases related to emissions.

With the enforcement of the Paris Agreement, all participating governments are likely to adopt carbon tax, carbon emissions trading or other regulations designed to limit emissions and internalize the external costs caused by greenhouse gas emissions and pass responsibility for achieving the goals of the Paris Agreement to business and other institutions. This means the business environment will face significant changes. Although Hailan Holdings do not currently assess the carbon emissions of our operations, we have included this in our 2017 working plan. As the first step towards carbon reduction, we will measure carbon emissions annually, and on that basis establish our carbon reduction targets and prioritise measures to make carbon reduction processes more efficient.

The Paris Agreement entered into force in November in 2016, aiming to keep a global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

Hainan Province can be greatly affected by the climate change. The National Development and Reform Commission and Ministry of Housing and Urban-Rural Development issued “Notice on the issuance of pilot work on climate – adaptive urban construction”, and Haikou City in Hainan Province is one of the pilot cities. In future, Hailan Holdings will actively cooperate with the Government’s action program to adapt to climate change, assessing the risks brought about by climate change and the implications of the tightening of relevant laws and regulations. We plan to ensure the Group is well prepared and ready to formulate a climate change adaptation strategy in line with changing business and regulatory conditions.

RESOURCE USAGE

As a property developer, Hailan Holdings not only develops projects in accordance with the “Design Standard for Energy Efficiency of Residential Buildings in Hot Summer and Warm Winter Zone JGJ75-2003”, but is also concerned about the energy efficiency in the operational phase of the project life cycle. The Group actively responds to the specific circumstances of any project to promote the use of renewable energy. As early as in 2015, the Group adopted solar water heating systems in Sanya Phoenix Shuicheng so as to support the local policy on solar energy promotion. That project has saved 3,258 MWh of conventional energy, equivalent to reduction of 1,317 tonnes of standard coal or 2,804 tonnes of carbon dioxide emission with the related social and economic benefits. The Group also encourages contractors and subcontractors to use more environmentally friendly equipment and facilities.

Hailan Holdings is actively encouraging staff to concern the conservation of resources. The Group has introduced “Staff Office Management Practices” and implements various energy-saving measures, including the default operation time for electrical equipment and air-conditioning temperature setting. For another major resource we consume – paper, the Group has set a “double-printing” rule which helped to save almost four tonnes of paper in 2016.

ENVIRONMENT AND NATURAL RESOURCES

Hailan Holdings is concerned about the impact of its operation on the environment and natural resources. At the project development stage, the Group assigns an authorized independent third party organization to conduct Environmental Impact Assessment on all developing and completed projects to comply with relevant laws and regulations. To maintain the local ecological balance, the Group makes efforts to retain the original landscape as much as possible during project planning and development, and to implement measures to promote soil and water conservation. The Group has effectively combined soil and water conservation work with the main project construction work for the Phoenix Shuicheng Project. The Group can minimize soil erosion by optimizing the configuration of the development layout with attention to the potential for erosion.

Hailan Holdings will organize public environmental education activities to popularize environmental knowledge, for example, advocating environmental themes like “World Environment Day 5 June.” The Group also plans to organize regular activities to continuously raise staff awareness of environmental protection, particularly on biodiversity conservation and prevention of soil erosion.

VALUED EMPLOYEES

Hailan Holdings believes that an excellent corporate culture can inspire the passion and enthusiasm of staff and strengthen the cohesion of the team. In order to integrate our new employees into the corporate culture more quickly, we have launched the “New Staff Training Camp” to provide new employees learning, visiting and team building activities. The Group will also organize the “Team Development” and “Corporate Culture Activities” for employees, so that they will have a comprehensive knowledge and more practical experience in the Group’s core values of “Good standards, Innovation, Win-win, and Excellence” (“規範、創新、共贏、卓越”), and eventually assimilate this into their day to day work.

DEVELOPMENT AND TRAINING

Hailan Holdings believes that fostering and retaining talent is a core part of ensuring the Group achieves sustainable development and strengthens its competitiveness. The Group regards staff as a strategic partner and provides support for their career development and personal value enhancement with systematic training programmes. These consist of three modules: “Daily Training”, “Centralized Training” and “External Training”. Furthermore, to cater for the actual needs of different departments and individuals, we provide different forms of training, not only internal training, but external special courses to equip staff with professional skills and abilities. We provide opportunities, including such subjects as duty guidance, departmental rotation, field study, corporate communications and sponsorship of personnel training.

Hailan Holdings has set out the “Basic Training Course”, “Management Training Course” and “Professional Training Course” to improve the competency of staff at different levels. The Group also hopes to help the employees clear obstacles to their career development path as well as laying the foundation for career planning. During the reporting period, 70% of staff participated in the training with an average of 17 training hours.

management course training

- 2016 Real Estate Market Outlook
- Face the Internet+
- Analysis of the Real Estate Situation in 2016
- The Approach for small and medium-sized Real Estate Developers

professional course training

- Special training of the “Change from Business Tax to Value-Added Tax”
- Analysis of Project Management for the House Batch Refined Project
- Cost Control of Real Estate Projects
- Typical Problems in Real Estate Engineering Management
- Study of the “Longfor” model and Pre-control

basic course training

- Training Sessions for Administrative Personnel Systems and Processes
- Project Training for Group Financial Systems and Processes
- Interpretation of Labor Contract Law and Case Sharing
- Time Management

Overview of Training Indicators

		Management	Manager	General Staff
No. of Trained Employees	Male	6	9	7
	Female	5	1	8
Training hours	Male	92	221.5	103.5
	Female	76.5	17	96.5

EMPLOYMENT

Employees are our most valuable asset and the cornerstone of our business growth. We believe that every employee should be respected. We treat all employees on an equal footing in matters related to recruitment and promotion. We adopt equal pay for work of equal value, regardless of origin, pregnancy, marital status, race, religion, age, nationality, social or ethnic group, sexual orientation, sex, political opinion or physical disability. We believe that people with different cultures, backgrounds and experiences can add valuable diversity and understanding and bring new ideas to our work. The Group provides competitive remuneration packages for employees. In addition to the five insurance premiums in line with the national laws and regulations, the staff benefits provided by the Group include festival bonus, condolence welfare, meal subsidies, car rewards and travel awards. Such benefits attract and retain the talent which can become the driving force of our sustainable development.

Overview of Employment Performance Indicators

		Below 30	30-50	Over 50	Total no. of employees	Employee ratio between male and female
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No. of Employees	Male	6	27	1	34	2 : 1
	Female	6	9	2	17	

		Below 30	30-50	Over 50	Total no. of new staff	Percentage of new employees
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New Staff	Male	1	4	1	6	17.6%
	Female	3	0	1	4	23.5%

		Below 30	30-50	Over 50	Total number of staff turnover	Turnover rate
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Staff Turnover	Male	4	14	0	18	52.9%
	Female	3	0	1	4	23.5%

In order to fully understand the performance of our staff, we conduct annual performance reviews with all general staff and managers. This enables us to set fair standards as the basis for reward and promotion. The reviews focus on evaluating performance and giving feedback to staff based on this; helping employees understand their potential improvement in order to enhance performance in the following year. The Group will also continue to assess the implementation of the review process and adjust it according to the current situation. During the reporting period, there were no non-compliance cases related to employment or labour practices.

Summary of performance and career development reviews

Categories and Levels	Female		Male	
	No. of Employees	No. of Reviewed Employees	No. of Employees	No. of Reviewed Employees
Management	5	4	10	7
Manager	1	1	11	11
General Staff	11	11	13	13
Total No. of Employees	17	16	34	31

HEALTH AND SAFETY

Regulatory authorities have established basic requirements for health and safety in the workplace in terms of national laws as well as in accordance with international standards. However, the effectiveness of supervision depends heavily on the establishment and implementation of internal systems within each organization. In order to create a safe working environment for employees, we regard occupational health and safety as one of the most important links in enterprise risk management. We not only strictly enforce the relevant laws and regulations, but we also actively develop internal policies and practices beyond basic requirements and relevant to our business sector. The Group also emphasizes safety discipline in the “Staff Handbook”, including the implementation of the safety management system, 5S management in the office, protection measures and manuals for construction site safety.

The property construction management division is responsible to security management and accident prevention at construction sites. Our safety management team, which comprises eight personnel, is responsible for overseeing the safety of our employees during the overall project development process. To maintain a safe working environment, we have established internal policies on safety management whereby different teams are assigned different safety compliance responsibilities to decrease potential risks.

Hailan Holdings not only values the importance of safety management for our own teams, but gives the same attention to the safety of our business partners. The Group requires each construction team to obtain safety-related licenses and receive safety inspections on a regular basis both by us and by third-party construction management companies. Meanwhile, the construction contractors are required to purchase accident insurance for their workers and to protect their workers' safety at construction sites. The Group also engages Independent Third Party construction supervision companies to monitor safety measures throughout the construction process and to submit reports of the inspection results to us on a regular basis.

During the reporting period, there have been no cases related to the violation of Health and Safety regulations. The Group intends to further strengthen and improve occupational health and safety systems and management, so as to minimize the possibility of future accidents and work injuries.

LABOUR STANDARDS

The Group are fully aware that child labour and forced labour violate fundamental human rights, International Labour Conventions and also pose threat to sustainable social and economic development. Hailan Holdings strictly complies with the relevant laws and regulations, prohibiting the use of child labour under the age of 16 years. The Group will not employ any coercive or non-volunteer labour, such as prison labour or bonded labour. We prohibit the use of child labour by reviewing the actual age of the interviewees in the recruitment process, which includes the examination of identity documents and detailed records. We only carry out the requirements of the standard labour contract and will not use any means to unfairly restrict the employment relationship between the employee and the Group. In addition, the Group respects the right of employees to organise and to engage in collective bargaining in a lawful and peaceful manner.

During the reporting period, the Group did not find any cases related to child labour or forced labour.

The International Labour Organization (ILO) is the United Nations specialized agency that promotes working and living standards around the world through the promulgation of labour standards in a range of International Labour Conventions and Recommendations. China is a founding member of the ILO and a permanent member. Hong Kong has currently adopted 41 International Labour Conventions which therefore apply to working conditions and employment policies.

RESPONSIBLE OPERATION

SUPPLY CHAIN MANAGEMENT

Hailan Holdings is well aware that proper management of the supply chain is a key part of maintaining the brand's reputation, ensuring business sustainability and managing operating costs. The Group also strongly values cooperation with suppliers and contractors, and as an important business partner, we hope to establish a long-term and stable supply chain. To achieve this goal, we have established "Suppliers Code of Conduct" for the effective management of project engineering and service suppliers. The guidelines clarify the main responsibilities of our relevant departments on supply chain management, and give instructions on the classification of suppliers, qualification management, selection and review as well as overall relationship maintenance. The guidelines also cover conflict management and the handling of irregularities.

Hailan Holdings has always been strict about project contractors' safety management and occupational health management. The Group will continue to strengthen environmental management, encouraging contractors and subcontractors to use more environmentally friendly equipment and facilities, and to adopt or develop new technologies which are more environmentally friendly. Before the contract execution, the Group will ensure that the contractors understand the environmental requirements and specifications. The construction teams of environmental facilities are further required to hold the relevant licenses issued by authorities or government departments. The contractors' teams are obligated to prevent pollution in the construction process, while cleaning-up all waste and surplus materials on site when the process is complete. The Group's suppliers are mainly located in Hainan Province, Jiangsu Province and Guangdong Province. The partners from Hainan Province make up the largest number, which helps to strengthen the Group's relationship with the local community.

In addition to factors such as technical capabilities, delivery time and price competitiveness, we will consider extending environmental and social requirements to supply chain decisions, requiring our business partners to focus more on sustainability performance.

