



Zhongtian International Limited 中天國際控股有限公司*

Incorporated in the Cayman Islands with limited liability

Stock Code: 02379

* for identification purposes only

Annual Report 2016



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

CHEN Dezhaoh (*Chairman*)
ZHAO Yun

INDEPENDENT NON-EXECUTIVE DIRECTORS

GUO Qiang
CHEN Wenping
LIU Jinlu

COMPANY SECRETARY

TAI Man Hin, Tony (*CPA*)

AUDIT COMMITTEE

CHEN Wenping (*Chairman*)
GUO Qiang
LIU Jinlu

REMUNERATION COMMITTEE

CHEN Wenping (*Chairman*)
CHEN Dezhaoh
GUO Qiang

NOMINATION COMMITTEE

CHEN Dezhaoh (*Chairman*)
CHEN Wenping
GUO Qiang

HONG KONG LEGAL ADVISORS

Loong & Yeung Solicitors

AUTHORISED REPRESENTATIVES

Chen Dezhaoh
ZHAO Yun

STOCK CODE

02379

COMPANY'S WEBSITE

www.irasia.com/listco/hk/zhongtian

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1603, 16/F
China Building
29 Queen's Road Central
Hong Kong

AUDITOR

Crowe Horwath (HK) CPA Limited

PRINCIPAL BANKERS

China Construction Bank
No.3 branch, Shinan District, Qingdao
Hua Xia Bank
Nanjing Road Sub branch Qingdao
The Hongkong and Shanghai Banking Corporation Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

REGISTERED OFFICE

Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5th Floor, Block C
Zhongtian Building
No. 38 Shandongtou Road
Laoshan District
Qingdao City
Shandong Province
The People's Republic of China

CHAIRMAN'S STATEMENT

Forge ahead and make further progress!

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Zhongtian International Limited and its subsidiaries (collectively, the “**Group**”), I hereby present the annual results and the audited financial statements of the Group for the year ended 31 December 2016 (the “**Year**”).

The acquisition completed by the Group on 31 March 2016 contributed a lot to the Group and has offered strong support for the Group's development prospect. The property of Qingdao Zhongtian Software Park Company Limited, a subsidiary of the Group, is located in Jinjialing Financial Cluster Area, a national-level financial center, of which there are increasingly mature surrounding facilities, numerous financial institutions, continuous strong demand in lease market and fast rise in rents, showing the possibility of further increase of the property value.

The government paid close attention to the project of the Group and granted it honorable titles of “**China Youth Venture Community**” and “**Co-working Space**”, which improved the popularity of the project and brought us with more inquiry from clients and higher trading volume.

Qingdao Zhongtian Enterprise Development Company Limited, a subsidiary of the Group, is located in Qingdao High-tech Industrial Development Zone. The land value of the project further appeared. The local government also has further adjusted the overall planning layout. Besides, the largest seascape traffic hub of Asia settled down aside the project, and the project adjoined the high-speed rail square where the metro and the high-speed rail converged, supporting facilities such as schools, hospitals and sports venues are constructed fast and they are expected to be finished in 2018. During the same period, Jiaodong International Airport, a newly built airport, will be completed, which is only 18 km away from the project. The 2018 Shandong Provincial Games will also be held there. Such numerous advantages will bring new concept and higher expectation to the development of future projects. It is expected that the Group will speed up the development for achieving greater benefits.

The Board remained confident of the future prospect of the Group, and would promote corporate governance, business development and staff nurturing. We expect our future with fast development. It is believed that the Group will definitely be able to usher in an epoch of corporate development.

Zhongtian International Limited

Chen Dezhao

Chairman

28 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the Year, the Group was principally engaged in two business segments, namely trading and property.

Trading

Trading of intelligent electronic products and modern office furniture products became a business segment with fewer obstructions in the course of transition of the Group's operation towards diversification.

Meanwhile, as the competition in this business segment has been keen and the overall cost for exploring new customers has been relatively high, the Group strives to preclude this segment from becoming the major source of income of the Group.

Property

After the renovation of its investment properties in the year of 2010 and further acquisition of new office premises in the year of 2016, the Group leased its commercial properties to generate rental revenue, and there was a comparatively stable and growing revenue generated from the property segment. Taking into account the improvements in local investment environment and the favourable conditions in the local commercial property market, the Board will continue to pay attention to the development of this segment and to identify and seek suitable opportunities for further investments. During the Year, the Group had acquired additional properties in Qingdao City. For details, please refer to the paragraph headed "Substantial acquisition and disposal" in this report.

As at 31 December 2016, the details of the investment properties of the Group are as follows:

(a) Completed Properties

Particulars	Location	Total approximate gross floor area	Approximate occupancy rate
Composite building with 11 commercial units, 24 office units and an underground storage unit	Laoshan District, Qingdao City, the PRC	12,499 sq.m.	99.9%
244 underground car parking spaces within a composite building	Laoshan District, Qingdao City, the PRC	10,250 sq.m.	N/A – leasing out at hourly basis
A storey in a commercial building	Shinan District, Qingdao City, the PRC	1,511 sq.m.	84.3%

MANAGEMENT DISCUSSION AND ANALYSIS

All the commercial and office units in the composite building located at the Laoshan District, Qingdao City, the PRC, have been leased out. A lease agreement has been entered into with a tenant by the Group with an initial period of 3 years. An underground storage with gross floor area of 14.82 sq.m. has not been rented out. 244 underground car parking spaces in the composite building have been rented out on an hourly basis to tenants and visitors to the composite building.

Most of the units in the storey in a commercial building located at the Shinan District, Qingdao City, the PRC have been leased out. Lease agreements have been entered into with the tenants by the Group with an initial period ranging from 3 to 10 years.

(b) Land under Development

The land of the Company which is under development is situated within the Chengyang District in Qingdao City, the PRC, with a site area of approximately 91,165 sq.m. which is planned as to 66% and 34% of its gross floor area for (i) wholesale and retail use and (ii) business and financial use, respectively. The management of the Company is still following up with the local government on the recent changes in the development plan around the area. A concrete plan of development of the land will be filed for domestic government's approval once the overall plan has been confirmed.

Taking into account the improvements in local investment environment and the favourable conditions in the local commercial property market, the Board will continue to pay attention to the development of this segment and to identify and seek suitable opportunities for further investments. During the Year, the Group had acquired additional properties in Qingdao City, the PRC through acquisition of subsidiaries. For further details, please refer to the paragraph headed "Substantial acquisition and disposal" in this report.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

The Group's total turnover for the Year was approximately RMB31,414,000 (2015: approximately RMB3,855,000), representing a significant increase of approximately 714.9% compared to the year of 2015. This was mainly attributable the increase in rental income from the property segment following the completion of the acquisition of the entire issued share capital of Golden Century Trade Limited (金世紀貿易有限公司) by the Company on 31 March 2016 (the "**Acquisition**").

Selling and Distribution Costs

During the Year, the Group postponed all marketing activities due to the lack of large scale tender projects in the trading segment. There was no distribution cost in 2016 (2015: Nil).

General and Administrative Expenses

The Group's administrative expenses for the Year were approximately RMB14,789,000 (2015: approximately RMB10,024,000), representing an increase of approximately 47.5% as compared to the year of 2015. This was mainly attributable to the increase in the general and administration expenses incurred by the Group in respect of the acquisition of the Target Group (as defined in the paragraph headed "Substantial acquisition and disposal" in this report).

Net Profit

During the Year, the Group recorded a net profit of approximately RMB56,944,000, representing a turnaround from loss to profit as compared to the net loss of approximately RMB7,587,000 for the year of 2015. The turnaround for the Year was mainly due to the significant increase in revenue as a result of the rental income from office premises and car park spaces following the completion of the Acquisition, the gain on bargain purchase from business combination and the increase in fair value of investment properties.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Analysis by Business Segment

During the Year, the Group's principal source of income was derived from the property segment, which accounted for approximately 96.7% of the total turnover of the Group. Sale of intelligent electronic products and modern office furniture products from the trading segment accounted for the remaining approximately 3.3%.

During the Year, all of the Group's income was derived from the Shandong Province, the PRC, and accounted for 100% of the Group's total turnover.

FUTURE OUTLOOK

Commercial properties of the Group have commenced to generate stable and growing rental revenue and became a major source of income for the Group. On the other hand, the intelligent electronic products and modern office furniture business of the Group has been diminishing for several years and has shown a continuous drop in sales revenue and profit, which is expected to be a minor source of income. Besides, the Group has been actively researching, identifying and exploring local property business and other business domains with great potential growth in order to achieve a diversification of income source of the Group in the future.

DEBTS

As at 31 December 2016, the Group had secured bank and other borrowings of approximately RMB181,108,000 (2015: approximately RMB17,550,000). For details of the secured bank and other borrowings, please refer to note 20 to the consolidated financial statements on pages 105 and 106 of this report.

Save as disclosed above, the Group had no other debt securities that were issued, outstanding, approved or otherwise created but unissued, or term loans or other borrowings or debts of borrowing nature, including bank overdrafts, acceptance liabilities or acceptance credits, obligations under financing lease and mortgages.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's capital requirement represents mainly working capital in relation to the sale of intelligent electronic products and modern office furniture products and related costs of business in relation to the property segment. The Group financed its operation and investment from its internal resources.

As at 31 December 2016, the Group had cash and bank balances of approximately RMB6,407,000 (31 December 2015: approximately RMB118,236,000), approximately 94.5% and 5.5% of which were held in RMB and HK\$, respectively. The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was 59.8% (31 December 2015: 12.4%).

During the Year, the Group did not employ any material financial instrument for hedging purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE

Since most of the revenue generated from the sale of products by the Group and the receipt of rental income and the payment for purchases of materials, components and equipment are in RMB, the Directors are of the opinion that the Group will have sufficient funds to meet its foreign exchange requirements. The Group did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates and did not adopt any currency hedging policy or other hedging instruments during the Year.

SUBSTANTIAL ACQUISITION AND DISPOSAL

On 13 November 2015, the Company entered into a sale and purchase agreement (the “**Sale & Purchase Agreement**”) with Mr. Chen Jun (the “**Vendor**”), a controlling shareholder of the Company (as defined with reference to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as Mr. Chen Jun and his associates together held approximately 39.68% interest in the Company at that time), pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell the entire issued share capital of Golden Century Trade Limited (金世紀貿易有限公司) for a consideration of RMB155,000,000, out of which RMB135,000,000 shall be satisfied by way of allotment and issue of 124,000,000 Shares (the “**Consideration Shares**”) at the issue price of HK\$1.35 per Consideration Share and RMB20,000,000 shall be satisfied by cash.

Upon completion of the Acquisition, the Company has held the entire issued share capital of Golden Century Trade Limited (金世紀貿易有限公司) which in turn holds 100% of the equity interest in Qingdao Zhongtian Enterprise Development Company Limited (青島中天企業發展有限公司), Qingdao Zhongtian Innovation Investment Company Limited (青島中天創新投資有限公司) and Qingdao Zhongtian Software Park Company Limited (青島中天軟件園有限公司) via Best Sight Limited (瑋邦有限公司) (collectively, the “**Target Group**”). The Target Group is principally engaged in the investment and development of the property (i.e. the land and the buildings erected thereon located at No. 38 Shandongtuo Road, Laoshan District, Qingdao City, Shandong Province, the PRC) and the land (i.e. the piece of land located at No. 877 Huihai Road, Chengyang District, Qingdao City, Shandong Province, the PRC). The Acquisition has been approved by the independent shareholders of the Company at the Company’s extraordinary general meeting held on 22 March 2016, and the completion of the Acquisition took place on 31 March 2016.