PRODUCT RESPONSIBILITY

As a property developer, Hailan Holdings is very aware of the customer's attention to the quality of the property. The Customer Service Management division is one of the eight major divisions directly supervised by the Group's management. In compliance with the legal and regulatory requirements, the Group has detailed provisions on the maintenance period, responsibility determination and coverage of warranty in the "Real Estate Purchase & Sale Agreement", "Residence Manual", "Residence Quality Guarantee". The Customer Service Management Division has also simplified the maintenance process. Other than the conventional methods like calling or visiting the property center, owners can also directly report engineering problems or ask for repairs over the Internet using the WeChat app. The Property Management Office will arrange for an engineer to visit the property and solve the problem. Upon the acceptance by the owners, the Property Steward will also call back to follow up. During the reporting period, there were no cases related to violation of product responsibility.

ANTI-CORRUPTION

As a listed company in Hong Kong, we believe that the integrity of business is a foundation of corporate social responsibility, as well as a fundamental element of a business's competitive advantage and sustainability. For these reasons, we have systematically incorporated anti-corruption management principles into our operations, promoted a fair and just commercial competition to achieve win-win situation with external partners and adhered to transparent and open mechanisms for internal management. The Group is engaging internal and external stakeholders to strengthen our anti-corruption procedures. In order to specify the whistle-blowing procedures and ensure the legal rights and interests of individuals reporting problems, we have formulated the "Hailan Holdings Group Offense Reporting System". All these practical actions not only win the trust of customers, but also enhance the sense of belonging and fair play among our employees. Our anti-corruption measures are effective. During the reporting period, there were no cases of corruption litigation against the Group and its employees.

COMMUNITY BUILDING

COMMUNITY INVESTMENT

As a socially responsible company, Hailan Holdings is committed to understanding the needs of the communities in which we operate. The Group's operations create employment opportunities for the local community, and the Group's infrastructure construction creates additional value for the community. The Group has given priority to suppliers in Hainan when selecting business partners, which will help strengthen the Group's relationship with the local community. In project planning, the group focuses on systematically designing complete facilities for the community. The Group is also actively promoting environmentally friendly features, such as the provision of electric bicycles. To boost the interaction of owners and residents, the Group organises events such as community festivals, photo exhibitions and calligraphy competitions. The Group contributes to the sustainable development of the community by building a healthy and dynamic community.



In markets conscious of corporate conduct and the 'social license to operate', the sole pursuit of maximum financial return to shareholders in the short term is not the only goal of business management. Hailan Holdings will strategically integrate corporate social responsibility with our operation model, incorporating social caring into the work programs of the various departments. We will further explore volunteering work which can make use of our staff's skills, and encourage them to engage and solve problems in the community.

ESG REPORTING GUIDE CONTENT INDEX

Material Aspects	Content	Page index
A1 Emissions		
General Disclosure	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. 	52
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	53
A3 The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	53
B1 Employment		
General Disclosure	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. 	55
B1.1	Total workforce by gender, employment type, age group and geographical region.	55

Material Aspects	Content	Page index
B2 Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	56
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	56
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	54-56
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	54-56
B3.2	The average training hours completed per employee by gender and employee category.	54-56
B4 Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	57
B4.1	Description of measures to review employment practices to avoid child and forced labour.	57

Material Aspects	Content	Page index
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	57-58
B6 Product Responsibility		
General Disclosure	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer <p>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.</p>	58
B7 Anticorruption		
General Disclosure	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer <p>relating to bribery, extortion, fraud and money laundering.</p>	58
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	59

Independent Auditor's Report

To the directors of Hailan Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Hailan Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 71 to 155, which comprise the consolidated statement of financial position of the Group as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

Assessing the net realisable value of properties under development for sale and completed properties held for sale (“PUD” and “PHS”)

Refer to accounting policy 2(k) and notes 3(a), 16 and 17 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31 December 2016, the Group held a number of property development projects located in Hainan province which were stated at the lower of cost and net realisable value at an aggregate amount of RMB4.14 billion.</p> <p>The calculation of the net realisable value of each property development project at the financial reporting date is performed by the Group's management.</p> <p>The calculation of net realisable value of PUD and PHS involves significant management judgement and estimation in preparing and updating project feasibility studies and estimations of the costs to complete each property development project as well as in assessing the expected future selling prices for each property (by reference to recent sales transactions in nearby locations and rates of new property sales) and the estimated future selling costs (including price discounts which may be required to stimulate sales) and requires the application of a risk-adjusted discount rate to estimate future discounted cash flows to be derived from each property development project.</p>	<p>Our audit procedures to assess the net realisable value of the Group's PUD and PHS included the following:</p> <ul style="list-style-type: none"> - conducting site visits to all property development sites and discussing with management the progress and development budgets reflected in the net realisable valuable calculations and the latest forecasts for each property development project; - obtaining and inspecting the net realisable calculations prepared by management and assessing the qualifications and experience of those individuals who prepared the calculations; - evaluating the valuation methodology applied by management and comparing the key estimates and assumptions adopted, including those relating to average net future selling prices, with market available data and the sales budget plans prepared by the directors;

KEY AUDIT MATTERS (continued)***Assessing the net realisable value of properties under development for sale and completed properties held for sale ("PUD" and "PHS")*** (continued)

Refer to accounting policy 2(k) and notes 3(a), 16 and 17 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
<p>We identified the assessment of net realisable value of the Group's PUD and PHS as a key audit matter because of the inherent risks involved in estimating the costs to complete each property development project and the future selling prices for each property development project, particularly in light of the current economic circumstances in Mainland China.</p>	<ul style="list-style-type: none"> <li data-bbox="805 614 1394 873">– evaluating management's budgets, by reconciling the significant cost elements to signed construction contracts, benchmarking the percentage of each cost component, and assessing if they are updated on a timely basis to reflect any changes in implementation in management's plans; <li data-bbox="805 916 1394 1175">– re-performing the calculations made by management in arriving at the year end assessments of net realisable value on a sample basis and comparing the estimated construction costs to complete each development with the Group's updated budgets; <li data-bbox="805 1218 1394 1459">– performing sensitivity analyses to determine the extent of changes in those estimates and assumptions which, either individually or collectively, would be required for the PUD and PHS to be materially misstated and considering the likelihood of such a movement in those key estimates arising.

KEY AUDIT MATTERS (continued)

Assessing the recoverability of deferred tax assets	
<i>Refer to accounting policy 2(q) and notes 3(b) and 25(b) to the consolidated financial statements</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31 December 2016, the Group had recognised deferred tax assets of RMB87.8 million, mainly in respect of the accrued expenses and future benefit of accumulated tax losses considered to be recoverable against future taxable profits within a certain period before the tax losses expire.</p> <p>The estimate of future taxable profits requires management's judgement and interpretation of tax laws as well as management's estimate of future taxable profits.</p> <p>The estimate of future taxable profits includes consideration of, inter alia, the timetable for the construction and sale of properties on vacant land held by the Group for future development.</p> <p>The recoverability of recognised deferred tax assets could vary significantly if different assumptions are applied in estimating future taxable profits and the ability to utilise the accumulated tax losses. Given the inherent uncertainties in these estimations by management there is a risk that the deferred tax assets recognised in the Group's statement of financial position may be over-estimated or under-estimated and any adjustment would directly affect the Group's profit and the effective tax rate for the period.</p>	<p>Our audit procedures to assess the recoverability of deferred tax assets included the following:</p> <ul style="list-style-type: none"> – obtaining and inspecting the development plans and forecast of taxable profits prepared by management and comparing the estimate of future taxable profits with the accumulated tax losses; – assessing the principles and integrity of the model used to forecast taxable profits by comparing the key assumptions (including unit selling prices, budget unit costs and administration and other costs) with the Group's development plans; – considering the historical accuracy of such development plans by comparing key data with internal and external documents (including approval certificates and milestone documentation) and challenging management as to whether the development plans needed to be adjusted for any delays identified in the Group's property development projects; – comparing the key estimates and assumptions adopted in the sales budget plans prepared by the directors, including those relating to average net future selling prices, with market available data;

KEY AUDIT MATTERS (continued)**Assessing the recoverability of deferred tax assets** (continued)

Refer to accounting policy 2(q) and notes 3(b) and 25(b) to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
<p>We identified the recoverability of deferred tax assets as a key audit matter because of the inherent risk of error associated with management's estimate of future taxable profits.</p>	<ul style="list-style-type: none"> <li data-bbox="805 571 1394 873">– re-performing calculations made by management in determining the forecast taxable profits and performing sensitivity analyses to determine the extent of changes in those estimates that management used in the calculation which, either individually or collectively, would have a significant adverse impact on the forecast taxable profits; <li data-bbox="805 905 1394 1131">– assessing the appropriateness of the application of tax laws, the appropriateness of tax deductions and the ability to offset forecast taxable profits against the accumulated tax losses with the assistance of our internal tax specialists; <li data-bbox="805 1164 1394 1317">– assessing whether the related disclosures in the Group's consolidated financial statements were consistent with the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

AUDIT'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

29 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Turnover	4	1,400,827	1,556,962
Cost of sales		(974,095)	(1,128,778)
Gross profit		426,732	428,184
Other income	5	143	3,126
Change in fair value of investment properties	13	5,938	4,773
Selling and distribution expenses		(67,764)	(36,625)
Administrative expenses		(74,638)	(57,337)
Other expenses	5	(7,003)	(5,367)
Operating profit		283,408	336,754
Finance income		1,128	13,467
Finance costs		(53,126)	(14,374)
Net finance costs	6(a)	(51,998)	(907)
Share of losses of an associate		–	(640)
Gain from disposal of joint ventures		–	6,922
Gain from disposal of subsidiaries		–	12
Profit before taxation from continuing operations		231,410	342,141
Income tax	7	(183,366)	(157,988)
Profit from continuing operations		48,044	184,153
Discontinued operation			
Profit from discontinued operation, net of tax		–	1,210
Profit for the year		48,044	185,363
Attributable to:			
Equity shareholders of the Company		65,012	191,812
Non-controlling interests		(16,968)	(6,449)
Profit for the year		48,044	185,363

The notes on pages 78 to 155 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Basic and diluted earnings per share (RMB)	11	0.25	0.83
Profit for the year		48,044	185,363
Other comprehensive income	10		
Item that will not be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of the Company		8,575	–
Other comprehensive income for the year		8,575	–
Total comprehensive income for the year		56,619	185,363
Attributable to:			
Equity shareholders of the Company		73,587	191,812
Non-controlling interest		(16,968)	(6,449)
Total comprehensive income for the year		56,619	185,363

The notes on pages 78 to 155 form part of these financial statements.

Consolidated Statement of Financial Position

(Expressed in Renminbi)

		31 December 2016	31 December 2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	12	49,367	53,581
Investment properties	13	172,600	165,180
Intangible assets	14	815	977
Available-for-sale financial assets		–	17
Deferred tax assets	25(b)	87,815	40,606
		310,597	260,361
Current assets			
Properties under development	16(a)	2,333,986	3,672,318
Completed properties held for sale	17	1,807,600	1,244,114
Trade and other receivables	18	174,634	301,287
Current tax assets	25(a)	72,208	41,710
Available-for-sale financial assets	19	100,000	–
Restricted cash	20	14,635	4,074
Cash and cash equivalents	21(a)	451,182	142,991
		4,954,245	5,406,494
Total assets		5,264,842	5,666,855
Current liabilities			
Trade and other payables	22	1,828,823	2,715,553
Loans and borrowings	23	272,511	485,000
Current tax liabilities	25(a)	238,919	99,481
		2,340,253	3,300,034
Net current assets		2,613,992	2,106,460
Total assets less current liabilities		2,924,589	2,366,821

The notes on pages 78 to 155 form part of these financial statements.

Consolidated Statement of Financial Position

(Expressed in Renminbi)

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current liabilities			
Loans and borrowings	23	701,342	442,290
Deferred tax liabilities	25(b)	534,733	538,849
		1,236,075	981,139
Net assets			
		1,688,514	1,385,682
Equity			
Share capital	26	2,585	10,359
Reserves	26	1,751,676	1,501,495
Accumulated losses		(385,388)	(420,828)
Total equity attributable to equity shareholders of the Company		1,368,873	1,091,026
Non-controlling interests		319,641	294,656
Total equity		1,688,514	1,385,682

Approved and authorized for issue by the board of directors on 29 March 2017.

)
) **Yeung Man**
) *Director*
)

The notes on pages 78 to 155 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(Expressed in Renminbi)

		Share capital	Share premium	Other reserve	Statutory surplus reserve	Accumulated losses	Exchange reserve	Total	Non- controlling interests	Total equity
	Note	RMB'000 Note 26(c)	RMB'000 Note 26(d)(i)	RMB'000 Note 26(d)(ii)	RMB'000 Note 26(d)(iii)	RMB'000	RMB'000 Note 26(d)(iv)	RMB'000	RMB'000	RMB'000
At 1 January 2015		410,359	-	1,488,066	80,300	(578,117)	-	1,400,608	301,105	1,701,713
Changes in equity for 2015:										
Profit and total comprehensive income										
for the year		-	-	-	-	191,812	-	191,812	(6,449)	185,363
Appropriation to statutory reserves		-	-	-	4,856	(4,856)	-	-	-	-
Dividends declared during the year		-	-	-	-	(29,667)*	-	(29,667)	-	(29,667)
Arising from re-organization	26	(400,000)	-	(71,727)	-	-	-	(471,727)	-	(471,727)
At 31 December 2015 and 1 January 2016		10,359	-	1,416,339	85,156	(420,828)	-	1,091,026	294,656	1,385,682
Changes in equity for 2016:										
Profit for the year		-	-	-	-	65,012	-	65,012	(16,968)	48,044
Other comprehensive income		-	-	-	-	-	8,575	8,575	-	8,575
Total comprehensive income for the year		-	-	-	-	65,012	8,575	73,587	(16,968)	56,619
Arising from re-organization	26(c)(i)	(10,359)	-	(24,757)	-	(1,709)	-	(36,825)	36,825	-
Capitalisation issue	26(c)(ii)	1,939	(1,939)	-	-	-	-	-	-	-
Issue of ordinary shares by initial public offering ("IPO"), net of issuance costs	26(c)(iii)	646	238,730	-	-	-	-	239,376	-	239,376
Equity settled share-based transactions		-	-	-	-	1,709	-	1,709	5,128	6,837
Appropriation to statutory reserves		-	-	-	29,572	(29,572)	-	-	-	-
At 31 December 2016		2,585	236,791	1,391,582	114,728	(385,388)	8,575	1,368,873	319,641	1,688,514

* All dividends declared during 2015 represented the dividends attributable to previous financial years.

The notes on pages 78 to 155 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from/(used in) operations	21(b)	1,148,430	(314,916)
Income tax paid		(125,876)	(117,573)
Net cash generated from/(used in) operating activities		1,022,554	(432,489)
Investing activities			
Interest received		1,128	13,467
Payment for the purchase of property, plant and equipment		(179)	(2,621)
Payment for purchase of available-for-sale financial assets		(100,000)	–
Payment for purchase of interest in a joint venture		–	(2,450)
Proceeds from disposal of joint ventures		–	52,372
Proceeds from receipt of amounts due from related parties		–	63,654
Proceeds from disposal of subsidiaries, net of cash disposed		–	(80,147)
Proceeds from shares transfer of a subsidiary		10,000	–
Proceeds from sales of property, plant and equipment		532	–
Proceeds from disposal of other investment		895	–
Net cash (used in)/generated from investing activities		(87,624)	44,275

The notes on pages 78 to 155 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016
(Expressed in Renminbi)

	<i>Note</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Financing activities			
Proceeds from issuance of new shares, net of relevant expenses		239,376	–
Proceeds from new interest-bearing loans		769,000	58,000
Repayment of bank loans		(719,000)	(195,000)
Repayment of loan interests		(69,256)	(97,454)
Dividends paid		(489,630)	(29,667)
Increase in restricted cash		(10,557)	(1,871)
Net cash (to)/from Zhong Hui Nanjing	<i>30(c)</i>	(328,019)	626,452
Net cash (to)/from Nanjing San Long	<i>30(c)</i>	(27,228)	93,050
Net cash to Sanya Hai Hui		–	(58,000)
Net cash (used in)/generated from financing activities		(635,314)	395,510
Net increase in cash and cash equivalents		299,616	7,296
Cash and cash equivalents at 1 January		142,991	135,695
Effect of foreign exchange rate changes		8,575	–
Cash and cash equivalents at end of year	<i>21(a)</i>	451,182	142,991

The notes on pages 78 to 155 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

1 GENERAL INFORMATION

Mr. Yeung Man (the “Ultimate Controlling Shareholder”) beneficially owned and controlled various companies in the Cayman Islands, the British Virgin Islands (the “BVI”), Hong Kong and the PRC which are principally engaged in investment holding, property development, sale and rental of developed property. In preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company was incorporated in the Cayman Islands on 31 August 2015 as an exempted company with limited liability under the Company Law Chapter 22, (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the reorganisation completed on 8 April 2016 (the “Reorganisation”), details of which are set out in the section headed History, Reorganisation and Group Structure in the prospectus of the Company dated 30 June 2016 (the “Prospectus”), the Company became the holding company of the companies comprising this group (the “Group”).

As all the companies now comprising the Group that took part in the reorganisation were controlled by the Ultimate Controlling Shareholder before and after the reorganisation, there was a continuation of the risks and benefits to the Ultimate Controlling Shareholder. The reorganisation is considered to be a business combination under common control and Accounting Guideline 5 “Merger Accounting for Common Control Combinations” has been applied. Accordingly, the financial information before the completion of the Reorganisation has been prepared as if the Group had always been in existence.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows of the Group include the results of operations of the Company and its subsidiaries for 2015 (or where the Company was incorporated on 31 August 2015, for the period from the date of incorporation to 31 December 2015) as if the Reorganisation was completed at 1 January 2015. The consolidated statement of financial position of the Group as at 31 December 2015 has been prepared to present the financial position of the Company and its subsidiaries as if the entities now comprising the Group had been consolidated as at that date.

All material intra-group transactions and balances have been eliminated on consolidation.

The Company’s shares were listed on the Stock Exchange on 15 July 2016 (the “Listing date”) (the “Listing”).

2 SIGNIFICANT ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(B) BASIS OF PREPARATION AND PRESENTATION

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries.

The consolidated financial statements of the Group is presented in Renminbi (“RMB”), rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- Investment property (see Note 2(f))
- Financial instruments classified as available-for-sale (see Note 2(e))

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(C) CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented.

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

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(D) SUBSIDIARIES AND NON-CONTROLLING INTERESTS

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(m) or (n) depending on the nature of the liability.

In respect of accounting for the Group's investment in the subsidiary of Danzhou Shuang Lian Property Development Co., Ltd. ("Danzhou Shuang Lian"), which was divided into phase I and II and the Group does not share any risks and rewards relating to phase I pursuant to the investment agreements (see Note 4(b) and Note 15), the assets and liabilities as well as turnover, cost of sales and other items in the consolidated statement of profit or loss and other comprehensive income related to Danzhou Shuang Lian phase I have been included as part of the assets and liabilities as well as profit or loss and other comprehensive income items of Danzhou Shuang Lian as they are not legally separable from other assets and liabilities as well as profit or loss and other comprehensive income items related to phase II of Danzhou Shuang Lian.

The acquisition of Danzhou Shuang Lian has been accounted for as a business combination and the net profit or loss, net assets or liabilities arising from phase I are wholly attributable to, and accordingly are deducted through the inclusion of such amounts in, the non-controlling interests in the Group's consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(D) SUBSIDIARIES AND NON-CONTROLLING INTERESTS (continued)

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(j)).

(E) OTHER INVESTMENTS IN DEBT AND EQUITY SECURITIES

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities which are not held for trading or are not dated debt or the Group and/or the Company does not have the positive ability and intention to hold to maturity are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see Note 2(j)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in Notes 2(s)(iii) and 2(s)(iv) respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see Note 2(j)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(F) INVESTMENT PROPERTY

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income (Note 2(s)(ii)).

Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in profit or loss. Rental income from investment properties is accounted for as described in Note 2(s)(ii).

Transfers to investment properties are made when there is a change in use, evidenced by:

- Commencement of an operating lease (Note 2(i)) to another party, for a transfer from development properties to investment properties.

When the use of a property changes such that it is reclassified as investment properties, its fair value at the date of transfer becomes its cost for subsequent accounting.

(G) PROPERTY, PLANT AND EQUIPMENT

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses (see Note 2(j)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour; and
- any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(G) PROPERTY, PLANT AND EQUIPMENT (continued)

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset.

The estimated useful lives for the current and comparative year of significant items of property, plant and equipment are as follows:

	Years	Estimated residual value as a percentage of costs
Vehicles	4	5%
Electronic devices	3	5%
Machines, furniture, office equipment and others	5	5%
Buildings	20	5%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(H) INTANGIBLE ASSETS

(i) Intangible assets

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses (see Note 2(j)).

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortisation

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

The estimated useful lives for the current and comparative year are as follows:

Software	10 years
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Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(I) OPERATING LEASE CHARGES

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

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

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as property under development for sales and completed property held for sale (Note 2(k)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(J) IMPAIRMENT OF ASSETS

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

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

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(J) IMPAIRMENT OF ASSETS (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

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

- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(J) IMPAIRMENT OF ASSETS (continued)

(ii) Impairment of other assets

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

- Property, plant and equipment;
- Intangible assets; and
- Investments in subsidiaries in the Company's statement of financial position.

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

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

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

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(J) IMPAIRMENT OF ASSETS (continued)

(ii) Impairment of other assets (continued)

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(iii) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity securities increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(K) PROPERTY DEVELOPMENT

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

- Properties under development for sale

The cost of properties under development for sale comprises specifically identified cost, including: land use rights, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see Note 2(u)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

- Completed properties held for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the properties to their present location and condition.

(L) TRADE AND OTHER RECEIVABLES

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

(M) INTEREST-BEARING BORROWINGS

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

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(N) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(O) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(P) EMPLOYEE BENEFITS

(i) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(ii) Defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of assets or charged to profit or loss as the related services are rendered by the employees.

(iii) Share-based payments

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(P) EMPLOYEE BENEFITS (continued)

(iii) Share-based payments (continued)

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

(Q) TAX

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(Q) TAX (continued)

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(Q) TAX (continued)

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(R) PROVISIONS AND CONTINGENT LIABILITIES

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

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

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(S) REVENUE RECOGNITION

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

(i) Sales of properties

Revenue from sales of properties is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyers. The Group considers that the significant risks and rewards of ownership are transferred when the properties are completed and delivered to the buyers. Revenue from sales of properties excludes business tax or other sales related taxes and is after deduction of any trade discounts. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statements of financial position as receipts in advance.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Dividends

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

(iv) Interest income

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

(v) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(T) TRANSLATION OF FOREIGN CURRENCIES

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

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

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

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(U) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(V) DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as and other comprehensive income discontinued, a single amount is presented on the face of the statement of profit or loss and other comprehensive income, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(W) RELATED PARTIES

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(W) RELATED PARTIES (continued)

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

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

(X) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the consolidated financial statements of the Group, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

3 ACCOUNTING ESTIMATES

Notes 13, 24 and 27 contains information about the assumptions and their risk factors relating to valuation of investment property, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(A) WRITE-DOWN OF INVENTORIES FOR PROPERTY DEVELOPMENT

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject property, the Group makes estimates of the selling price, the costs of completion in case for properties under development, and the costs to be incurred in selling the properties.

If there is an increase in costs to completion or a decrease in net sales value, provision for completed properties held for sale, properties held for future development and under development for sale may be resulted. Such provision requires the use of judgment and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

Given the volatility of the PRC property market and the distinctive nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than estimated at the end of the reporting period. Any increase or decrease in the provision would affect profit or loss in future years.