For further details of the Acquisition, please refer to the announcements of the Company dated 15 December 2015, 22 March 2016 and 31 March 2016, respectively, and the circular of the Company dated 7 March 2016.

Save as disclosed above, there was no other material acquisition and disposal of subsidiaries and associated companies by the Group during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2016, the leasehold land with carrying amount of approximately RMB3,624,000, the investment properties with fair value of approximately RMB689,570,000, the building with carrying amount of approximately RMB4,613,000 and the issued shares of a subsidiary of the Group, Qingdao Zhongtian Enterprise Development Company Limited are pledged for bank borrowing of the Group. (31 December 2015: the leasehold land with carrying amount of approximately RMB3,698,000, the investment properties with fair value of approximately RMB42,600,000 and the building with carrying amount of approximately RMB4,707,000 are pledged to a bank for bank borrowings.)

As at 31 December 2016, an indirect wholly-owned subsidiary of the Company was involved in 2 legal cases in an aggregate amount of RMB139,000. For the details of the contingent liabilities, please refer to note 30 of the consolidated financial statements on page 117 of this report.

Save as disclosed above, the Group had no other material pledge of assets and contingent liabilities as at 31 December 2016.

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2016 and 2015 were as follows:

	2016	2015
	RMB'000	RMB'000
Authorised but not contracted for	184,609	–
Contracted but not provided for	1,885	155,000

As at 31 December 2016, the Group had authorised but not contracted for capital commitments for construction costs relating to the land held as investment property under development. As at 31 December 2015, the Group contracted for acquisition of Golden Century Trade Limited and its subsidiaries which was completed on 31 March 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had 22 employees (31 December 2015: 7 employees). Most of the Group's employees were based in the head office of the Group in Qingdao City of Shandong Province, the PRC.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses may be awarded to the employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the Year was approximately RMB1,961,000 (31 December 2015: approximately RMB3,331,000). The decrease in staff cost in the Year as compared with 2015 was mainly attributable to the decrease in the remuneration provided to the Directors and senior managements of the Group.

FINAL DIVIDEND

The Directors do not recommend payment of any final dividend for the Year (2015: Nil).

REPORT OF THE DIRECTORS

The Board presents their report together with the audited financial statements of the Company and the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 15 to the financial statements on page 98 of this report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive Income. The Board does not recommend the payment of any dividend for the Year.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the Year are set out in note 14 to the financial statements on page 97 of this report.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 22 to the financial statements on pages 107 and 108 of this report.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 42 of this report.

As at 31 December 2016, the Company had reserves available for distribution to shareholders of approximately RMB236,321,000 (2015: RMB133,435,000).

BUSINESS REVIEW

Further discussion and analysis of the business of the Company, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the business of the Group, can be found in the section headed “Management Discussion and Analysis” as set out on pages 4 to 10 of this report. These discussions form part of this report of the Directors.

ENVIRONMENTAL POLICIES

The Group is devoted to promoting and maintaining the environmental and social sustainable development of the regions where it operates. As a responsible enterprise, the Group is in compliance with all the material laws and regulations in terms of the environmentally friendliness, health and safety, adopts effective measures, conserves energy and reduces waste.

REPORT OF THE DIRECTORS

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Our establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the Year and up to the date of this report, as far as the Company is concerned, save as disclosed in note 30 of the consolidated financial statements on page 117 of this report, there was no material breach or non-compliance with applicable laws and regulations by the Group that has a significant impact on business and operations of the Group.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors recognize that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners and improving the quality of services to the customers.

Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated and its workers are provided with regular training courses on sales and marketing. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for last five financial years is set out on page 127 of this report.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the Year and up to the date of this report were:

Executive Directors

Mr. Chen Dezhao

Mr. Zhao Yun

Independent non-executive Directors

Mr. Chen Wenping

Mr. Liu Jinlu

Mr. Guo Qiang

Each of Mr. Zhao Yun and Mr. Chen Wenping will retire from office as Directors at the forthcoming annual general meeting of the Company.

Mr. Zhao Yun and Mr. Chen Wenping, being eligible, offer themselves for re-election pursuant to Article 87 of the Articles of Association of the Company (the “**Articles**”).

DIRECTORS’ SERVICE CONTRACT

Mr. Chen Dezhao, an executive Director, has entered into a service contract on 29 May 2016 with the Company for a term of one year and ending at the conclusion of the forthcoming annual general meeting of the Company.

Mr. Zhao Yun, an executive Director, has entered into a service contract on 29 May 2016 with the Company for a term of one year and ending at the conclusion of the forthcoming annual general meeting of the Company unless terminated by not less than three months’ notice in writing served by either party on the other.

All the independent non-executive Directors, namely Mr. Guo Qiang, Mr. Chen Wenping and Mr. Liu Jinlu, have respectively entered into a service contract with the Company for a term of one year commencing on 29 May 2016 and ending at the conclusion of the forthcoming annual general meeting of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Directors

Executive Directors

Mr. Chen Dezha (陳德昭) (“**Mr. Chen DZ**”), aged 74, has extensive experience in human resources, management and administration. Mr. Chen DZ was enlisted to serve in the army in August 1963 and he left the army in December 1982. From 1982 to 2002, he took up various important positions in Shandong Province Branch, the Bank of China (中國銀行山東省分行) including the chief of the department of human resources, vice chairman of the bank association (公會副主席) and the director of the staff education and research committee of the China financial system (中國金融系統職工教育研究會理事).

In addition, Mr. Chen DZ has been qualified as an economist and as a senior government affair advisor (高級政工師) since 10 December 1990 and 1 December 1996 respectively by the Bank of China. Mr. Chen DZ was appointed as an executive Director on 29 May 2015.

ZHAO Yun (趙贊) (“**Mr. Zhao**”), aged 44, is currently the Chief Executive Officer of the Group and a director of New East Glory Limited (東耀有限公司), a wholly-owned subsidiary of the Company. Mr. Zhao was graduated from 南開大學 (Nankai University) and 中國人民解放軍海軍潛艇學院 (The People's Republic of China's Marine and Submarine College). Mr. Zhao has over 10 years of experience in corporate investment. Mr. Zhao was appointed as an executive Director on 6 March 2007.

Independent non-executive Directors

GUO Qiang (郭強) (“**Mr. Guo**”), aged 46, was graduated from Qingdao Polytechnic University (青島理工大學) with a bachelor's degree in computer science and technology. From 1996 to 2007, Mr. Guo was the chief editor of Chinese Printing Weekly of the Light Literature Journal (《通俗文藝報》書畫周刊) and the art director of Chinese Printing Page of Qingdao Economic Daily (《青島財經日報》書畫專版) of Qingdao Publisher (青島出版社). He has been an art editor of Qingdao Wen Xue Press (青島文學雜誌社) since 2007. In 1999, Mr. Guo was elected as a committee member of Shandong Calligraphers Association (青島市書法家協會) and joined China Calligraphers Association (中國書法家協會) in 2000. In 2004, Mr. Guo was elected as the vice chairman of Shandong Youth Calligraphers Association (山東省青年書法家協會) and Qingdao Youth Calligraphers Association (青島市書法家協會), respectively. In 2009, Mr. Guo was elected as the chairman of Qingdao Youth Calligraphers Association (青島市青年書法家協會). Mr. Guo was appointed as an independent non-executive Director since 8 April 2011.

REPORT OF THE DIRECTORS

CHEN Wenping (陳文平) (“Mr Chen WP”), aged 44, is an independent non-executive Director and was graduated from the Shandong Academy of Economy (山東經濟學院), majoring in finance in 1998 and was qualified as a PRC lawyer in 2001. Mr. Chen WP has extensive experience in accounting and financial management. He had worked for 山東匯德會計師事務所有限公司 (Shandong Huide Accounting Firm Co., Ltd.) for 3 years as a practicing accountant and valuer. He is currently the accountant in charge of 東莞華利聯合會計師事務所 (Dongguan Huali United Accounting Firm). Mr. Chen WP was appointed as an independent non-executive Director since 29 May 2007.

LIU Jinlu (劉金祿) (“Mr. Liu”), aged 55, is an independent non-executive Director and was graduated from the Beijing Sport University (北京體育大學). Mr. Liu was the deputy head of 北京金鼎木製品廠 (Beijing Jinding Muzhipin Factory) from 1983 to 1998 and has been the general manager of 北京天頌三佳緣商貿中心 (Beijing Tiansong Sanjiayuan Commercial Centre) since 1998. Mr. Liu was appointed as an independent non-executive Director since 20 May 2010.

Save as disclosed above, there are no relationships among the members of the Board.

SENIOR MANAGEMENT

Chen Jun (陳軍), aged 44, is a director, general manager and legal representative of each of 青島中天源網路科技有限公司 (formerly known as Qingdao Hai Yi Commercial Management Company Limited* (青島海逸商業管理有限公司)), Success Advantage Limited (成益有限公司), and Qingdao Hai Yi Investment and Consultancy Company Limited* (青島海逸投資諮詢有限公司), all of which are wholly-owned subsidiaries of the Company.

Mr. Chen Jun was graduated from the People's Republic of China's Marine and Submarine College (中國人民解放軍海軍潛艇學院). Mr. Chen Jun is also the visiting professor and instructor of Master students of Qingdao Technological University (青島理工大學), School of Civil Engineering. Mr. Chen Jun has over 15 years of experience in corporate planning and management.

Mr. Chen Jun was appointed as an executive Director on 6 March 2007 and retired on 29 May 2015. Mr. Chen Jun is the sole director and the sole shareholder of Fine Mean Investments Limited and Vast Yield Holdings Limited, and thus a controlling shareholder of the Company. For details, please refer to the paragraph headed “Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares” in this report.

DIRECTORS' REMUNERATION

The Directors' fees are subject to the approval of the shareholders of the Company (the “Shareholder”) at general meetings. Other emoluments are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group. In addition, the Directors' remuneration is reviewed by the remuneration committee of the Company (the “Remuneration Committee”) annually. Details of the Director's remuneration are set out in note 10 of the financial statements on pages 90 to 91 of this report.

REPORT OF THE DIRECTORS

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

As at 31 December 2016, none of the Directors and the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or which are required pursuant to section 352 of the SFO to be entered in the register referred to therein; or are otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"),

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept pursuant to section 336 of the SFO:

Long position in Shares and underlying Shares of the Company

Name of substantial Shareholder	Capacity	Number of Shares interested/held	Approximate shareholding percentage
Mr. Chen Jun	Beneficial owner	5,525,000	1.35%
	Interest of a controlled corporation (Note 1)	108,042,781	26.34%
	Interest of a controlled corporation (Note 2)	124,000,000	30.23%
Fine Mean Investments Limited (Note 1)	Beneficial owner	108,042,781	26.34%
Vast Yield Holdings Limited (Note 2)	Beneficial owner	124,000,000	30.23%
Ms. Su Haiqing (Note 3)	Interest of spouse	237,567,781	57.91%

REPORT OF THE DIRECTORS

Notes:

- (1) Fine Mean Investments Limited is wholly-owned by Mr. Chen Jun. Mr. Chen Jun is the sole director of Fine Mean Investments Limited. As such, Mr. Chen Jun is deemed, or taken to be, interested on all the Shares held by Fine Mean Investments Limited for the purposes of the SFO.
- (2) Vast Yield Holdings Limited is wholly-owned by Mr. Chen Jun. Mr. Chen Jun is the sole director of Vast Yield Holdings Limited. As such, Mr. Chen Jun is deemed, or taken to be, interested on all the Shares held by Vast Yield Holdings Limited for the purposes of the SFO.
- (3) Ms. Su Haiqing is the spouse of Mr. Chen Jun. Under the SFO, Ms. Su Haiqing is deemed or taken to be interested in all the Shares in which Mr. Chen Jun has, or is deemed to have, an interest for the purpose of the SFO.

Save as disclosed above, as at 31 December 2016, the Company had not been notified of any substantial Shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares in the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" below, no Director during the Year had a beneficial interest, either direct or indirect, in any contract of significance (as defined in Appendix 16 to the Listing Rules) to which the Company, its holding company or any of its subsidiaries was a party at the end of the Year or at any time during the Year.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 167 of the Articles, 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. In addition, the Company has maintained appropriate Directors' liability insurance coverage for the Directors during the Year.

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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the sections headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and "Share Option Scheme" below, at no time during the Year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective associates to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's purchases and turnover attributable to major suppliers and customers are as follows:

	2016 %	2015 %
Percentage of purchases:		
From the largest supplier	38.9%	53.2%
From the five largest suppliers	90.7%	100%
Percentage of turnover:		
From the largest customer	92.6%	64.6%
From the five largest customers	99.5%	100%

None of the Directors, their associates or any Shareholders who owned more than 5% of the Company's share capital had any interest in the Group's five largest customers nor suppliers.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at 31 December 2016, the Directors were not aware of any business or interest of the Directors and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of this report.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed securities.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles and the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions

On 13 November 2015, the Company entered into the Sale & Purchase Agreement with Mr. Chen Jun, a controlling shareholder of the Company, pursuant to which the Company conditionally agreed to purchase and Mr. Chen Jun conditionally agreed to sell the entire issued share capital of Golden Century Trade Limited (金世紀貿易有限公司) for a consideration of RMB155,000,000, out of which RMB135,000,000 shall be satisfied by way of allotment and issue of 124,000,000 Shares at the issue price of HK\$1.35 per Consideration Share and RMB20,000,000 shall be satisfied by cash. The Acquisition was completed on 31 March 2016.

As Mr. Chen Jun is a connected person of the Company by virtue of him being a controlling shareholder of the Company (as defined under the Listing Rules as Mr. Chen Jun and his associates together held approximately 39.68% interest in the Company at that time). Hence, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

For further details of the Acquisition, please refer to the announcements of the Company dated 15 December 2015, 22 March 2016 and 31 March 2016, respectively, and the circular of the Company dated 7 March 2016.

Continuing connected transactions

The Group has entered into a leasing agreement (the "**Leasing Agreement**") with an associate of Mr. Chen Jun, a controlling shareholder of the Company (as defined under the Listing Rules as Mr. Chen Jun and his associates together held approximately 39.68% interest in the Company at the time, hence each being a connected person), on 30 December 2015. The term of the Leasing Agreement is from 1 January 2016 to 31 December 2016. Accordingly, the Leasing Agreement constituted a continuing connected transaction. Pursuant to the Leasing Agreement, a vehicle would be leased to the Group for its business purpose. The Leasing Agreement was fully exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements as they were on normal commercial terms and all of the applicable ratios were, in aggregate, on an annual basis, less than 5% and the annual consideration was less than HK\$1,000,000. Further details of the Leasing Agreement are disclosed under note 28 to the financial statement on pages 112 to 115 of this report.

REPORT OF THE DIRECTORS

The Directors consider that those material related party transactions disclosed in note 28 to the financial statements did not fall or were fully exempted under the definition of “connected transactions” or “continuing connected transactions” (as the case may be) in Chapter 14A of the Listing Rules, and hence are not required to comply with any of the reporting, announcement or independent shareholders’ approval requirements under the Listing Rules.

CORPORATE GOVERNANCE

The corporate governance practices of the Group are based on the principles and the code provisions as set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 to the Listing Rules. The Company has complied with all the code provisions as set out in the Code during the Year except for the following deviations:

Code Provision A.6.7 of the Code provides that independent non-executive Directors and other non-executive Directors should attend general meetings. Code Provision E.1.2 of the Code also provides that the chairman of the Board should attend the annual general meeting. Further, it provides that the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders’ approval. In addition, the chairman of the Board should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting.

Mr. Chen Wenping, Mr. Guo Qiang and Mr. Lin Jinlu, each being an independent non-executive Directors, and Mr. Chen Dezhaoh, an executive Director and the chairman of the Board, were unable to attend the extraordinary general meeting and annual general meeting of the Company held on 22 March 2016 and 26 May 2016, respectively, due to other business commitments or unexpected engagements. Mr. Zhao Yun, an executive Director and who took the chair at the aforesaid extraordinary general meeting and annual general meeting of the Company, was of sufficient calibre and knowledge for answering questions at these general meetings.

The Board will continue to monitor and review the Company’s corporate governance practices to ensure compliance with the Code.

The details of Group’s compliance with the Code is set out in the Corporate Governance Report from page 22 to page 32 of this report.

ANNUAL GENERAL MEETING AND BOOK CLOSURE

The annual general meeting of the Company will be held on 25 May 2017 at 10:30 a.m. at 3/F, Block C, Zhongtian Building, 38 Shandongtou Road, Laoshan District, Qingdao City, Shandong Province, the PRC.

The transfer books and the register of members of the Company will be closed from 23 May 2017 to 25 May 2017, both days inclusive. During such period, no Share transfers will be effected. In order to qualify for attending the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on 22 May 2017.

REPORT OF THE DIRECTORS

EVENTS AFTER REPORTING PERIOD

Save as disclosed in note 32 of the consolidated financial statements on page 119 of this report, the Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2016 and up to the date of this report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2016 have been audited by Crowe Horwath (HK) CPA Limited (“**Crowe Horwath**”). Crowe Horwath will retire as auditor at the conclusion of the forthcoming annual general meeting and will offer themselves for re appointment. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Crowe Horwath as the auditor of the Company.

On behalf of the Board

Chen Dezha

Chairman

Hong Kong, 28 March 2017

CORPORATE GOVERNANCE REPORT

The corporate governance practices of the Group are based on the principles and the code provisions as set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 to the Listing Rules. The Company has complied with all the code provisions as set out in the Code during the Year except for the following deviations:

Code Provision A.6.7 of the Code provides that independent non-executive Directors and other non-executive Directors should attend general meetings. Code Provision E.1.2 of the Code also provides that the chairman of the Board should attend the annual general meeting. Further, it provides that the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders’ approval. In addition, the chairman of the Board should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting.

Mr. Chen Wenping, Mr. Guo Qiang and Mr. Lin Jinlu, each being an independent non-executive Directors, and Mr. Chen Dezhao, an executive Director and the chairman of the Board, were unable to attend the extraordinary general meeting and annual general meeting of the Company held on 22 March 2016 and 26 May 2016, respectively, due to other business commitments or unexpected engagements. Mr. Zhao Yun, an executive Director and who took the chair at the aforesaid extraordinary general meeting and annual general meeting of the Company, was of sufficient calibre and knowledge for answering questions at these general meetings.

The Board will continue to monitor and review the Company’s corporate governance practices to ensure compliance with the Code.

The key corporate governance practices of the Group are summarised as follows:

BOARD OF DIRECTORS

Composition

The Board includes two executive Directors and three independent non-executive Directors.

Executive Directors

Chen Dezhao (*Chairman*)

Zhao Yun (*Chief executive officer*)

Independent Non-executive Directors

Mr. Chen Wenping

Mr. Liu Jinlu

Mr. Guo Qiang

CORPORATE GOVERNANCE REPORT

More than one third of the Board is independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of the Directors.

There is no financial, business, family or other material/relevant relationship among the members of the Board, in particular, between the Chairman of the Board and the Chief Executive Officer. All the independent non-executive Directors, namely Mr. Guo Qiang, Mr. Chen Wenping and Mr. Liu Jinlu, have respectively entered into a service contract with the Company for a term of one year commencing on 29 May 2016 and ending at the conclusion of the forthcoming annual general meeting of the Company. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles.

At each annual general meeting, one third of the Directors are required to retire from office. Each Director shall retire from office once every three years. The Directors to retire in every year shall be those appointed by the Board during the Year and those who have been longest in office since their last election or re election. New Directors appointed by the Board during the Year shall retire and submit themselves for re election at the annual general meeting immediately following their appointments.

Under Code provision A.4.3, if an independent non-executive Director serves more than 9 years, his/her further appointment should be subject to a separate resolution to be approved by the Shareholders. As such, although Mr. Chen Wenping has been serving as an independent non-executive Director for more than nine years, the Board considers that Mr. Chen Wenping is a person of integrity and independent in judgement and character. He is independent of management and free from any business or other relationships or circumstances which could materially interfere with the exercise of his independent judgement. The Board considers that Mr. Chen Wenping meets the independent guidelines set out in Rule 3.13 of the Listing Rules, and is of the view that her independence is not affected by his long service with the Company. Hence, the Board considered Mr. Chen Wenping as independent and should be re-elected at the forthcoming annual general meeting of the Company.

Each of Mr. Zhao Yun and Mr. Chen Wenping will retire from office as Directors at the forthcoming annual general meeting of the Company.

Mr. Zhao Yun and Mr. Chen Wenping, being eligible, offer themselves for re election pursuant to Article 87 of the Articles.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to the requirements of the Listing Rules. The Group considers all independent non-executive Directors to be independent in accordance with the Listing Rules.

Save as disclosed in the section headed "Directors' and Senior Management's Biographies" in this report, all members of the Board have no relationship with each others.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

The Board meets regularly. In addition to regular meetings, it meets as and when warranted by particular circumstances. During the Year, four Board meetings were held.

A record of the Directors' attendance at the Board meetings and general meeting(s) are set out as follows:

	Attendance/ Number of Board Meetings	Attendance/ Number of General Meetings
<i>Executive Directors</i>		
Chen Dezhaoh (<i>Chairman</i>)	4/4	0/2
Zhao Yun	4/4	2/2
<i>Independent Non-executive Directors</i>		
Chen Wenping	4/4	0/2
Liu Jinlu	4/4	0/2
Guo Qiang	4/4	0/2

Board responsibilities and delegation

The Board is responsible to the Shareholders for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the annual development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system and supervising and managing management's performance.