(B) RECOGNITION OF DEFERRED TAX ASSETS

Deferred tax assets are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgment exercised by the directors. Any change in such assumptions and judgment would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

3 ACCOUNTING ESTIMATES (continued)

(C) PROVISION FOR LAT

As explained in Note 7(b)(iii), The Group has estimated, made and included in tax provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for LAT is calculated. Significant judgment is required in determining the level of provision, as the calculation of which depends on the ultimate tax determination. Given the uncertainties of the calculation basis of LAT as interpreted by the local tax bureau, the actual outcomes may be higher or lower than those estimated at the end of the reporting period. Any increase or decrease in the actual outcomes/estimates will impact the income tax provision in the period in which such determination is made.

In determining the amount of LAT, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(D) RECOGNITION AND ALLOCATION OF CONSTRUCTION COSTS ON PROPERTIES UNDER DEVELOPMENT

Development costs of properties are recorded as properties under development during construction stage and will be transferred to profit or loss upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group typically divides the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated market value of each phase as a percentage of the total estimated market value of the entire project, or if the above is not practicable, the common costs are allocated to individual phases based on saleable area.

When the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

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4 TURNOVER AND SEGMENT REPORTING

(A) TURNOVER

The principal activities of the Group are development and sales of properties as well as development and lease of properties in the PRC.

Turnover mainly represented income from sales and rentals of properties, net of business tax and other sales related taxes, and was after deduction of any trade discounts.

The amount of each significant category of revenue is as follows:

	2016 RMB'000	2015 RMB'000
Property development:		
– Development projects (excluding Danzhou Phase I)	1,348,212	1,402,150
– Danzhou Phase I	48,462	154,276
Investment property rentals	4,153	536
	1,400,827	1,556,962

(B) SEGMENT REPORTING

Business segments

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the reporting format for the purposes of these consolidated financial statements of the Group.

No geographical segment information is separately presented as the Group's business segments are mainly managed and operated in the Hainan Province of the PRC. The major market of the Group's business segments is the Hainan Province of the PRC.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. There are no inter-segment sales or other transactions within the Group.

4 TURNOVER AND SEGMENT REPORTING (continued)

(B) SEGMENT REPORTING (continued)

Business segments (continued)

For management purposes, the Group is organised into business units based on the line of reporting, and has two reportable operating segments as follows:

I. Development projects (excluded Danzhou phase I but including Danzhou phase II)

All the Group's development projects refer to the development and sales of residential property units conducted in Hainan Province.

II. Danzhou phase I

Danzhou phase I project refers to the development and sales of residential property units conducted under phase I of Danzhou Shuang Lian Property Development Co., Ltd. in Hainan Province (Note 15).

The Group's Chairman monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Income taxes are managed on a group basis and are not allocated to operating segments. There are no inter-segment sales or other transactions within the Group.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets and liabilities include all assets and liabilities of the Group, which are managed directly by the segments.

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

The measure used for reporting segment profit is "adjusted EBIT" i.e. "adjusted earnings before interest and taxes", where "interest" is regarded as including investment income. To arrive at adjusted EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of losses of an associate, gains from disposals of joint ventures, listing expenses and other non-operating items.

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(Expressed in Renminbi thousands unless otherwise indicated)

4 TURNOVER AND SEGMENT REPORTING (continued)

(B) SEGMENT REPORTING (continued)

Business segments (continued)

(i) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

For the year ended	Development Projects		Danzhou Phase I		Total	
	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	1,351,507	1,402,686	49,320	154,276	1,400,827	1,556,962
Inter-segment revenue	-	-	-	-	-	-
Reportable segment revenue	1,351,507	1,402,686	49,320	154,276	1,400,827	1,556,962
Reportable segment gross profit	423,110	414,390	3,622	13,794	426,732	428,184
Reportable segment profit/(loss) (adjusted EBIT)	308,840	346,340	(5,717)	5,382	303,123	351,722
As at 31 December						
Reportable segment assets	4,865,950	5,254,564	398,892	412,291	5,264,842	5,666,855
<i>Including:</i>						
Cash and cash equivalents	448,485	131,906	2,697	11,085	451,182	142,991
Properties under development	2,333,986	3,672,318	-	-	2,333,986	3,672,318
Completed properties held for sale	1,476,732	917,095	330,868	327,019	1,807,600	1,244,114
Reportable segment liabilities	3,244,055	3,976,072	332,273	305,101	3,576,328	4,281,173
<i>Including:</i>						
Loans and borrowings	973,853	927,290	-	-	973,853	927,290
Trade and other payables	1,509,171	2,420,313	319,652	295,240	1,828,823	2,715,553

4 TURNOVER AND SEGMENT REPORTING (continued)**(B) SEGMENT REPORTING** (continued)**Business segments** (continued)**(ii) Reconciliation of reportable segment profit or loss**

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Reportable segment profit (adjusted EBIT)	303,123	351,722
Elimination of inter-segment profits	-	-
Reportable segment profits derived from Group's external customers	303,123	351,722
Other income	143	3,126
Listing expenses	(12,855)	(12,727)
Other expenses	(7,003)	(5,367)
Finance income	1,128	13,467
Finance costs	(53,126)	(14,374)
Share of losses of an associate	-	(640)
Gains from disposal of joint ventures	-	6,922
Gain from disposal of subsidiaries	-	12
Consolidated profits before taxation from continuing operations	231,410	342,141

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

5 OTHER INCOME AND OTHER EXPENSES

OTHER INCOME

	2016 RMB'000	2015 RMB'000
Government subsidies	–	2,556
Forfeiture of customer deposits	143	570
	143	3,126

OTHER EXPENSES

	Note	2016 RMB'000	2015 RMB'000
Land premium late payment charges	(i)	4,429	4,767
Tax late payment charges		216	–
Value added tax for invoiced intra-group interest income		1,666	–
Administrative fines		–	500
Others		692	100
		7,003	5,367

Note (i): The late payment charges represents interests incurred from overdue land premium. The Group has settled the accumulated amounts of RMB60,059,000 on 26 January 2017 with the relevant government authority.

6 PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS

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

(A) FINANCE COSTS

	Note	2016 RMB'000	2015 RMB'000
Finance income			
Interest income arising from financial assets not measured at fair value through profit or loss	(i)	(1,128)	(13,467)
Sub-total		(1,128)	(13,467)
Finance costs			
Interest expenses arising from financial liabilities not measured at fair value through profit or loss		93,031	91,893
Less: Capitalized interest expenses	(ii)	(39,905)	(77,519)
Sub-total		53,126	14,374
Net finance costs		51,998	907

Note (i): Financial assets represent bank deposits and interest-bearing amounts due from related parties.

Note (ii): The borrowing costs have been capitalised at rates 4.20% and 5.89% per annum for the years ended 31 December 2016 and 2015 respectively.

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(Expressed in Renminbi thousands unless otherwise indicated)

6 PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS (continued)

(B) STAFF COSTS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Salaries, wages and other benefits	15,999	11,444
Equity-settled share-based transactions expenses <i>(Note 24)</i>	6,837	–
Contribution to defined contribution retirement plan	1,119	510
	23,955	11,954

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the “Schemes”) which are administered and operated by the relevant local government authorities. The Group is required to make contributions to the Schemes at certain percentages of the employee salary as agreed by local municipal government. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

(C) OTHER ITEMS

	<i>Note</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Depreciation	12	4,231	5,037
Amortisation	14	162	129
Auditor’s remuneration		2,300	88
Cost of properties sold		974,095	1,128,778
Allowance for impairment loss made on trade and other receivables	18(b)	–	19

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

(A) INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME REPRESENTS:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current tax		
PRC corporate income tax ("CIT") for the year	110,415	97,881
Over-provision in respect of prior years	(11,091)	–
PRC land appreciation tax ("LAT") for the year	135,367	116,101
Sub-total	234,691	213,982
Deferred taxation		
Origination and reversal of temporary differences	(48,311)	(10,911)
Reversal of LAT provision	(3,014)	(44,540)
Sub-total	(51,325)	(55,451)
Total	183,366	158,531
Tax expenses from continuing operations	183,366	157,988
Tax expenses from discontinued operations	–	543
Total income tax expenses	183,366	158,531

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

(B) RECONCILIATION BETWEEN INCOME TAX EXPENSE AND PROFIT BEFORE TAXATION AT APPLICABLE TAX RATES:

	2016 RMB'000	2015 RMB'000
Profit before taxation from		
– continuing operations	231,410	342,141
– discontinued operations	–	1,753
	231,410	343,894
Notional tax on profit before taxation calculated at the standard tax rate applicable in the jurisdiction concerned (Notes (i) to (ii))	61,644	85,974
Tax effect of non-deductible expenses	1,769	1,402
Tax effect of non-deductible land cost adjustments	41,135	16,744
Over-provision in respect of prior years	(11,091)	–
Tax effect of prior years' timing difference not recognised	(10,009)	–
Effect on unused tax losses not recognised	653	740
LAT (Note (iii))	132,353	71,561
Tax effect on LAT	(33,088)	(17,890)
Income tax expenses	183,366	158,531

- (i) Pursuant to the rules and regulations of the BVI and the Cayman Islands, the Group is not subject to any income tax in the BVI and the Cayman Islands in 2016 (2015: Nil).
- (ii) No provision for Hong Kong Profits Tax was made as the Group's Hong Kong subsidiaries did not earn any income subject to Hong Kong Profits Tax in 2016 (2015: Nil).
- (iii) LAT is levied on properties developed by the Group in the PRC for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including lease charges of land use right, borrowing costs and all qualified property development expenditures.
- (v) According to the PRC CIT Law and its related regulations, the Group is subject to a withholding tax at 10%, unless reduced by tax treaties or arrangements, for dividends distributed by a PRC enterprise to its immediate holding company outside the PRC for earnings generated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. According to the China-HK Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of a PRC enterprise is entitled to a reduced withholding rate of 5%.

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8 DIRECTORS' EMOLUMENTS

Details of directors' emoluments of the Company are as follows:

	For the year ended 31 December 2016				
	Directors' fees	Salaries, allowances and benefits in kinds	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive director</i>					
Yeung Man	-	228	272	-	500
Zhou Li	-	300	400	-	700
Huang An Nan	-	975	500	-	1,475
Fan Wen Yi	-	250	247	-	497
<i>Non-executive director</i>					
Wang Pei	-	320	42	-	362
<i>Independent Non-executive director</i>					
Li Zhong	100	-	-	-	100
E Jun Yu	100	-	-	-	100
Chen Shi Min	100	-	-	-	100
	300	2,073	1,461	-	3,834

	For the year ended 31 December 2015				
	Directors' fees	Salaries, allowances and benefits in kinds	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive director</i>					
Yeung Man	-	228	-	-	228
Zhou Li	-	300	400	-	700
Huang An Nan	-	641	-	-	641
Fan Wen Yi	-	450	-	-	450
<i>Non-executive director</i>					
Wang Pei	-	160	88	-	248
	-	1,779	488	-	2,267

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS (continued)

No directors of the Company waived or agreed to waive any emoluments in 2016 (2015: Nil). RMB300,000 were paid to independent non-executive directors in 2016 (2015: Nil).

In 2016, there were no amounts paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office (2015: Nil).

The Company did not have any share option scheme for the purchase of ordinary shares in the Company as of 31 December 2016 (2015: Nil).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

In 2016, the five individuals with the highest emoluments, two (2015: two) are directors of the Company whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other individuals are as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Salaries and other emoluments	2,698	1,100
Retirement scheme contributions	–	–
	2,698	1,100

The emoluments of these individuals with the highest emoluments are within the following bands:

	2016 <i>Number of individuals</i>	2015 <i>Number of individuals</i>
HKDNil to 1,000,000	2	3
HKD1,000,000 to 2,000,000	1	–
	3	3

10 OTHER COMPREHENSIVE INCOME

TAX EFFECT RELATING TO EACH COMPONENT OF OTHER COMPREHENSIVE INCOME

	2016			2015		
	Before-tax amount RMB'000	Tax expense RMB'000	Net-of-tax amount RMB'000	Before-tax amount RMB'000	Tax expense RMB'000	Net-of-tax amount RMB'000
Exchange differences on translation of:						
– Financial statements of the Company	(8,575)	-	(8,575)	-	-	-
Other comprehensive income	(8,575)	-	(8,575)	-	-	-

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB65,012,000 (2015: RMB190,602,000 from continuing operations and RMB1,210,000 from discontinued operation) and the weighted average of 259,631,148 ordinary shares (2015: 225,000,000 ordinary shares) in issue during the year, calculated as follows:

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

	2016	2015
Issued ordinary shares at 1 January	1	-
Effect of issuance of shares upon incorporation of the Company (Note 26(c)(i))	-	1
Effect of issuance of shares upon completion of Reorganisation on 8 April 2016 (Note 26(c)(i))	999	999
Effect of issuance of shares upon completion of the Capitalisation issue on 15 July 2016 (Note 26(c)(ii))	224,999,000	224,999,000
Effect of issuance of shares upon completion of the IPO on 15 July 2016 (Note 26(c)(iii))	34,631,148	-
Weighted average number of ordinary shares at 31 December	259,631,148	225,000,000

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11 EARNINGS PER SHARE (continued)

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES (continued)

The weighted average number of shares in issue during the year ended 31 December 2016 is based on the assumption that 225,000,000 ordinary shares of the Company were in issue, comprising 1 share in issue, 999 shares issued pursuant to the completion of the Reorganisation and 224,999,000 shares issued pursuant to the Capitalisation issue, as if these shares were outstanding throughout the period from 1 January 2016 to the Listing Date, and 75,000,000 shares issued under the IPO. The weighted average number of shares in issue during the year ended 31 December 2015 is based on the assumption that 225,000,000 ordinary shares of the Company were in issue, comprising 1 share in issue, 999 shares to be issued pursuant to the completion of the Reorganisation and 224,999,000 shares to be issued pursuant to the Capitalisation issue, as if these shares were outstanding throughout the year ended 31 December 2015.

There were no dilutive potential ordinary shares during the years ended 31 December 2016 and 2015 and, therefore, the diluted earnings per share were the same as the basic earnings per share.

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12 PROPERTY, PLANT AND EQUIPMENT

	Vehicles <i>RMB'000</i>	Electronic devices <i>RMB'000</i>	Machines, furniture, office equipment and others <i>RMB'000</i>	Buildings <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:					
At 1 January 2015	5,357	2,800	1,551	57,729	67,437
Additions	126	5	2,490	-	2,621
Disposals	(940)	(522)	(59)	-	(1,521)
At 31 December 2015	4,543	2,283	3,982	57,729	68,537
At 1 January 2016	4,543	2,283	3,982	57,729	68,537
Additions	125	25	28	-	178
Disposals	(566)	-	-	-	(566)
At 31 December 2016	4,102	2,308	4,010	57,729	68,149
Accumulated depreciation:					
At 1 January 2015	2,647	1,880	838	5,484	10,849
Charge for the year	917	392	986	2,742	5,037
Disposals	(501)	(391)	(38)	-	(930)
At 31 December 2015	3,063	1,881	1,786	8,226	14,956
At 1 January 2016	3,063	1,881	1,786	8,226	14,956
Charge for the year	629	90	770	2,742	4,231
Disposals	(405)	-	-	-	(405)
At 31 December 2016	3,287	1,971	2,556	10,968	18,782
Net book value:					
At 31 December 2016	815	337	1,454	46,761	49,367
At 31 December 2015	1,480	402	2,196	49,503	53,581

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13 INVESTMENT PROPERTIES

	Investment properties RMB'000
Net book value:	
At 1 January 2015	–
Transfer from properties under development (Note 16(a))	160,407
Fair value adjustments	4,773
At 31 December 2015	165,180
Representing	
Cost	160,407
Valuation	4,773

	Investment properties RMB'000
Net book value:	
At 1 January 2016	165,180
Transfer from properties under development (Note 16(a))	1,482
Fair value adjustments	5,938
At 31 December 2016	172,600
Representing	
Cost	161,889
Valuation	10,711

As at 31 December 2016, certain of the Group's investment properties were pledged as collaterals for bank loans granted to the Group (Note 23).

13 INVESTMENT PROPERTIES (continued)**FAIR VALUE MEASUREMENT OF PROPERTIES****(i) Fair value hierarchy**

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2016 RMB'000	Fair value measurements as at 31 December 2016 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Investment properties				
– Residential	172,600	–	–	172,600

	Fair value at 31 December 2015 RMB'000	Fair value measurements as at 31 December 2015 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Investment properties				
– Residential	165,180	–	–	165,180

During the year ended 31 December 2016, there were no transfers into or out of Level 3 (2015: nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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13 INVESTMENT PROPERTIES (continued)

FAIR VALUE MEASUREMENT OF PROPERTIES (continued)

(i) Fair value hierarchy (continued)

All of the Group's investment properties were revalued as at 31 December 2016. The valuations were carried out by an independent firm of surveyors, Cushman & Wakefield international property advisers, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's finance manager has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
Investment properties – Residential	Income capitalization approach	Capitalisation rate	3.0% to 4.5% (2015: 3.0% to 4.5%)
		Expected occupancy rate	80% to 90% (2015: 80% to 90%)

The fair value of investment properties located in the Mainland China is determined by capitalising a projected return associated with the properties using risk-adjusted capitalisation rates. The valuation takes into account expected occupancy rate of the respective properties. The capitalization rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the occupancy rate, and negatively correlated to the risk-adjusted capitalisation rates.

Fair value adjustment of investment properties is recognized in the line item "Change in fair value of investment properties" on the face of the consolidated statement of profit or loss and total comprehensive income.

All the gains recognized in profit or loss and total comprehensive income for the year arise from the properties held at the end of the reporting period.

13 INVESTMENT PROPERTIES (continued)**FAIR VALUE MEASUREMENT OF PROPERTIES** (continued)**(ii) Information about Level 3 fair value measurements** (continued)

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 1 year	6,025	–
After 1 year but within 5 years	9,535	17,236
	15,560	17,236

14 INTANGIBLE ASSETS

	Software <i>RMB'000</i>
Cost:	
At 1 January 2015	1,526
Additions	–
At 31 December 2015	1,526
Additions	–
At 31 December 2016	1,526
Accumulated amortization:	
At 1 January 2015	420
Charge for the year	129
At 31 December 2015	549
Charge for the year	162
At 31 December 2016	711
Net book value:	
At 31 December 2016	815
At 31 December 2015	977

Intangible assets represent software costs.

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(Expressed in Renminbi thousands unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES

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

Name of company	Date and place of incorporation/ establishment	Paid-in/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Zhong Jia (Hong Kong) Investment Construction Company Limited ("Zhong Jia (Hong Kong)") 中嘉(香港)投資建設有限公司	18 December 2012 Hong Kong	HKD10,000	100%	100%	-	Investment holding
Peak Well Investment Development Limited ("Peak Well") 頂豐投資發展有限公司	05 January 2010 BVI	USD50,000	100%	100%	-	Investment holding
Time Being Group Limited ("Time Being") 正時集團有限公司	08 October 2009 Hong Kong	HKD10,000	100%	-	100%	Investment holding
Lianyungang Tai Sheng City Development Co., Ltd. ("Lianyungang Tai Sheng Development") 連雲港泰盛城市發展有限公司*	18 November 2009 The PRC	RMB10,000,000	100%	-	100%	Investment holding
Lianyungang Long Ji Properties Co., Ltd. ("Lianyungang Long Ji Properties") 連雲港隆基置業有限公司*	07 February 2007 The PRC	RMB10,000,000	100%	-	100%	Investment holding
Nanjing Jia Pei Investment Management Consulting Co., Ltd. ("Nanjing Jia Pei") 南京嘉沛投資管理諮詢有限公司*	11 September 2013 The PRC	USD500,000	100%	-	100%	Investment holding
Sanya Feng Huang Xin Cheng Industrial Co., Ltd. ("Sanya Fenghuang Xincheng") 三亞鳳凰新城實業有限公司*	11 July 2007 The PRC	RMB400,000,000	100%	-	100%	Property development
Sanya Feng Huang Shui Yun Real Estate Development Co., Ltd. ("Sanya Fenghuang Shuiyun") 三亞鳳凰水韻房地產開發有限公司*	21 October 2009 The PRC	RMB280,000,000	100%	-	100%	Property development

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Date and place of incorporation/ establishment	Paid-in/ registered capital	Group's effective interest	Proportion of ownership interest		Principal activities
				Held by the Company	Held by a subsidiary	
Hainan Nan Hai Xiang Long Real Estate Development Co., Ltd. ("Hainan Nanhai Xiang Long") 海南南海翔龍房地產開發有限公司*	18 April 2002 The PRC	RMB300,000,000	100%	-	100%	Property development
Sanya Hui Xin Trading Co., Ltd. ("Sanya Hui Xin Trading") 三亞惠新貿易有限公司*	29 December 2010 The PRC	RMB57,142,857.14	82.5%	-	82.5%	Investment holding
Nanjing Bai Rui Ze Property Co., Ltd. ("Nanjing Bai Rui Ze") 南京百瑞澤置業有限公司*	16 January 2013 The PRC	RMB210,000,000	100%	-	100%	Property development
Zhong Ze (Hong Kong) Investment Limited ("Zhong Ze (Hong Kong)") 中澤(香港)投資有限公司	20 September 2011 Hong Kong	HKD10,000	100%	100%	-	Investment holding
Sanya Zhong Ze Kai Industrial Co., Ltd. ("Sanya Zhong Ze Kai") 三亞中澤凱實業有限公司*	01 April 2012 The PRC	USD4,800,000	100%	-	100%	Investment holding
Danzhou Shuang Lian Property Development Co., Ltd. ("Danzhou Shuang Lian") 儋州雙聯房地產開發有限公司*	03 December 2009 The PRC	RMB412,500,000	60%	-	60%	Property development

* These entities are PRC limited liability companies. The English translation of the company names is for reference only. The official names of the companies are in Chinese.

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(Expressed in Renminbi thousands unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES (continued)

The following table lists out the information relating to Danzhou Shuang Lian, the only subsidiary of the Group which has a material non-controlling interest (NCI). (The directors consider the NCI from Sanya Hui Xin to be immaterial). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
NCI percentage	40%*	40%*
Current assets	898,664	910,873
Non-current assets	12,454	14,419
Current liabilities	(336,349)	(327,122)
Non-current liabilities	(62,722)	(63,872)
Net assets	512,047	534,298
Carrying amount of NCI	274,514	294,656
Revenue	49,320	154,276
Loss and total comprehensive income for the year	(22,251)	(17,482)
Loss allocated to NCI	(20,142)	(6,449)
Cash flows from operating activities	2,077	70,237
Cash flows from investing activities	(11)	309
Cash flows from financing activities	(10,487)	(71,646)

* In year 2013 and 2014, the Group entered into a series of investment agreements with Nanjing San Long Cement Co., Ltd. ("Nanjing San Long") and Danzhou Shuang Lian, where the Group eventually acquired 60% of the equity interests of Danzhou Shuang Lian from Nanjing San Long in January 2014 (the "Acquisition"). The Danzhou Shuang Lian project is divided into phase I and II. At the time of the Acquisition, phase I with an area of approximately 89 mu was partially under development and was in the process of pre-sale, while phase II with an area of approximately 569 mu was a piece of undeveloped land. Pursuant to the relevant investment agreements, the non-controlling shareholder Nanjing San Long continued to manage, develop and undertake fully the risk and reward of phase I through its completion and disposal, and separate ledgers and bank accounts were set up for phases I and II. Danzhou phase I is an autonomous and operationally distinct business division that would remain under the direction of Nanjing San Long after the Acquisition.

In accordance with Note 2(d), notwithstanding the fact that the nominal NCI percentage of Danzhou Shuang Lian is 40%, the economic interest of the non-controlling shareholder was calculated at 100% of the phase I interest and 40% of the phase II interest.