Regarding our Group's corporate governance, during the Year, the Board had performed the duties following:

- reviewed the policies and practices on corporate governance of the Group and made recommendations;
- reviewed and monitored the training and continuous professional development of Directors and senior management;
- reviewed and monitored the Group's policies and practices on compliance with legal and regulatory requirements;
- reviewed and monitored the code of conduct applicable to the Directors and employees; and
- reviewed the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

CORPORATE GOVERNANCE REPORT

The Board delegates the day to day management, administration and operation of the Group to the management. The delegated functions are reviewed by the Board periodically to ensure they remain appropriate to the needs of the Group. The Board gives clear directions to the management as to the matters that must be approved by the Board before decisions are made on behalf of the Group by the management.

CHAIRMAN AND CHIEF EXECUTIVE

The Group understands that the role of the chairman of the Board and chief executive of the Company shall have clear division of responsibilities. The Group has appointed a separate chairman and chief executive officer of the Company since 2007. The two positions are assumed by different persons, in order to ensure that their independence, accountability and power are clear. Mr. Chen Dezhaoh, the Chairman, is responsible for the operation of the Board and the formulation of the Group's strategies and policies. Mr. Zhao Yun, the chief executive officer of the Company, with the assistance of other members of the Board and senior management, is responsible for the management of the Group's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation. The chairman ensures that all Directors are properly briefed on issues arising at the Board meetings and receive adequate, complete and reliable information in a timely manner.

COMPANY SECRETARY

Mr. Tai Man Hin, Tony ("**Mr. Tai**"), CPA, an external service provider, has been engaged by the Company as its Company Secretary. His primary contact person at the Company is Mr. Zhao Yun, the executive Director. During the Year, Mr. Tai has satisfied the requirements in respect of receiving professional trainings under Rule 3.29 of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and all the Directors have confirmed that they had complied with such code of conduct during the Year.

DIRECTOR'S CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

All Directors are encouraged to and had confirmed that they had complied with the Code Provision A.6.5 of the Code during the Year, that all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged an in house training on the Listing Rules and the Code for Directors in the form of a seminar with provision of training materials compiled by the legal adviser. All Directors had attended the in-house training. The training covered disciplinary matters on breach of the Listing Rules and requirements on disclosure of insider information under the Listing Rules.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Company established a remuneration committee (the “**Remuneration Committee**”) on 25 April 2005. As at the date of this report, the Remuneration Committee comprised an executive director, namely Mr. Chen Dezhaoh, and two independent non-executive directors, namely Mr. Chen Wenping and Mr. Guo Qiang. Mr. Chen Wenping is the chairman of the Remuneration Committee.

The written terms of reference of the Remuneration Committee adopted by the Board are in line with the Code and are available on the Company and the Stock Exchange’s websites.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Group’s policy and structure for the remuneration of Directors, reviewing and making recommendations on their specific remuneration package by reference to market conditions, performance of the Group and corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee held one meeting during the Year and all the members have attended to review the Group’s remuneration policy and approved the terms of executive Directors’ service contracts. During the Year, the Board as a whole has determined the remuneration policy and packages of the Directors. No individual Director was allowed to participate in the procedures for deciding his/her individual remuneration package.

A record of the members’ attendance at the Remuneration Committee’s meeting is set out as follows:

Members of Remuneration Committee	Attendance/ Number of Meetings
Chen Wenping (<i>Chairman</i>)	2/2
Chen Dezhaoh	2/2
Guo Qiang	2/2

The Remuneration Committee held one meeting during the Year and members of the Remuneration Committee had performed the following duties:

- consulted the chairman of the Board and/or chief executive about their remuneration proposals for other executive Directors. The Remuneration Committee has access to independent professional advice if necessary;
- made recommendations to the Board on the Company’s policy and structure for all Directors’ and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewed and approved the management’s remuneration proposals with reference to the Board’s corporate goals and objectives;
- reviewed and approved the terms of executive Directors’ service contracts;

CORPORATE GOVERNANCE REPORT

- made recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- made recommendations to the Board on the remuneration of non-executive Directors; and
- considered salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company and its subsidiaries.

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management recognise the responsibility of safeguarding the interest of Shareholders and provide transparent and real time information on the Company so as to keep the Shareholders and investors abreast of the Company's position and help them to make the best investment decision. The Company believes that maintaining good and effective communication with shareholders can facilitate the Shareholders' understanding of the business performance and strategies of the Group. The Board and senior management also recognise the responsibility of safeguarding the interest of the Shareholders. In order to safeguard the Shareholders' interest, information of the Company and the Group are delivered to the Shareholders through a number of channels, which includes annual reports, interim reports, announcements and circulars. The latest information of the Company and the Group together with the published documents are also available on the Company's website.

The Company holds annual general meeting every year as an appropriate media for direct communication between the Board and the Shareholders. Shareholders can raise questions directly to the Board in respect of the business performance and future development of the Group at such annual general meetings.

SHAREHOLDER'S RIGHTS

Procedures for putting forward proposals at general meeting by Shareholders

In accordance with the requirements under Article 58 of the Articles, extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to Article 88 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The minimum length of the period, during which the notices required under the Articles will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

CORPORATE GOVERNANCE REPORT

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Attention: Mr. Tony Tai, Zhongtian International Limited
5th Floor, Block C, Zhongtian Building, No. 38 Shandongtou Road
Laoshan District, Qingdao City, Shandong Province
The People's Republic of China

Shareholders' enquiries and concerns are forwarded to the Board and/or relevant Board committees of the Company, where appropriate, to answer the Shareholders' questions.

INVESTOR RELATIONS

During the Year, the Company did not make any changes to the Memorandum of Association of the Company and the Articles and the current version of which is available on the websites of the Stock Exchange and the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the responsibility to maintain appropriate and effective risk management and internal control systems in order to safeguard the interest of the Group and the Shareholders, and to review and monitor the effectiveness of the internal control and risk management systems on a regular basis to ensure that the systems in place are adequate.

The Group's risk management and internal control systems comprise, among others, the relevant financial, operational and compliance controls and risk management procedures, a well-established organisational structure with clearly defined lines of responsibility and authority. Each department is accountable for its daily operations and is required to implement the business strategies and policies adopted by the Board from time to time.

The internal audit department of the Company supported the Board and the Audit Committee in reviewing the effectiveness of risk management and internal control systems and performed its functions during the year following an annual audit plan and submitting their reports of their findings to the Board and the Audit Committee at the meetings. The Audit Committee provides independent review on effectiveness of the risk management and internal control systems of the Group and gives their recommendation to the Board. The Board is responsible for reviewing the internal audit report and approving policies and procedures designed by the management.

The Board conducted a review and assessment of the effectiveness of the Group's risk management and internal control systems and procedures during the financial year ended 31 December 2016 by way of discussions with the management of the Group, members of the Audit Committee and the external independent auditor. The Board considered major investigation findings of the external consultant on risk management and internal control matters and management's response to these findings.

CORPORATE GOVERNANCE REPORT

The Board believes that the existing risk management and internal control systems are adequate and effective. The Board also reviewed the resources, qualification and experience of staff of the Group's accounting and financial reporting function and their training schemes and budget and was satisfied with their adequacy.

The Board also assessed the effectiveness of the Group's internal audit function and external audit process, and satisfied itself, through the work of its Audit Committee, that the internal audit function is adequately resourced and is effective at providing assurance to the Board on the relevant risks faced by the Company, and that the external audit process is effective.

The Company has its inside information policy and dissemination procedure, and has regularly reminded its Directors and employees about due compliance with all policies regarding the inside information. Pursuant to the relevant procedures, after an employee is aware of any information which may constitute an inside information, he/she should report to his/her department head or the management of the Group. Upon the Directors and management of the Group having confirmed such information is an inside information, they shall ensure such inside information be kept confidential until the disclosure of such information is appropriately approved, and the dissemination of such information should be efficiently and consistently made. The Company keeps its Directors and employees apprised of the latest regulatory updates in order to ensure the compliance with the regulatory requirements.

SENIOR MANAGEMENT'S REMUNERATION

During the Year, Mr. Chen Jun is the only senior management of the Group with respective remuneration of approximately RMB16,000.

AUDITOR'S REMUNERATION

The remuneration paid or payable to the external auditor of the Group in the year of 2016 comprised fees for audit services of approximately RMB489,000. The other fee amounted to approximately RMB128,000 in relation to the non-audit service regarding to interim review.

AUDIT COMMITTEE

The Audit Committee is primarily responsible for reviewing and supervising the financial reporting process and internal control system of the Group as well as external auditor of the Group.

The Audit Committee held two meetings during the Year to review the financial results and reports (including the interim results of the Group for the six months ended 30 June 2016). Policies in relation to financial controls, internal controls, risk management systems of the Group, and the retirement and appointment of the external auditor were reviewed by the Audit Committee at the meetings. The Audit Committee has reviewed this annual report and confirmed that this annual report is complete, accurate and complies with all applicable rules and regulations, including but not limited to the Listing Rules and the Code. There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor.

CORPORATE GOVERNANCE REPORT

The Audit Committee comprises three independent non-executive Directors. A record of the Directors' attendance at the Audit Committee's meetings is set out as follows:

Members of the Audit Committee	Attendance/ Number of Meetings
Chen Wenping (<i>Chairman</i>)	2/2
Liu Jinlu	2/2
Guo Qiang	2/2

During the Year and up to the date of this report, members of the Audit Committee had performed the following duties:

- reviewed and approved the annual results of the Group for the year ended 31 December 2016 and the interim results of the Group for the six months ended 30 June 2016;
- made recommendations to the Board on the appointment of the Company's external auditor, and approved the remuneration and terms of engagement of the Company's external auditor;
- reviewed and monitored the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- monitored the integrity of the Company's financial statements and annual report and accounts, half year report and reviewed significant financial reporting judgements contained in them;
- discussed with the Company's external auditors questions and doubts arising in audit of interim and annual accounts;
- reviewed the letter to the Company's management from the Company's external auditors and the management's response;
- reviewed the statement about the Company's internal control system which included in this annual report prior to submission for the Board's approval;
- reviewed the Company's financial reporting, financial controls, internal control and risk management systems;
- discussed the risk management and internal control system with the Company's management to ensure that management has performed its duty to have an effective internal control system;
- considered major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

CORPORATE GOVERNANCE REPORT

- ensured that the Company's internal audit function is adequately resourced and had appropriate standing within the Company, and reviewed and monitored its effectiveness;
- reviewed the financial and accounting policies and practices of the Group;
- reviewed the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- ensured that the Board had provided a timely response to the issues raised in the external auditor's management letter; and
- reviewed the new terms of reference of the Audit Committee and provided advice thereon to the Board and enhanced the function of supervising risk management system of the Company in accordance with the amendments to the Code and Corporate Governance Report made by the Stock Exchange, which is applicable to the accounting period beginning from 1 January 2016.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the Year. The auditor of the Company acknowledge their reporting responsibilities in the auditor's report on the financial statements for the Year. 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, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

NOMINATION COMMITTEE

The Company established a nomination committee (the "**Nomination Committee**") on 28 March 2012, which comprises an executive Director, namely Mr. Chen Dezhaohao, and two independent non-executive Directors, namely Mr. Chen Wenping and Mr. Guo Qiang. Mr. Chen Dezhaohao shall act as the chairman of the Nomination Committee. The main function of the Nomination Committee is to identify appropriate individuals qualified to become Board members and to provide advice to the Board in respect of nominating such persons to the Board.