16 PROPERTIES UNDER DEVELOPMENT

(A) PROPERTIES UNDER DEVELOPMENT IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION COMPRISE:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Expected to be recovered within one year – Properties under development for sale	48,298	551,331
Expected to be recovered after more than one year – Properties under development for sale	2,285,688	3,120,987
	2,333,986	3,672,318

During year ended 31 December 2016, the Group transferred certain properties under development with a carrying amount of RMB1,482,000 to investment properties (Note 13) as a result of change of actual use (2015: RMB160,407,000).

As at 31 December 2015 and 2016, certain of the Group's properties under development were pledged as collaterals for certain bank loans granted to the Group (Note 23).

(B) THE ANALYSIS OF CARRYING VALUE OF LEASEHOLD LAND INCLUDED IN PROPERTIES UNDER DEVELOPMENT IS AS FOLLOWS:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
In the PRC, with lease term of 40 years or more	1,697,004	2,272,485

17 COMPLETED PROPERTIES HELD FOR SALE

All completed properties held for sale are located in the PRC on leasehold land with lease term of 40 years or more. All completed properties held for sale are stated at cost and no impairment is provided for. As at 31 December 2016 and 2015, certain of the Group's completed properties held for sale were pledged as collaterals for bank loans granted to the Group (Note 23).

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

18 TRADE AND OTHER RECEIVABLES

	Note	2016 RMB'000	2015 RMB'000
Amounts due from third parties			
– Trade receivables (Note (i))		4,074	1,866
Less: allowance for doubtful debts (Note 18(b))		(19)	(19)
– Non-trade receivables		100,561	121,822
– Bills receivable		–	1,700
Amounts due from related parties (Note (ii))	30(d)		
– Non-trade receivables		–	12,919
Advance payments to contractors (Note (iii))			
– To third party contractors		41,695	41,723
– To related party contractors	30(d)	1,812	89,289
Prepaid business tax and other taxes		26,511	31,987
Total		174,634	301,287

Notes:

- (i) Trade receivables comprise receivables due from customers in relation to sales of properties and rental income. Proceeds from the sale of properties are made in lump-sum payments or paid by instalments in accordance with the terms of the corresponding sale and purchase agreements. The remaining balance of trade receivables are expected to be recovered within one year. The details on the Group's credit policy are set out in Note 27(a).
- (ii) Amounts due from related parties are unsecured, interest-free and repayable on demand.
- (iii) Advance payments to contractors are made in accordance with the payment terms as agreed in the construction contracts signed with building contractors. They are to be transferred to properties under development with regard to stage of completion for relevant construction.

18 TRADE AND OTHER RECEIVABLES (continued)**(A) AGEING ANALYSIS**

As of the end of the reporting period, the ageing analysis of trade and bills receivables based on the date that trade and bills receivables were recognised, is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 1 year	2,873	3,038
1 to 2 years	776	509
2 to 3 years	406	19
Over 3 years	19	–
	4,074	3,566

As at 31 December 2016 and 2015, included in the trade and bills receivables were amounts of RMB4,055,000 and RMB3,547,000 that are not past due or not impaired.

(B) IMPAIRMENT OF TRADE DEBTORS AND BILLS RECEIVABLE

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see Note 2(j)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
At 1 January	19	–
Impairment loss recognised	–	19
At 31 December	19	19

As at 31 December 2016, the Group's trade receivables of RMB19,000 (RMB19,000 as at 31 December 2015) were individually determined to be impaired. They were related to debtors that were in financial difficulties and have defaulted in payments. These receivables were not secured by any collateral or credit enhancements.

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as at 31 December 2016 represented wealth management products purchased from banks, which were redeemed on 13 February 2017.

20 RESTRICTED CASH

	2016 RMB'000	2015 RMB'000
Pledged for:		
– Properties under development	2,172	2,168
– Bank loans (Note (i))	12,463	1,906
Total	14,635	4,074

Note (i): It represented cash balance in an escrow bank account which is under the supervision of a bank.

21 CASH AND CASH EQUIVALENTS

(A) CASH AND CASH EQUIVALENTS COMPRISE:

	2016 RMB'000	2015 RMB'000
Cash at bank and in hand		
– Cash on hand	91	149
– Cash at bank	451,091	142,842
	451,182	142,991

As at 31 December 2016 and 2015, the cash and bank balances of the PRC subsidiaries comprising the Group was not freely convertible into other currencies and subject to PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

21 CASH AND CASH EQUIVALENTS (continued)**(B) RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM/(USED IN) OPERATIONS:**

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Operating activities		
Profit before taxation		
– From continuing operations	231,410	342,141
– From discontinued operations	–	1,753
Adjustments for:		
– Loss on sales of property, plant and equipment	37	–
– Depreciation & amortization	4,393	5,166
– Allowance for impairment loss made on trade and other receivables	–	19
– Finance costs	53,126	14,374
– Interest income	(1,128)	(13,467)
– Share of losses of an associate	–	640
– Equity-settled share-based transactions	6,837	–
– Gain from disposal of joint ventures	–	(6,922)
– Gain from disposal of subsidiaries	–	(12)
– Loss from disposal of other investments	615	–
– Change in fair value of investment properties	(5,938)	(4,773)
Operating profit before changes in working capital	289,352	338,919
Changes in working capital		
– Decrease in property under development	1,354,688	1,832,783
– Increase in completed properties held for sale	(563,486)	(1,147,519)
– Decrease in trade and other receivables	115,143	93,402
– Decrease in trade and other payables	(47,263)	(1,432,496)
– Increase in restricted cash	(4)	(5)
Cash generated from/(used in) operations	1,148,430	(314,916)
Income tax paid	(125,876)	(117,573)
Net cash generated from/(used in) operating activities	1,022,554	(432,489)

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(Expressed in Renminbi thousands unless otherwise indicated)

22 TRADE AND OTHER PAYABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Amounts due to third parties		
– Trade payables (<i>Note (i)</i>)	610,877	607,610
– Receipts in advance	463,312	583,389
– Accrued payroll	2,441	1,495
– Other payables and accruals	206,194	172,054
– Guarantee deposits (<i>Note (ii)</i>)	251,022	–
	1,533,846	1,364,548
Amounts due to related parties (<i>Note 30(d)</i>)		
– Trade payables (<i>Note (i)</i>)	153,083	275,011
– Non-trade payables	141,894	1,075,994
	294,977	1,351,005
	1,828,823	2,715,553

Notes:

- (i) As of the end of the reporting period, the ageing analysis of trade payables based on the date the trade payables were recognised, is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 3 months	482,120	550,170
3 to 6 months	45,837	142,666
6 to 12 months	55,217	40,040
Over 12 months	180,786	149,745
	763,960	882,621

Trade payables mainly represent amounts due to contractors. Payment to contractors is by instalments according to progress and agreed milestones. The Group normally retains 5% as retention payment.

Trade payables with ageing over twelve months mainly represent accrued land lease premium for change of the plot ratio subsequent to the Group obtaining the land use right certificate. The payables for an amount of RMB97,280,000 were settled with the local authority on 22 January 2017.

- (ii) During the year ended 31 December 2016, the Group granted exclusive right to a sales agency for promoting certain completed properties for one year, and received the amount of RMB251,022,000 as guarantee deposits.

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

23 LOANS AND BORROWINGS

At 31 December 2016, the loans and borrowings were repayable as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 1 year or on demand	272,511	485,000
After 1 year but within 2 years	575,000	442,290
After 2 years but within 5 years	126,342	–
	973,853	927,290

At 31 December 2016, the loans and borrowings were secured as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current		
Secured		
– Current portion of non-current bank loans	272,511	485,000
	272,511	485,000
Non-current		
Secured		
– Bank loans	408,853	927,290
– Loan from non-bank financial institution	565,000	–
Less: Current portion of non-current bank loans	(272,511)	(485,000)
	701,342	442,290
Total loans and borrowings	973,853	927,290

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

23 LOANS AND BORROWINGS (continued)

Terms and conditions of outstanding loans and borrowings are as follows:

		Nominal	Year of	2016	2015
	Currency	interest rate	maturity	RMB'000	RMB'000
		%		Carrying amount	Carrying amount
Secured bank loans	RMB	6.89% – 5.70%	2021	150,000	199,387
Secured bank loans	RMB	5.70%	2017	146,342	260,000
Secured bank loans	RMB	5.80% – 5.70%	2017	112,511	170,000
Secured bank loans	RMB	7.38% – 6.00%	2017	-	297,903
Secured loan from non-bank financial institution	RMB	4.133%	2018	565,000	-
				973,853	927,290

The bank loans were secured by the following assets:

	2016	2015
	RMB'000	RMB'000
Properties under development (Note 16)	573,285	1,802,894
Completed properties held for sale (Note 17)	693,045	762,003
Investment properties (Note 13)	115,253	165,180
Restricted cash (Note 20)	12,463	1,906
Total	1,394,046	2,731,983

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 5 January 2016, share options of purchasing 17.5% of the equity interest of Sanya Hui Xin, one of the subsidiaries of the Group, was granted for nil consideration to directors and employees of the Group under the Group's Pre-IPO Share Incentive Scheme. The options give the holders the right to acquire respective portion of the 17.5% equity interest of Sanya Hui Xin at nil consideration after three years and when certain performance targets are achieved. Sanya Hui Xin held 17.14% of the equity interest of Sanya Fenghuang Shui Yun Property Development Company Limited. The options have no expiration date. Fair value of the options and assumptions are as follows:

The fair value of services received in return for the options granted is based on the fair value of the options at grant date, measured using the binomial option pricing model, with following inputs:

Underlying equity value	RMB22,000,000
Exercise price	RMB0
Expected volatility	38.28%
Expected dividends	0%
Risk-free interest rate	2.70%

The underlying equity value was determined by discount cash flow method in which the financial forecast in respect of Sanya Hui Xin was provided by the management of the Company. The expected volatility was determined with reference to historical volatilities of comparable companies of Sanya Hui Xin, as extracted from Bloomberg Terminal. Expected dividends of the underlying share was determined by the Company. The risk-free interest rate was determined with reference to the yield rate of the generic China government bonds with duration similar to the vesting period of the options, as extracted from Bloomberg Terminal.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

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25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(A) CURRENT TAX ASSETS/(LIABILITIES) IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION REPRESENT:

	2016 RMB'000	2015 RMB'000
Prepaid CIT	55,116	22,215
Prepaid LAT	17,092	19,495
Current tax assets recognised in the consolidated statement of financial position	72,208	41,710
Current CIT payable	(122,657)	(44,428)
Current LAT payable	(116,262)	(55,053)
Current tax liabilities recognised in the consolidated statement of financial position	(238,919)	(99,481)

LAT provisions have been made pursuant to Guo Shui Fa [2006] No. 187 Circular of State Administration of Taxation on Relevant Issues of Settlement and Management of Land Appreciation Tax for Real Estate Developers. The Group considers the timing of settlement is dependent on the practice of local tax bureaus. As a result of the uncertainty of timing of payment of LAT, the provisions have been recorded as current liabilities as at 31 December 2016 and 2015.

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25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(B) DEFERRED TAX ASSETS/(LIABILITIES) RECOGNISED

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

	Temporary differences arising from LAT provision (Note i) RMB'000	Other temporary differences RMB'000	Unused tax losses (Note ii) RMB'000	Revaluation arising from business combination RMB'000	LAT provision (Note iii) RMB'000	Revaluation of investment property RMB'000	Total RMB'000
At 1 January 2015	12,663	15,904	20,804	(287,522)	(315,543)	-	(553,694)
(Charged)/credited to profit or loss	(4,759)	1,864	(4,677)	19,676	44,540	(1,193)	55,451
At 31 December 2015	7,904	17,768	16,127	(267,846)	(271,003)	(1,193)	(498,243)
Credited/(charged) to profit or loss	19,263	787	25,966	3,780	3,014	(1,485)	51,325
At 31 December 2016	27,167	18,555	42,093	(264,066)	(267,989)	(2,678)	(446,918)

Notes:

- (i) "Temporary differences arising from LAT provision" represents deferred tax assets recognised on the timing differences for the amount of LAT provision made for property projects.
- (ii) In recognizing and measuring of deferred tax assets in respect of the Group's subsidiaries which suffered losses in current or preceding period, management considered the projected future taxable income of these subsidiaries. Accordingly, the Group has recognised deferred tax assets of RMB16,127,000 and RMB42,093,000 as at 31 December 2015 and 2016 respectively as the Group estimates that these subsidiaries have properties development projects which are probable to generate sufficient future taxable profits to support their utilisation.
- (iii) "LAT provision" in the deferred tax liability represents the amounts of LAT recognised as an identifiable liability from the acquisition of Sanya Fenghuang Xincheng in 2008.

	2016 RMB'000	2015 RMB'000
Net deferred tax assets recognised on the consolidated statement of financial position	87,815	40,606
Net deferred tax liabilities recognised on the consolidated statement of financial position	(534,733)	(538,849)

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25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(C) DEFERRED TAX ASSETS NOT RECOGNISED

In accordance with the accounting policy set out in Note 2(q), the Group has not recognised deferred tax assets in respect of unused tax losses of RMB1,066,000 and RMB2,600,000 as at 31 December 2016 and 2015 respectively. The directors consider it is not probable that future taxable profits against which the losses can be utilised will be available from these subsidiaries.

Pursuant to the relevant laws and regulations in the PRC, the unrecognized tax losses at the end of the reporting period would expire in the following years:

	2016 RMB'000	2015 RMB'000
2016	–	2,600
2017	–	–
2018	–	–
2019	–	–
2020	–	–
2021	1,066	–

The tax losses for the Hong Kong subsidiaries do not expire under current Hong Kong tax legislation.

(D) DEFERRED TAX LIABILITIES NOT RECOGNISED

Deferred tax liabilities of RMB31,512,000 (2015: RMB4,897,000) were not recognised in respect of the 10% PRC dividend withholding tax that would be payable on the distribution of retained profits of RMB315,121,000 as at 31 December 2016 (2015: RMB48,972,000) in respect of the Group's subsidiaries in the PRC as the Company controls the dividend policy of these subsidiaries and it was determined that it was probable that these profits would not be distributed in the foreseeable future.

26 CAPITAL, RESERVES, DIVIDENDS AND NON-CONTROLLING INTEREST

(A) MOVEMENTS IN COMPONENTS OF EQUITY

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 15 August 2015	26(c)(i)	-	-	-	-	-	-
Changes in equity for 2015:							
Total comprehensive income for the period		-	-	-	-	-	-
Shares issued in connection with the Reorganisation	26(c)(i)	-	-	-	-	-	-
Balance at 31 December 2015 and 1 January 2016		-	-	-	-	-	-
Changes in equity for 2016:							
Loss for the year		-	-	-	-	(15,165)	(15,165)
Other comprehensive income for the year		-	-	-	111,617	-	111,617
Total comprehensive income for the year		-	-	-	111,617	(15,165)	96,452
Capitalisation issue	26(c)(ii)	1,939	(1,939)	-	-	-	-
Issuance of new shares under the IPO	26(c)(iii)	646	238,730	-	-	-	239,376
Arising from re-organization		-	-	1,416,700	-	-	1,416,700
Balance at 31 December 2016		2,585	236,791	1,416,700	111,617	(15,165)	1,752,528

(B) DIVIDENDS

The board of directors does not recommend the distribution of a final dividend for the year ended 31 December 2016 (2015: RMB29,667,000).

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26 CAPITAL, RESERVES, DIVIDENDS AND NON-CONTROLLING INTEREST (continued)

(C) SHARE CAPITAL

Issued share capital

	2016		2015	
	No. of shares ('000)	RMB'000	No. of shares ('000)	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	–	–	–	–
Shares issued (Note 26 (c)(i))	1	–	–	–
Capitalisation issue (Note 26 (c)(ii))	224,999	1,939	–	–
Issuance of shares upon Initial public offering (Note 26 (c)(iii))	75,000	646	–	–
At 31 December	300,000	2,585	–	–

Notes:

- (i) Issuance of shares

On 31 August 2015, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. The initial authorized share capital of the Company was HK\$3,000,000 divided into 300,000,000 Shares of HK\$0.01 each and issued 1 nil paid share.

During the re-organization of the Group which was completed on 8 April 2016, the Company allotted and issued additional 972 shares and 27 shares of HK\$0.01 each on 23 March 2016 and 8 April 2016 respectively. Consequently, HK\$10 (equivalent to RMB9) was credited to share capital, and the difference of this amount and the carrying value of assets acquired was transferred to other reserve.

26 CAPITAL, RESERVES, DIVIDENDS AND NON-CONTROLLING INTEREST (continued)

(C) SHARE CAPITAL (continued)

Issued share capital (continued)

Notes: (continued)

(ii) Capitalization issue

Pursuant to the written resolutions of the Company's shareholders passed on 22 June 2016, the directors were authorised to allot and issue a total of 224,999,000 shares, by way of capitalisation of the sum of HK\$2,249,990 (equivalent to approximately RMB1,939,000) standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholders as appearing on the register of members of the Company at the close of business on the business day immediately preceding the Listing date in proportion to their respective shareholdings. The capitalisation issue was completed on 15 July 2016 in connection with the Listing. The total number of shares further increased from 1,000 to 225,000,000 after the capitalisation issue completed on 15 July 2016.

(iii) Issuance of new shares under the IPO

On 15 July 2016, the Company was successfully listed on the Stock Exchange following the completion of its IPO of 75,000,000 shares of HK\$0.01 each issued at a price of HK\$3.96 per share. Proceeds of RMB646,000, representing the par value of the shares issued, were credited to the Company's share capital. The remaining proceeds of RMB257,807,000, after deducting issuing expenses of RMB19,077,000, were credited to the share premium account.

(D) NATURE AND PURPOSE OF RESERVES

(i) Share Premium

Share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the public offering in July 2016. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Other reserve

Other reserve is resulted from transactions with the Ultimate Controlling Shareholder in his capacity as equity holder. It was created as a result of the Reorganisation to rationalise the Group structure in preparation for the listing of the Company's shares on the Stock Exchange. The balance represents difference of the carrying amount of net assets from the Ultimate Controller Shareholder's perspective and the carrying amount of the net assets from the respective subsidiaries' own financial statements.

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

26 CAPITAL, RESERVES, DIVIDENDS AND NON-CONTROLLING INTEREST (continued)

(D) NATURE AND PURPOSE OF RESERVES (continued)

(iii) PRC statutory reserve

According to the PRC Company Law, the PRC subsidiaries of the Group (excluding foreign investment enterprises) are required to transfer 10% of their profit after taxation, as determined under the PRC Accounting Regulations, to the statutory surplus reserve until the reserve balance reaches 50% of their registered capital.

The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory reserve fund can be used to cover previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Company. The reserve is dealt with in accordance with the accounting policies set out in Note 2(t).

(E) CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to fund its property development projects, provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and securities afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

A subsidiary of the Group is subject to externally imposed capital requirements in 2015 and there was no non-compliance of such capital requirements during 2015. There was no externally imposed capital requirements on the Group's subsidiaries in 2016.

26 CAPITAL, RESERVES, DIVIDENDS AND NON-CONTROLLING INTEREST (continued)

(F) NON-CONTROLLING INTEREST

Non-controlling interest represents Nanjing San Long's equity interest in Danzhou Shuang Lian Property Development Co., Ltd. (Note 15), and the Ultimate Controlling Shareholder's equity interest in Sanya Hui Xin.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(A) CREDIT RISK

The Group's credit risk is primarily attributable to bank deposits, and trade and other receivables. The Group maintains a defined credit policy and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties, which enable management to assess their recoverability and to minimize exposure to credit risk. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these receivables. Adequate impairment losses have been made for estimated irrecoverable amounts.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Except for the financial guarantees given by the Group as set out in Note 29(a), the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in Note 29(a).

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

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(B) LIQUIDITY RISK

The Group's management reviews the liquidity position of the Group on an ongoing basis, including review of the expected cash inflows and outflows, sale/pre-sale results of respective property projects, maturity of loans and borrowings and the progress of the planned property development projects in order to monitor the Group's liquidity requirements in the short and longer terms.

Details of maturity analysis for financial liabilities are disclosed in Notes 22 and 23.

As at 31 December 2016

	Carrying amount <i>RMB'000</i>	Contractual cash flow <i>RMB'000</i>	Within 1 year <i>RMB'000</i>	More than 1 year but less than 2 years <i>RMB'000</i>	More than 2 years but less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>
Loans and borrowings	973,853	1,055,833	315,230	591,757	148,846	-
Amounts due to related parties	294,977	294,977	294,977	-	-	-
Trade and other payables (excluded receipts in advance)	1,070,534	1,070,534	1,070,534	-	-	-
As at 31 December 2016	2,339,364	2,421,344	1,680,741	591,757	148,846	-

As at 31 December 2015

	Carrying amount <i>RMB'000</i>	Contractual cash flow <i>RMB'000</i>	Within 1 year <i>RMB'000</i>	More than 1 year but less than 2 years <i>RMB'000</i>	More than 2 years but less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>
Loans and borrowings	927,290	999,399	544,889	454,510	-	-
Amounts due to related parties	1,351,005	1,351,005	1,351,005	-	-	-
Trade and other payables (excluded receipts in advance)	781,159	781,159	781,159	-	-	-
As at 31 December 2015	3,059,454	3,131,563	2,677,053	454,510	-	-

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(C) INTEREST RATE RISK

The Group's interest rates risk arises primarily from cash and cash equivalents, restricted and pledged deposits and borrowings issued at variable rates.

The Group does not anticipate significant impact to cash and cash equivalents and the pledged deposits because the interest rates of bank deposits are not expected to change significantly.

The interest rates and terms of repayment of bank loans and borrowings of the Group are disclosed in Note 23 to the consolidated financial statements of the Group. All bank loans and borrowings of the Group were with variable interest rate. The Group does not carry out any hedging activities to manage its interest rate exposure.

Sensitivity analysis

It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease the Group's profit after tax/increase the Group's profit after tax and decrease/increase total equity by approximately RMB3,651,949 for the year ended 31 December 2016 (2015: RMB3,477,336) in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the annualised impact on the Group's profit after tax (and accumulated losses) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those floating rate non-derivative financial instruments held by the Group which expose the Group to cash flow interest rate risk at the end of the reporting period. The analysis is performed on the same basis for 2015.

(D) CURRENCY RISK

The Group is exposed to currency risk primarily through transactions which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. Almost all the Group's operating activities are carried out in the PRC with most of the transactions denominated in RMB. Exposures to currency exchange rates arise from certain of the Group's cash and cash equivalents, trade and other receivables and trade and other payables which are denominated in HKD. The Group does not use derivative financial instruments to hedge its foreign currency risk. The Group reviews its foreign currency exposures regularly and consider no significant exposure on its foreign exchange risk.

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(D) CURRENCY RISK (continued)

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Cash and cash equivalents	–	8
Trade and other receivables	1,832	1,619
Trade and other payables	(46,542)	(44,780)
Net exposure arising from recognised assets and liabilities	(44,710)	(43,153)

Sensitivity analysis

The foreign currency sensitivity analysis is calculated based on the major net foreign currency exposure of the Group as at the balance sheet dates, assuming 5% shift of RMB against HKD.

Results from a 5% strengthening of the RMB against HKD would increase the Group's profit after tax and decrease the accumulated losses as at 31 December 2016 RMB2,235,500 (2015: RMB2,159,000). A 5% weakening of the RMB against HKD as at the same dates would have had the equal but opposite effect.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)**(E) FAIR VALUE MEASUREMENT**

As at 31 December 2016 and 2015, The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, available-for-sale financial assets and trade and other payables) approximate their fair values because of the short period to maturity. All other financial assets and liabilities are discounted to determine their fair values.