In August 2013, the Board has adopted its board diversity policy. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

CORPORATE GOVERNANCE REPORT

A record of the members' attendance of the first meeting of the Nomination Committee during the year ended 31 December 2016 is set out as follows:

Members of the Nomination Committee	Attendance/ Number of Meetings
Chen Dezhaoh (<i>Chairman</i>)	2/2
Chen Wenping	2/2
Guo Qiang	2/2

The written terms of reference of the Nomination Committee are in line with the Code, and are available on the Company and the Stock Exchange's websites.

During the Year, the Nomination Committee has performed the following duties:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identified individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assessed the independence of independent non-executive Directors; and
- made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive of the Company.

INDEPENDENT AUDITOR'S REPORT



國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZHONGTIAN INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Zhongtian International Limited (the "Company") and its subsidiaries (the "Group") set out on pages 39 to 126, which comprise the consolidated statement of financial position 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 statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which indicates that the Group had net current liabilities of approximately RMB126,702,000 as of 31 December 2016. As stated in note 1, this condition, along with other matters as set forth in note 1, indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

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

The key audit matter	How our audit addressed the key audit matter
<p>(a) Acquisition of business</p> <p>(Refer to notes 2(d), 5(a)(iii), and 29 to the consolidated financial statements)</p> <p>On 31 March 2016, as disclosed in note 29 to the consolidated financial statements, the Group completed the acquisition of 100% equity interest in Golden Century Trade Limited and its subsidiaries (the “Golden Century Group”) from Mr. Chen Jun (then substantial shareholder and a former director of the Company) at the fair value of consideration of RMB128,248,000 which comprised cash of RMB20,000,000 and fair value of approximately RMB108,248,000 for 124,000,000 new ordinary shares of the Company issued on the completion date (the “Acquisition”), based on the sale and purchase agreement made between the Group and Mr. Chen Jun, after an arm’s length of negotiations, on 13 November 2015 (the “SPA”), resulting in a gain on the bargain purchase arising from the Acquisition of approximately RMB27,574,000 which had been credited to consolidated statement of profit or loss for the year. At the completion date of the Acquisition, the principal business activities of the Golden Century Group were property development, leasing and investment. The directors of the Company had exercised significant judgements in determining the Golden Century Group as a business (refer to note 5(a)(iii)). The impacts arising from the Acquisition were significant to the consolidated financial statements of the Group for the current year.</p> <p>The process of for allocating purchase price into the assets and liabilities of the Golden Century Group acquired in the business combination was subjective as it involved management’s significant judgements and estimates in identifying the assets and liabilities acquired and determining their fair values, in particular the fair value of investment properties of the Golden Century Group of approximately RMB592,350,000 which was based on a professional valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, and the deferred tax liabilities on the investment properties (refer to note 5(a)(ii)), on the completion date of the Acquisition.</p>	<p>We performed certain audit procedures as follows:</p> <ul style="list-style-type: none"> • Reviewing the SPA and legal due diligence opinion issued by the Company’s lawyer on the Golden Century Group; • Reviewing opinion letter issued by the joint independent financial advisers on the fairness and reasonableness of the consideration for the Acquisition, and in respect of the approval of the Acquisition, reviewing the minutes of the resolutions of board of directors and independent shareholders of the Company at its extraordinary general meeting held on 22 March 2016; • Checking the settlement of the consideration for the Acquisition on the completion date, verifying the fair value for 124,000,000 new shares issued by the Company at the issue price of HK\$1.35 per share, as part of the consideration, by reference to the closing price of the Company’s shares on the issue date; • Assessing management’s basis for accounting the Acquisition as a business combination, taking into account of the business circumstances of the Golden Century Group on the completion date of the Acquisition; • Reviewing the appropriateness of price allocation for consideration of the Acquisition into the assets and liabilities acquired in the business combination, verifying management’s identification and determination of the fair value of the assets, in particular, checking the fair value of investment properties to independent valuation reports (see below), and liabilities (including deferred tax liabilities on investment properties) of the Golden Century Group on the completion date of the Acquisition and checking the calculation for the gain on bargain purchase arising in the business combination; • Performing those audit procedures on the valuation of the investment properties on the completion of the Acquisition as described in (b) below; and • Assessing the disclosures made in the consolidated financial statements for the Acquisition.

INDEPENDENT AUDITOR'S REPORT

The key audit matter	How our audit addressed the key audit matter
<p>(b) Valuation of investment properties (Refer to note 2(e), 5(b)(i) and 13 to the consolidated financial statements)</p> <p>The fair value of those investment properties of the Golden Century Group acquired at 31 March 2016 and at 31 December 2016 of approximately RMB592,350,000 and approximately RMB645,070,000, respectively, and of the other existing investment properties of the Group of approximately RMB44,500,000 at 31 December 2016, were determined by the directors of the Company with reference to the professional valuations performed, respectively, by Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Asset Appraisal Limited, both being independent firms of professional valuers which have amongst their staff fellow members of chartered surveyors with recent experiences and qualifications in the category and locations of similar properties being valued. The change in the fair value gain of approximately RMB54,620,000 on the Group's investment properties during the year, including the fair value gain on the investment properties of the Golden Century Group since its acquisition date, was recognised and credited to consolidated statement of profit or loss for the year.</p> <p>The outcome of valuations for the Group's investment properties are dependent on the selection of valuation approaches and key assumptions that require significant judgements and estimates made by management and the valuers. The valuation methodologies and key assumptions applied by the valuers in determining the fair value of all the Group's investment properties at 31 December 2016 and those investment properties of the Golden Century Group at the date of acquisition are disclosed in note 13 to the consolidated financial statements.</p>	<p>Our procedures performed include:</p> <ul style="list-style-type: none"> • Assessing the independent external valuers' competence, capabilities and objectivity; • Assessing the appropriateness of the valuation methodologies and approaches for each of the investment properties of the Golden Century Group at the acquisition date and of the Group's investment properties at 31 December 2016; • Reviewing and challenging the reasonableness and relevance of the assumptions and input data adopted by the valuers in the valuations for the investment properties with reference to our knowledge of the property market data like the capitalised rental income yield, prevailing market rentals and recent transaction prices for similar properties in the similar conditions and locations where the Group's investment properties are situated; • Checking mathematical accuracy of calculation for the fair value gain of the investment properties and related deferred tax liabilities arising from fair value changes of the Group's investment properties; and • Assessing the adequacy of the disclosures made in the consolidated financial statements in respect of the valuation of the Group's investment properties.

INDEPENDENT AUDITOR'S REPORT

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 were required to report the fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirement 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.

Auditor's responsibility 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, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

INDEPENDENT AUDITOR'S 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 skepticism throughout the audit. We also:

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

Crowe Horwath (HK) CPA Limited

Certified Public Accountants

Hong Kong, 28 March 2017

Leung Chun Wa

Practising Certificate Number P04963

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Revenue	6(a)	31,414	3,855
Cost of goods sold		(968)	(2,283)
Other income and other net gains/losses	7	6,179	1,346
Change in fair value of investment properties	13	54,620	–
Gain on bargain purchase from acquisition of business	29	27,574	–
Change in fair value of convertible bonds	21	–	13
Other operating costs		(1,980)	–
Administrative expenses		(14,789)	(10,024)
Profit/(loss) from operations		102,050	(7,093)
Finance costs	8(a)	(16,124)	(291)
Profit/(loss) before taxation	8	85,926	(7,384)
Income tax expenses	9(a)	(28,982)	(203)
Profit/(loss) for the year attributable to owners of the Company		56,944	(7,587)
Other comprehensive loss for the year			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of financial statements of foreign operations		(3,341)	–
Total comprehensive profit/(loss) for the year		53,603	(7,587)
Attributable to owners of the Company			
Earnings/(loss) per share (expressed in RMB cents)			
Basic and diluted	12	15.0	(3.1)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Investment properties	13	689,570	42,600
Fixed assets			
– Property, plant and equipment	14	5,336	4,829
– Leasehold land held under operating lease	14	3,624	3,698
		698,530	51,127
Current assets			
Trade and other receivables	16	34,134	10,191
Amount due from a director	28(a)	–	115
Cash and cash equivalents	17	6,407	118,236
		40,541	128,542
Current liabilities			
Trade and other payables	18	43,316	8,984
Amounts due to directors	28(b)	221	15
Amount due to a controlling shareholder of the Company	28(c)	13,858	–
Tax payable	19(a)	5,190	1,397
Bank and other borrowings	20	104,658	1,800
		167,243	12,196
Net current (liabilities)/assets		(126,702)	116,346
Total assets less current liabilities		571,828	167,473
Non-current liabilities			
Bank and other borrowings	20	76,450	15,750
Deferred tax liabilities	19(b)	192,310	10,506
		268,760	26,256
Net assets		303,068	141,217
Total assets		739,071	179,669

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Capital and reserves			
Share capital	22	3,667	2,634
Reserves	23	299,401	138,583
Total equity		303,068	141,217

Approved and authorised for issue by the board of directors of the Company on 28 March 2017 and signed on its behalf by:

Chen Dezhao
Director

Zhao Yun
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company							
	Share capital	Share premium	Exchange reserve	Reserves			Sub-total	Total
				Property revaluation reserve	Accumulated losses			
				note 23(c)				
RMB'000	note 23(a) RMB'000	note 23(b) RMB'000	note 23(c) RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2015	2,243	179,803	-	1,652	(76,461)	104,994	107,237	
Changes in equity for 2015:								
Loss for the year	-	-	-	-	(7,587)	(7,587)	(7,587)	
Other comprehensive income for the year	-	-	-	-	-	-	-	
Total comprehensive loss for the year	-	-	-	-	(7,587)	(7,587)	(7,587)	
Share issued upon placing shares, net of issuing expenses (note 22)	391	41,176	-	-	-	41,176	41,567	
At 31 December 2015 and 1 January 2016	2,634	220,979	-	1,652	(84,048)	138,583	141,217	
Changes in equity for 2016:								
Profit for the year	-	-	-	-	56,944	56,944	56,944	
Other comprehensive loss for the year:								
Exchange difference on translation of financial statements of foreign operations	-	-	(3,341)	-	-	(3,341)	(3,341)	
Total comprehensive income for the year	-	-	(3,341)	-	56,944	53,603	53,603	
Issue of ordinary shares related to acquisition transaction (note 29)	1,033	107,215	-	-	-	107,215	108,248	
At 31 December 2016	3,667	328,194	(3,341)	1,652	(27,104)	299,401	303,068	

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Profit/(loss) before taxation		85,926	(7,384)
Adjustments for:			
Bank interest income	7	(7)	(184)
Other interest income	7	(6,304)	–
Finance costs	8(a)	16,124	291
Gain on bargain purchase from acquisition of business	29	(27,574)	–
Loss on written off of property, plant and equipment	8(c)	6	–
Change in fair value of investment properties	13	(54,620)	–
Depreciation and amortisation	14	203	183
Change in fair value of convertible bonds	21	–	(13)
		13,754	(7,107)
Changes in working capital			
Decrease in trade and other receivables		7,311	65,997
Decrease/(increase) in amount due from a director		115	(87)
Decrease in trade and other payables		(10,223)	(12,144)
Increase/(decrease) in amounts due to directors		206	(928)
Increase in amount due to a controlling shareholder of the Company		3,568	–
		14,731	45,731
Cash generated from operations		7	184
Bank interest received		(420)	(4)
Income tax paid		(1,506)	–
Land appreciation tax paid			
		12,812	45,911
Net cash generated from operating activities			
Investing activities			
Receipt of other loan receivables		137,587	–
Other interest received		5,235	–
Net cash outflow on acquisition of subsidiaries	29	(19,263)	–
Payments for construction costs of completed investment properties		(14,480)	–
Payments for property, plant and equipment		(496)	–
		108,583	–
Net cash generated from investing activities			
Financing activities			
Net proceeds from issue of placing shares		–	41,567
Repayment of loan payables to an independent third party		(10,609)	–
Proceeds from bank borrowings		49,000	18,000
Repayment of bank and other borrowings		(258,789)	(450)
Interest paid		(12,826)	(291)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Net cash (used in)/generated from financing activities		(233,224)	58,826
Net (decrease)/increase in cash and cash equivalents		(111,829)	104,737
Cash and cash equivalents at beginning of the year		118,236	13,499
Cash and cash equivalents at end of the year	17	6,407	118,236

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 December 2003 under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 22 September 2004. The addresses of the registered office and principal of business of the Company are disclosed in the corporate information to the annual report.

The principal business activities of the Group are property development, property leasing and investment, and sale of intelligent electronic products and modern office furniture products in the Peoples' Republic of China (the "PRC").

Going concern basis

At 31 December 2016, the Group's current liabilities exceeded current assets by approximately RMB126,702,000. This condition indicates the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, may not be able to realise its assets and discharge its liabilities in the normal course of business in the next twelve months after the date of approval for the consolidated financial statements.

Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared by the directors of the Company on the assumption that the Group will be able to operate as a going concern in the foreseeable future, after taking into consideration of:

- (a) new bank loans of approximately RMB75,000,000, with a term period of 3 years from 6 February 2017 to 6 February 2020, subsequently obtained from a bank after the end of the reporting period and up to the date of approval of the consolidated financial statements (note 32 below);
- (b) additional new credit facilities being currently in serious and advanced stage of discussions between the Group and certain financial institutions; and
- (c) continuing financial support from the controlling shareholder of the Company, Mr. Chen Jun who has provided an irrevocably undertaking to the Group by providing adequate funds to the Group to enable it to meet its debts as and when they fall due and to carry on its business as a going concern in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION *(Continued)*

Going concern basis *(Continued)*

The directors of the Company have prepared a cash flow forecast of the Group for a period covered not less than twelve months from date of approval of the consolidated financial statements. Based on the forecast which has taken into account of the Group's available credit facilities and the above measures taken to date, the directors of the Company are of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the date of approval of the consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and new credit facilities and the future capital expenditure requirements. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2016 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have been made to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group. Note 3 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(b) Basis of preparation of the financial statements**

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the “Group”).

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company and its subsidiaries operating in the PRC is Renminbi (“RMB”) while that of Best Sight Limited, which is operating in Hong Kong, is Hong Kong dollar. These financial statements are presented in RMB, rounded to the nearest thousand, except for per share data.

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 the fair value as explained in the accounting policies set out below:

- investment properties (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 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 amounts of assets and liabilities 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 recognised 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 5.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries

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 equity 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.

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 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(d) Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Incomes Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations *(Continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(e) Investment properties**

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(g)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(r)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(g).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less any accumulated depreciation and any accumulated impairment losses (see note 2(i)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of their estimated lives, being no more than 50 years and the unexpired term of the lease
- Motor vehicles 5 years
- Furniture, fixtures and equipment 5 years
- Computer equipment 3 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(g) Leased assets**

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.

(i) Classification of assets leased to the Group

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(e)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leased assets *(Continued)*

(ii) Operating lease charges

Where the Group has the use of assets held 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 held 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 an investment property (see note 2(e)) or is held for development for sale.

(h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(i) Impairment of assets****(i) Impairment of trade and other receivables**

Current and non-current receivables that are stated at cost or amortised cost 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; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

- 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

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of trade 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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors 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 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.

(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 an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- leasehold land held under operating lease; and
- investments in subsidiaries in the Company's statement of financial position

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(i) Impairment of assets** *(Continued)***(ii) Impairment of other assets** *(Continued)*

- 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 whenever 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 the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, (if determinable).

- Reversals of impairment losses

In aspect 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities 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, recognition, and reversal criteria as it would at the end of the financial year (see note 2(i)(i) and (ii)).

(j) 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(i)(i)), 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.

(k) Convertible bonds

Convertible bonds of the Company consist of the liability component and embedded conversion options, which are not closely related to the host liability contract. Conversion options that will not be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's equity instrument are not equity instruments and are considered as embedded derivatives not closely related to the host contract.

The Group elected to designate its convertible bonds with embedded derivatives as financial liabilities at fair value through profit or loss on initial recognition as the convertible bonds contain one or more embedded derivatives. Subsequent to initial recognition, the entire convertible bonds were measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

The difference between the fair value of the convertible bonds and the cash consideration are deferred and amortised on a straight-line method over the terms of the convertible bonds.

Transaction costs that were directly attributable to the issue of the convertible bonds designated as financial liabilities at fair value through profit or loss were recognized immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(l) 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.

(m) Trade and other payables

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

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(o) Employee benefits**(i) Short term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(ii) 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 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 share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number 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 profit or loss for the year under 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 share 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 transferred to the share premium account) or the option expires (when it is released directly to retained profits/accumulated losses).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(p) Income 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.

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 that 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(e), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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 substantially 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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(q) 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.

(r) 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) Rental income from operating leases

Rental income under operating leases is recognised in profit or loss on a straight line basis over the terms of the respective leases, 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 rate of the aggregate net lease payment receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is stated after deduction of any trade discounts.

(iii) Interest income

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the 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 carried at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

(t) 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.
- (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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(t) Related parties** *(Continued)*

(b) (Continued)

- (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.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision maker ("CODM"), being 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 not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the Consolidation Exception
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

None of these developments have had a material impact on how the Group’s results and financial positions 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

For the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments by categories

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables		
– Trade and other receivables (exclude prepayments and deposits)	34,004	7,184
– Amount due from a director	–	115
– Cash and cash equivalents	6,407	118,236
	40,411	125,535
Financial liabilities		
At amortised cost		
– Trade and other payables (exclude receipt in advance, accruals and other tax payable)	20,821	8,029
– Amounts due to directors	221	15
– Amount due to a controlling shareholder	13,858	–
– Bank and other borrowings	181,108	17,550
	216,008	25,594

The Group has exposure to the credit risk, liquidity risk, interest rate risk and currency risk arising from financial instruments. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk

- (i) Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.
- (ii) The Group's credit risk is primarily attributable to trade and other receivables and cash and cash equivalents. In order to minimize the credit risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Ongoing credit evaluation is performed on the financial condition of customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are usually due within 10-30 days from the date of billing. For debtors with balances past due, further credit would not be granted until all outstanding balances are settled. Normally, the Group does not obtain collateral from its customers.
- (iii) The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2016, 86% (2015: 50%) and 100% (2015: 100%) of the total trade receivables was due from the Group's largest customer/tenant and the five largest customers/tenants respectively.
- (iv) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 16.

The Group's cash and cash equivalents are placed with creditworthy banks with high credit ratings and the Group has limited exposure to any of these banks.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)***(b) Liquidity risk**

At 31 December 2016, the Group has net current liabilities of approximately RMB126,702,000 (2015: net current assets of approximately RMB116,346,000) which included obligation under amounts due to directors and amount due to a controlling (2015: substantial) shareholder of approximately RMB221,000 (2015: RMB15,000) and RMB13,858,000 (2015: Nil), respectively. Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Board is of the opinion that the Group will be able to finance its future working capital and financial requirements as described in note 1 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

The following tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2016						
Trade and other payables	20,281	-	-	-	20,281	20,281
Amounts due to directors	221	-	-	-	221	221
Amount due to a controlling shareholder	13,858	-	-	-	13,858	13,858
Bank and other borrowings	115,403	18,820	51,364	20,845	206,432	181,108
	150,303	18,820	51,364	20,845	241,332	216,008
2015						
Trade and other payables	8,029	-	-	-	8,029	8,029
Amount due to a director	15	-	-	-	15	15
Bank borrowing	2,875	2,760	7,593	9,912	23,140	17,550
	10,919	2,760	7,593	9,912	31,184	25,594

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2016		2015	
	Effective interest rate%	RMB'000	Effective interest rate%	RMB'000
Fixed rate borrowings:				
Bank loans	6.2	49,000	–	–
Other borrowings	2.5-9.5	41,358	–	–
		90,358		–
Variable rate borrowings:				
Bank loans	5.88-6.37	90,750	6.70	17,550
Total borrowings		181,108		17,550
Fixed rate borrowings as a percentage of total borrowings		49.9%		–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable-rate borrowings, with all other variables held constant, would have decreased/increased the Group's profit after tax/loss after tax and retained profits/accumulated losses by approximately RMB633,000 (2015: RMB850,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analyses above have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2015:100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The analysis is performed on the same basis for 2015.

(d) Currency risk

(i) Exposure to currency risk

The Group is exposed to currency risk primarily through bank deposits, trade and other receivables, trade and other payables and amounts due to directors and a controlling shareholder that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily Hong Kong dollar.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk *(Continued)*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities that are 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.

	2016 RMB'000	2015 RMB'000
Hong Kong dollar:		
Trade and other receivables	188	3,208
Amount due from a director	–	115
Cash and cash equivalents	35	37,877
Trade and other payables	(1,342)	(1,764)
Amounts due to directors	(221)	(15)
Amount due to a controlling shareholder	(5,657)	–
Overall exposure arising from recognised assets and liabilities	(6,997)	39,421

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit/loss after tax (and retained profits/accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase on profit after taxation and retained earnings RMB'000	Increase/ (decrease) in foreign exchange rates	Decrease/ (increase) on loss after taxation and accumulated losses RMB'000
Hong Kong dollar	5%	(350)	5%	1,971
	(5%)	350	(5%)	(1,971)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities profit/(loss) after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group and the Company which expose the Group and the Company to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)***(e) Fair value measurement****Financial assets and liabilities measured at other than fair value**

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 2015.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 2, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

(a) Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Going concern basis

As mentioned in note 1 to the financial statements, the directors are satisfied that the Group has sufficient cash resources to satisfy the Group's working capital and other financial obligations for the next twelve months from the end of the reporting period. Under such circumstances, the consolidated financial statements have been prepared on a going concern basis. If the going concern basis was not appropriate, adjustments would have to be made to restate the values of assets to their immediate recoverable amounts, to make provision for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. Such adjustment may have a significant consequential effect on the profit for the year and net assets of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(a) Critical judgement in applying accounting policies *(Continued)*

(ii) Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objectives is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have presumed that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale. As a result, the Group has recognised the deferred taxes on changes in fair value of investment properties on the basis that the Group is subject to enterprise income tax, value-added tax and land appreciation tax in the PRC. The carrying amount of deferred liabilities on investment properties at 31 December 2016 was approximately RMB192,310,000 (2015: RMB10,506,000).