28 COMMITMENTS

Capital commitments outstanding at 31 December 2016 not provided for in the consolidated financial statements were as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Contracted but not provided for	273,925	126,797
Authorised but not contracted for	6,885,685	512,733

29 CONTINGENT LIABILITIES**(A) GUARANTEES IN RESPECT OF MORTGAGE FACILITIES**

The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interest and penalty owned by the defaulted purchasers to the banks. The Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the bank receiving the required evidence of mortgage over the relevant property in favour of the bank and the full settlement of mortgage loans by the buyer.

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

29 CONTINGENT LIABILITIES (continued)

(A) GUARANTEES IN RESPECT OF MORTGAGE FACILITIES (continued)

The maximum amount of guarantees given to banks for mortgage facilities granted to the purchasers of the Group's properties at the end of the reporting period was as follows:

	2016 RMB'000	2015 RMB'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	247,737	65,058

The directors consider that it is not probable that the Group will sustain a loss under these guarantees as during the periods under guarantees, the Group can take over the ownerships of the related properties and sell the properties to recover any amounts paid by the Group to the banks. The directors also consider that the fair market value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in the event the purchasers default payments to the banks.

The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the directors.

(B) LITIGATIONS

As at 31 December 2016, the Group is a defendant in lawsuits arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or financial performance of the Group.

30 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the consolidated financial statements of the Group, the Group entered into the following significant related party transactions during the year ended 31 December 2016.

(A) NAME AND RELATIONSHIP WITH RELATED PARTIES

During the year ended 31 December 2016, transactions with the following parties were considered as related party transactions:

Name of party	Relationship with the Group
Nanjing Huizhi Construction Installation Engineering Co., Ltd. ("Nanjing Huizhi")	Entities controlled by the Ultimate Controlling Shareholder
Nanjing Zhonghui Construction Engineering Co., Ltd. ("Nanjing Zhonghui Construction")	Entities controlled by the Ultimate Controlling Shareholder
Zhonghui (Nanjing) Property Development Co., Ltd. ("Zhong Hui Nanjing")	Entities controlled by the Ultimate Controlling Shareholder
Nanjing Diken Engineering Design Consultancy Co., Ltd. ("Nanjing Diken")	Entities controlled by the Ultimate Controlling Shareholder
Nanjing Jia Xie Investment Management Consulting Co., Ltd. ("Nanjing Jia Xie")	Entities controlled by the Ultimate Controlling Shareholder
Leshan Huizhi Technology Development Co., Ltd. ("Leshan Huizhi")	Entities controlled by the Ultimate Controlling Shareholder
Chung Wai (China) Property Group Limited ("Chung Wai (China) Property")	Entities controlled by the Ultimate Controlling Shareholder
Lianyungang Huike Construction Development Co., Ltd. ("Lianyungang Hui Ke")	Entities controlled by the Ultimate Controlling Shareholder
Chung Wai (Jiangsu) Decoration Park Project Company Limited ("Chung Wai (Jiangsu)")	Entities controlled by the Ultimate Controlling Shareholder
Nanjing Hengjida Engineering Design Consultancy Company Limited ("Nanjing Hengjida")	Entities controlled by the Ultimate Controlling Shareholder

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(A) NAME AND RELATIONSHIP WITH RELATED PARTIES (continued)

Name of party	Relationship with the Group
Lianyungang Hui Neng Foundation Construction Engineering Co., Ltd. (Lianyungang Hui Neng")	Entities controlled by the Ultimate Controlling Shareholder
Nanjing Maoheng Engineering Design Consultancy Company Limited ("Nanjing Maoheng")	Entities controlled by the Ultimate Controlling Shareholder
Hainan Zhonghuan Property Development Company Limited ("Hainan Zhonghuan")	Entities controlled by the Ultimate Controlling Shareholder
Nanjing Boken Corporate Planning Consultation Company Limited ("Nanjing Boken")	Entities controlled by the Ultimate Controlling Shareholder
Nanjing Tianhui Tongda Corporate Planning Consultation Co., Ltd. ("Nanjing Tianhui")	Entities controlled by the Ultimate Controlling Shareholder
Nanjing Huiyao Decoration Construction Co., Ltd ("Nanjing Huiyao")	Associate of a group controlled by the Ultimate Controlling Shareholder
Nanjing San Long Cement Company Limited ("Nanjing San Long")	Minority shareholder
Fan Wen Yi	Member of key management personnel
Zhou Li	Member of key management personnel

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(B) KEY MANAGEMENT PERSONNEL REMUNERATION

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Wages, salaries and other benefits	4,544	1,150
Retirement scheme contributions	-	-
	4,544	1,150

The above remuneration to key management personnel is included in "staff costs" (Note 6(b)).

(C) TRANSACTIONS WITH RELATED PARTIES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Construction and consultancy services (Note (i))	47,004	276,732
Funding arrangements with shareholders (Note (ii))	(355,247)	719,502
Interest income	-	13,149
Interest expense	11,487	13,078
Dividend distribution	-	29,667

(i) Construction and consultancy services

During the year ended 31 December 2016, the Group received construction services from the following related parties:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Nanjing Huizhi	46,083	247,054
Nanjing Zhonghui Construction	-	6,785
Lianyungang Hui Neng	-	18,930
Nanjing Huiyao	921	3,963
Total	47,004	276,732

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(C) TRANSACTIONS WITH RELATED PARTIES (continued)

(i) Construction and consultancy services (continued)

The above transactions between the Group and its related parties mainly comprised construction services in relation to earthmoving, scenery design and engineering on the Group's properties under development from construction companies, which are controlled by the Ultimate Controlling Shareholder.

The directors confirmed that the above transactions, other than the construction services provided by Nanjing Huizhi, have been ceased since 30 June 2016.

(ii) Funding arrangements with shareholders

During the year ended 31 December 2016, the Group had funding arrangements to/from the following shareholders, the net cash (outflows)/inflows of which are as follows:

	2016 RMB'000	2015 RMB'000
Zhong Hui Nanjing	(328,019)	626,452
Nanjing San Long	(27,228)	93,050
Total	(355,247)	719,502

(D) BALANCES WITH RELATED PARTIES

Balances with related parties as at 31 December 2016 are detailed as follows:

Amounts due from related parties

	2016 RMB'000	2015 RMB'000
Non-trade related:		
Nanjing Zhonghui Construction	-	9,950
Ms. Fan Wen Yi	-	68
Ms. Zhou Li	-	5
Hainan Zhonghuan	-	200
Others	-	2,696
	-	12,919

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)**(D) BALANCES WITH RELATED PARTIES** (continued)**Amounts due from related parties** (continued)

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Advance payments:		
Nanjing Huizhi	1,075	87,443
Nanjing Boken	–	1,329
Nanjing Tianhui	–	98
Nanjing Hengjida	737	–
Nanjing Diken	–	199
Nanjing Maoheng	–	220
	1,812	89,289

Amounts due to related parties

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade related:		
Nanjing Huizhi	117,831	237,074
Nanjing Maoheng	943	943
Nanjing Tianhui	4,978	5,194
Lianyungang Hui Neng	21,541	23,577
Nanjing Hengjida	3,236	3,236
Chung Wai (Jiangsu)	1,426	1,426
Nanjing Zhonghui Construction	1,422	1,875
Nanjing Diken	1,236	1,236
Leshan Huizhi	50	450
Nanjing Huiyao	420	–
	153,083	275,011

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(D) BALANCES WITH RELATED PARTIES (continued)

Amounts due to related parties (continued)

	2016 RMB'000	2015 RMB'000
Non-trade related:		
Dividend payable due to:		
Zhong Hui Nanjing	-	489,630
Other payables due to:		
Nanjing San Long	141,894	180,609
Zhong Hui Nanjing	-	328,019
Chung Wai (China) Property	-	13,676
Cuijin Guoji	-	41,972
Chung Wai (Jiangsu)	-	16,279
Nanjing Jia Xie	-	4,900
Lianyungang Hui Ke	-	36
Others	-	873
	141,894	1,075,994

Note: The trade amounts due from/to related parties as at 31 December 2015 had been recovered/repaid before the Listing. There were no non-trade amounts due from/to related parties controlled by Ultimate Controlling Shareholder as at 31 December 2016. The non-trade amounts due from/to related parties as at December 2015 were interest-free, unsecured and repayable on demand.

Notes to the Financial Statements

(Expressed in Renminbi thousands unless otherwise indicated)

31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

(Expressed in Renminbi)

	2016 RMB'000	2015 RMB'000
Non-current asset		
Interest in subsidiaries	1,519,742	–
	1,519,742	–
Current assets		
Cash and cash equivalents	248,143	–
Trade and other receivables	447	–
	248,590	–
Total assets	1,768,332	–
Current liabilities		
Trade and other payables	(15,804)	–
	(15,804)	–
Net assets	1,752,528	–
Equity		
Share capital	2,585	–
Reserves	1,765,108	–
Accumulated losses	(15,165)	–
Total equity	1,752,528	–

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32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, the directors consider the immediate parents of the Group to be Zhong Jia (International) Investment Construction Company Limited and Zhong Ze (International) Investment Limited, which are incorporated in British Virgin Islands. These entities do not produce financial statements available for public use. The directors consider the ultimate controlling party of the Group to be Mr. Yeung Man.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of the issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	1 January 2017
Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

HKFRS 9 *FINANCIAL INSTRUMENTS*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

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

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

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(Expressed in Renminbi thousands unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

HKFRS 9 *FINANCIAL INSTRUMENTS* (continued)

(b) Impairment

The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group’s trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group’s revenue recognition policies are disclosed in Note 2(s). Currently, revenue arising from rental income is recognized over the accounting periods covered by the lease term, whereas revenue from the sale of properties is generally recognised when the risks and rewards of ownership have passed to the customers.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(a) Timing of revenue recognition (continued)

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- (i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- (iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the group adopts HKFRS 15 some of the Group's residential property development activities that are currently recognised at a point in time may meet the HKFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

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(Expressed in Renminbi thousands unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

HKFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS* (continued)

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears. Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers.

Currently, the Group does not apply such a policy when payments are received in advance. Advance payments are not common in the Group's arrangements with its customers, with the exception of when residential properties are marketed by the Group while the property is still under construction. In this situation, the Group may offer buyers a discount compared to the sales price payable, provided the buyer agrees to pay the balance of the purchase price early.

Currently, the revenue from property sales is recognised when the property is complete, measured at the amount received from the customer, irrespective of whether the customer pays early or on completion. However, under HKFRS 15 such advance payment schemes are likely to be regarded as including a financing component.

The Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once HKFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue. Any adjustment to the transaction price under HKFRS 15, if considered necessary, would result in interest expense being recognised while the construction work is still in progress to reflect the effect of the financing benefit obtained from the customers, with a corresponding increase to revenue on sale of properties recognised when control of the completed property is transferred to the customer.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

HKFRS 16 LEASES

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

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

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss and total comprehensive income over the period of the lease. However, as the Group has no material lease commitment as at 31 December 2016, the application of the new accounting model is expected to have no material impact for the Group’s financial statements.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

Financial Summary

Results	For the year ended 31 December			
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Turnover	192,451	790,369	1,556,962	1,400,827
(Loss)/Profit before taxation	(74,338)	275,684	342,141	231,410
Income tax expenses	(2,856)	(164,937)	(157,988)	(183,366)
(Loss)/Profit for the year (from continuing operations)	(77,194)	110,747	184,153	48,044
Post-tax (loss)/profit of discontinued operations	(2,938)	924	1,210	-
(Loss)/Profit for the year	(80,132)	111,671	185,363	48,044
Attributable to:				
Owners of the Company	(75,625)	128,182	191,812	65,012
Non-controlling interests	(4,507)	(16,511)	(6,449)	(16,968)
(Loss)/Profit for the year	(80,132)	111,671	185,363	48,044
Assets and Liabilities	As at 31 December			
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Total assets	7,710,839	7,244,683	5,666,855	5,264,842
Total liabilities	5,631,167	5,542,970	4,281,173	3,576,328
Net assets	2,079,672	1,701,713	1,385,682	1,688,514
Equity attributable to the owners of the Company	1,783,730	1,400,608	1,091,026	1,368,873
Non-controlling interests	295,942	301,105	294,656	319,641