(iii) Acquisition of business

As disclosed in note 29 to the consolidated financial statements, on 13 November 2015, the Group entered into an agreement with Mr. Chen Jun, then substantial shareholder and a former director of the Company, pursuant to which the Group acquired Golden Century Trade Limited and its subsidiaries (the "Golden Century Group") at a fair value consideration of approximately RMB128,248,000 comprising RMB20,000,000 in cash and approximately RMB108,248,000 for the fair value of 124,000,000 new shares of the Company issued at issue date and date of completion of the acquisition. As the acquisition date, the principal business activities of the Golden Century Group were development, investment and leasing of properties. The directors of the Company considered the acquisition as a business combination in accordance with HKFRS 3, after taking into account of the business circumstances of the Golden Century Group on the completion date of the acquisition. The gain on the bargain purchase from the acquisition of a business of approximately RMB27,574,000, was credited to the consolidated statement of profit or loss for the current year, was mainly due to the subsequent drop, after the agreement date for the transaction, in the market prices of the Company's 124,000,000 new shares issued as settlement of part of the total consideration on the completion date of the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)***(a) Critical judgement in applying accounting policies** *(Continued)***(iii) Acquisition of business** *(Continued)*

The directors of the Company considered that terms of the acquisition agreement were made after an arm's length of negotiations between the Group and Mr. Chen Jun, then substantial shareholder and a former director of the Company, and were fair and reasonable, taking into account of the nature of investment properties and circumstances of the high gearing and financial position of the Golden Century Group. The agreement for the acquisition was approved by the independent shareholders of the Company (excluding Mr. Chen Jun and his associates) at the extraordinary general meeting of the Company held on 22 March 2016. Significant judgements were made by the directors of the Company in the price allocation of the total consideration into fair values of all those identified assets and liabilities of the Golden Century Group at the completion date of the acquisition. In determining the fair value of the investment properties of the Golden Century Group at date of completion of the acquisition, the directors of the Company had made reference to the valuation reports, on the fair value of these investment properties at that date, issued by an independent firm of professionally qualified valuers, using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the investment properties of the Golden Century Group at the completion date of the acquisition. In determining the acquisition-date fair value of the loans receivable, together with the accrued interest thereon, the directors of the Company made reference to the collaterals and the full settlement from the borrowers after the acquisition.

(b) Key sources of estimation uncertainty

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

(i) Fair value of investment properties

Investment properties, including those completed investment properties and land held as investment property under development, are carried in the consolidated statement of financial position at their fair value, details of which are disclosed in note 13. The fair value of the investment properties was determined by reference to valuations conducted on these properties by independent firms of property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment properties included in the consolidated statement of financial position and corresponding adjustments to the changes in fair value reported in the consolidated profit or loss. At 31 December 2016, the carrying amount of investment properties was approximately RMB689,570,000 (2015: RMB42,600,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(ii) Land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including sales charges, borrowing costs and all property development expenditures. The Group is subject to land appreciation taxes in the PRC which has been included in income tax of the Group. However, the Group has not finalised its land appreciation tax returns with the tax authorities for certain property development projects of the Group. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates according to the understanding of the tax rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Income tax and deferred taxation

The Group is subject to enterprise income tax in the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made. Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)***(b) Key sources of estimation uncertainty** *(Continued)***(iv) Depreciation and impairment of property, plant and equipment**

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Directors of the Company review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expenses to be recorded. The useful lives are based on the Group's historic experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. As at 31 December 2016, the carrying amount of property, plant and equipment was approximately RMB8,960,000 (2015: RMB8,527,000).

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculations or fair value less cost of disposal. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to such items such as level of turnover and amount of operating costs. Included in the property, plant and equipment were leasehold land and building which have an aggregate carrying value of approximately RMB8,237,000 (2015: RMB8,405,000) as at 31 December 2016. The directors of the Company determined the recoverable amount of the leasehold land and building by reference to a valuation conducted on this property by an independent firm of property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions.

(v) Impairment of interests in subsidiaries

The Company makes impairment on interests in subsidiaries when the related recoverable amounts of the investments in subsidiaries, with reference to the net asset values of the subsidiaries, are estimated to be less than their carrying amounts. As at 31 December 2016, the carrying amount of interests in subsidiaries was approximately RMB213,160,000 (2015: RMB84,911,000).

(vi) Impairment of trade and other receivables

The Group makes allowance for impairment of trade and other receivables based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each counterparty debtor and the subsequent settlement from the debtors. If the financial conditions of the counterparty debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2016, the carrying amount of trade and other receivables was approximately RMB34,134,000 (2015: RMB10,191,000), net of allowance for doubtful debts of approximately RMB400,000 (2015: RMB400,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue represents the rental income from investment properties and sales value of goods supplied to customers, net of value-added tax and/or sales tax and less sales discounts and returns. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2016 RMB'000	2015 RMB'000
Gross rental income from investment properties	30,374	1,366
Sale of intelligent electronic products and modern office furniture products	1,040	2,489
	31,414	3,855

(b) Segment information

The Group manages its business by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Property: this segment includes property development, investment and leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term. Currently, all of the Group's investment properties are located in the PRC.
- Trading: sale of intelligent electronic products and modern office furniture products in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocation of resources between segments, the Group's CODM monitors the results, assets and liabilities of each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segment and borrowings 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 "segment operating results". Segment operating profit/loss includes the operating profit/loss generated by the segment without allocation of central administration costs. Taxation charge is not allocated to reportable segment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's CODM 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 31 December 2016

	Property RMB'000	Trading RMB'000	Total RMB'000
Reportable segment revenue from external customers	30,374	1,040	31,414
Reportable segment results	92,134	43	92,177
Interest income	6,310	1	6,311
Depreciation and amortisation	(188)	(15)	(203)
Finance costs	(14,622)	–	(14,622)
Change in fair value of investment properties	54,620	–	54,620
Reportable segment assets	733,991	4,856	738,847
Reportable segment liabilities	(431,300)	(683)	(431,983)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. REVENUE AND SEGMENT INFORMATION *(Continued)***(b) Segment information** *(Continued)***(i) Segment results, assets and liabilities** *(Continued)*

For the year ended 31 December 2015

	Property RMB'000	Trading RMB'000	Total RMB'000
Reportable segment revenue from external customers	1,366	2,489	3,855
Reportable segment results	(782)	(724)	(1,506)
Interest income	183	1	184
Depreciation and amortisation	(169)	(14)	(183)
Finance costs	–	(291)	(291)
Reportable segment assets	135,051	6,424	141,475
Reportable segment liabilities	(31,044)	(4,231)	(35,275)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2016 RMB'000	2015 RMB'000
Revenue		
Total reportable segment revenue	31,414	3,855
Elimination of inter-segment revenue	–	–
Consolidated revenue	31,414	3,855
Profit/(loss)		
Reportable segment results	92,177	(1,506)
Change in fair value of convertible bonds	–	13
Unallocated finance costs	(1,502)	–
Unallocated other corporate expenses	(4,749)	(5,891)
Consolidated profit/(loss) before taxation	85,926	(7,384)
Assets		
Total reportable segment assets	738,847	141,475
Unallocated cash and cash equivalents	35	37,877
Other unallocated corporate assets	189	317
Consolidated assets	739,071	179,669
Liabilities		
Total reportable segment liabilities	431,983	35,275
Unallocated income tax payable	1,100	1,397
Unallocated corporate liabilities	2,920	1,780
Consolidated liabilities	436,003	38,452

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. REVENUE AND SEGMENT INFORMATION *(Continued)***(b) Segment information** *(Continued)***(iii) Geographical information**

In determining the Group's geographical information, revenues and results are attributed to the geographical location based on the location of the customers, and assets are attributed to the geographical location based on the location of the assets. As the Group's major operations and markets including location of the non-current assets are all located in the PRC, no further geographical information is provided.

(iv) Information from major customers

Revenue from external customers contributing 10% or more of the total revenue from the Group is as follows:

	2016	2015
	RMB'000	RMB'000
Customer A (note (i))	29,078	N/A
Customer B (note (ii))	N/A	2,489
Customer C (note (i))	N/A	596
Customer D (note (i))	N/A	430

N/A – not applicable

Notes:

- (i) The revenue was derived from the property segment.
- (ii) The revenue was derived from the trading segment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. OTHER INCOME AND OTHER NET GAINS/LOSSES

	2016 RMB'000	2015 RMB'000
Interest income from other loans receivable	6,304	–
Interest income from bank deposits	7	184
Exchange (loss)/gain	(534)	962
Income on forfeiture of rental deposit	35	–
Compensation for cancellation of purchase agreements	–	200
Government grant received	360	–
Sundry income	7	–
	6,179	1,346

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. PROFIT/(LOSS) BEFORE TAXATION

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

	2016 RMB'000	2015 RMB'000
(a) Finance costs		
Interest on bank and other borrowings	16,124	291
(b) Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	1,509	3,199
Contributions to defined contribution retirement plans	452	132
	1,961	3,331
(c) Other items		
Auditor's remuneration		
– audit services	489	297
– non-audit services	128	683
Depreciation of property, plant and equipment and amortisation of leasehold land held under operating lease	203	183
Gross rental income from investment properties less direct outgoings RMB102,000 (2015: RMB113,000)	(30,272)	(1,253)
Operating lease charges in respect of buildings	92	–
Cost of goods sold	968	2,283
Loss on written off of property, plant and equipment	6	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2016 RMB'000	2015 RMB'000
Current tax – PRC Enterprise Income Tax		
– provision for current year	3,671	26
– under-provision in respect of previous years	420	4
	4,091	30
Deferred taxation:		
– origination and reversal of temporary differences (note 19(b))	24,891	173
Income tax expenses	28,982	203

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2015: 25%).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2016 and 2015, as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

(b) Reconciliation between tax expenses and accounting profit/(loss) at the applicable tax rates:

	2016 RMB'000	2015 RMB'000
Profit/(loss) before taxation	85,926	(7,384)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to the profit/(loss) in the tax jurisdiction concerned	19,669	(1,346)
Tax effect of non-taxable income	(4,550)	(2)
Tax effect of non-deductible expenses	1,753	1,587
Effect on utilisation of tax loss	(354)	(40)
Under-provision in prior years	420	4
Tax effect on unrecognised tax losses	808	–
Tax effect on temporary differences	11,236	–
Income tax expenses	28,982	203

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the chief executive's emoluments are as follows:

Name of directors	2016			Total emoluments RMB'000
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	
Executive directors				
Chen Dezhaoh	–	300	–	300
Zhao Yun (<i>Chief executive officer</i>)	–	179	47	226
Independent non-executive directors				
Chen Wenping	20	–	–	20
Guo Qiang	20	–	–	20
Liu Jinlu	20	–	–	20
	60	479	47	586

Name of directors	2015			Total emoluments RMB'000
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	
Executive directors				
Chen Jun (resigned on 29 May 2015)	–	956	4	960
Chen Dezhaoh	–	292	–	292
Zhao Yun (<i>Chief executive officer</i>)	–	104	29	133
Independent non-executive directors				
Chen Wenping	20	–	–	20
Guo Qiang	20	–	–	20
Liu Jinlu	20	–	–	20
	60	1,352	33	1,445

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION*(Continued)*

There was no amount paid during the years ended 31 December 2016 and 2015 to any directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2016 and 2015.

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2015: two) are the directors whose emoluments are disclosed in note 10, one is an ex-director whose emoluments for the time being the director of the Company are disclosed in note 10 in 2015. The aggregate of the emoluments in respect of the other three (2015: two) individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	375	1,527
Contributions to retirement benefits scheme	68	29
	443	1,556

The emoluments of individuals other than directors with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
Nil to HK\$1,000,000 (equivalent to approximately RMB856,000) (2015: Nil to RMB803,000)	3	2
HK\$1,500,000 to HK\$2,000,000 (equivalent to approximately RMB1,284,000 to RMB1,712,000) (2015: RMB1,205,000 to RMB1,607,000)	Nil	1

During the years ended 31 December 2016 and 2015, no emoluments were paid to the five highest paid individuals (including directors and other employees) as an inducement to join or upon joining the Group or as compensation for loss of office and no bonus was paid or payable by the Group to the five highest paid individuals based on the performance of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of RMB56,944,000 (2015: loss of RMB7,587,000) and the weighted average number of 379,717,319 ordinary shares (2015: 245,435,423 ordinary shares) in issue during the year, calculated as follows:

(i) Profit/(loss) for the year attributable to owners of the Company

	2016 RMB'000	2015 RMB'000
Profit/(loss) for the year	56,944	(7,587)

(ii) Weighted average number of ordinary shares of the Company

	2016	2015
Number of shares		
Issued ordinary shares at 1 January	286,209,122	238,509,122
Effect of issue of new shares related to acquisition transaction (note 22(a))	93,508,197	–
Effect of issue of new shares upon placing shares (note 22(b))	–	6,926,301
Weighted average number of ordinary shares at 31 December	379,717,319	245,435,423

(b) Diluted earnings/(loss) per share

For the year ended 31 December 2016, diluted earnings per share equals to basic earnings per share because the Company had no dilutive potential ordinary shares outstanding.

For the year ended 31 December 2015, diluted loss per share equals to basic loss per share because the Company had no dilutive potential ordinary shares outstanding.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. INVESTMENT PROPERTIES

	Completed properties RMB'000	Land held as investment property under development RMB'000	Total RMB'000
At 1 January 2015, 31 December 2015 and 1 January 2016	42,600	–	42,600
Investment properties acquired through acquisition of subsidiaries (note 29)	451,386	140,964	592,350
Gain from fair value adjustments	47,384	7,236	54,620
At 31 December 2016	541,370	148,200	689,570

Notes:

- (a) The analysis of carrying amounts of investment properties is as follows:

	2016 RMB'000	2015 RMB'000
In Qingdao, the PRC		
– Commercial	689,570	42,600

All the investment properties of the Group are held for rental purposes and/or capital appreciation in future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. INVESTMENT PROPERTIES (Continued)

Notes: (Continued)

- (b) The land held as investment property under development is situated in Qingdao, the PRC and held under a medium term lease of 40 years. It is the intention of the Group to develop the above land held as investment property under development into an office complex for rental purposes and/or capital appreciation.
- (c) All of the Group's investment properties were revalued on 31 December 2016 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Asset Appraisal Limited (2015: Asset Appraisal Limited), both being independent firms of valuers, who have amongst their staff, fellow members of chartered surveyors with qualification and recent experience in the location and category of similar properties being valued. The fair values of completed properties were arrived at by considering the capitalised income to be derived from the existing tenancies and the reversionary potential of the properties, where appropriate, by reference to market evidence of transaction prices for the similar properties in the same locations and conditions. The completed properties are currently leased to third parties under operating leases and further details of the Group's total future minimum lease receivables under non-cancellable operating leases are disclosed in note 26. The fair value of land held as investment property under development is revalued by reference to recent transaction prices of similar land, based on the direct comparison approach.

The change in fair value which amounted RMB54,620,000 is recognised in profit or loss for the year ended 31 December 2016. Deferred tax charges of RMB27,941,000 arising from change in fair value of the investment properties as at 31 December 2016 are recognised as disclosed in note 19(b). The investment properties are pledged to banks and other financial institutions for bank and other borrowings of the Group, as further detailed in note 20.

(d) **Fair value measurements of investment 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, categorised into 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. INVESTMENT PROPERTIES (Continued)

Notes: (Continued)

(d) Fair value measurements of investment properties (Continued)

(i) Fair value hierarchy (Continued)

Fair value as 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:			
Commercial – PRC	689,570	–	689,570

Fair value as 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:			
Commercial – PRC	42,600	–	42,600

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The senior management of the Group had discussions with the valuers on the valuation assumptions and valuation results when the valuations for the Group's investment properties were performed at the respective reporting date and, in respect of those investment properties related to the Acquisition, at the completion date of the Acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(d) **Fair value measurements of investment properties** *(Continued)*

(ii) **Information about Level 3 fair value measurements**

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

	Valuation techniques	Significant unobservable input	Range 2016	2015
Commercial use – commercial units	Income approach	Prevailing daily market rents per square meter	RMB8.0-9.0	N/A
		Reversionary yield	7.8%	N/A
Commercial use – office units	Income approach	Prevailing daily market rents per square meter	RMB4.8-5.2	N/A
		Reversionary yield	8.1%	N/A
	Direct comparison approach	Prevailing market price per square meter	RMB26,023-35,000	RMB22,066-33,333
Commercial use – car parks	Income approach	Prevailing daily market rents per parking space	RMB24.44-31.67	N/A
Commercial use – underground warehouse	Direct comparison approach	Prevailing market price per square meter	RMB7,500-22,500	N/A
Land under development (for commercial complex)	Direct comparison approach	Prevailing market price per square meter	RMB898-1,351	N/A

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

14. FIXED ASSETS

	Property, plant and equipment				Sub-total RMB'000	Leasehold land held under operating lease RMB'000	Total RMB'000
	Building RMB'000	Motor vehicles RMB'000	Furniture, fixture and equipment RMB'000	Computer equipment RMB'000			
Cost							
At 1 January 2015, 31 December 2015 and 1 January 2016	4,928	2,438	6	–	7,372	3,872	11,244
Acquisition of business	–	39	38	69	146	–	146
Addition	–	–	496	–	496	–	496
Written off	–	(115)	–	–	(115)	–	(115)
At 31 December 2016	4,928	2,362	540	69	7,899	3,872	11,771
Accumulated depreciation, amortisation and impairment							
At 1 January 2015	127	2,304	3	–	2,434	100	2,534
Charge for the year	94	15	–	–	109	74	183
At 31 December 2015 and 1 January 2016	221	2,319	3	9	2,543	174	2,717
Charge for the year	94	15	11	9	129	74	203
Written off	–	(109)	–	–	(109)	–	(109)
At 31 December 2016	315	2,225	14	9	2,563	248	2,811
Carrying amount							
At 31 December 2016	4,613	137	526	60	5,336	3,624	8,960
At 31 December 2015	4,707	119	3	–	4,829	3,698	8,527

Notes:

- (a) The leasehold land and building is held for own use, situated in Qingdao, the PRC, and pledged to a bank for bank borrowings of the Group. Further details of the Group's bank borrowings are disclosed in note 20.
- (b) At 31 December 2016, the fair value of the Group's leasehold land and buildings was RMB8,800,000 (2015: RMB8,400,000) and accordingly, no impairment on the leasehold land and buildings was required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. SUBSIDIARIES

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

Name	Form of business structure	Class of shares held	Place of incorporation and business	Particulars of issued and paid up capital	Interest held		Principal activities
					directly	indirectly	
Success Advantage Limited	Limited liability company	Ordinary	British Virgin Islands ("BVI")	100 shares of US\$1 each	100%	–	Inactive
New East Glory Limited	Limited liability company	Ordinary	BVI	1 share of US\$1 each	100%	–	Investment holding
Great Miracle Holdings Limited	Limited liability company	Ordinary	BVI	1 share of US\$1 each	–	100%	Investment holding
Shan Dong Travel Services Holdings Limited	Limited liability company	Ordinary	Hong Kong	10,000 shares	–	100%	Investment holding
青島中天源網絡科技有限公司	Wholly foreign-owned enterprise	Registered	PRC	US\$423,200	–	100%	Sale of intelligent electronic products and furniture and fixtures and investment holding
Qingdao Hai Yi Investment and Consultancy Co., Ltd.#	Limited liability company	Registered	PRC	RMB25,000,000	–	100%	Property investment
Golden Century Trade Limited	Limited liability company	Ordinary	BVI	1 share of US\$1 each	100%	–	Inactive
Best Sight Limited	Limited liability company	Ordinary	Hong Kong	1 share of HK\$1 each	–	100%	Investment holding
Qingdao Zhongtian Enterprise Development Co., Ltd.*	Wholly foreign-owned enterprise	Registered	PRC	RMB170,876,000	–	100%	Property development and investment holding
Qingdao Zhongtian Huili Technology Development Company Limited*	Wholly foreign-owned enterprise	Registered	PRC	RMB50,000,000	–	100%	Investment holding
Qingdao Zhongtian Innovation Company Limited#	Limited liability company	Registered	PRC	RMB100,000,000	–	100%	Investment holding
Qingdao Zhongtian Software Park Co., Ltd.#	Limited liability company	Registered	PRC	RMB10,000,000	–	100%	Property development, leasing and investment

* Registered under the laws of the PRC as a wholly foreign-owned enterprise.

Registered under the laws of the PRC as a limited liability company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	8,140	7,383
Less: Allowance for doubtful debts (note (b))	(400)	(400)
	7,740	6,983
Other loan interest receivables (note (d))	26,146	-
Other receivables	118	201
Loan and receivables	34,004	7,184
Prepayments and deposits (note (e))	130	3,007
	34,134	10,191

All of the trade and other receivables are expected to be recovered within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date (or date of revenue recognition, if earlier) and net of doubtful debts, is as follows:

	2016 RMB'000	2015 RMB'000
0-30 days	–	–
31-60 days	–	–
61-90 days	103	6
91-180 days	1,006	–
181-365 days	6,631	215
Over 365 days	–	6,762
	7,740	6,983

Trade receivables are due within 10-30 days from the date of invoice (or date of revenue recognition, if earlier). As at 31 December 2016, the directors consider that no further impairment is necessary as subsequent settlement of substantial part of trade receivables was received. Further details of the Group's credit policy are set out in note 4(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables 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 receivables directly (see note 2 (i)(i)).

Movements in the allowance for doubtful debts

	2016 RMB'000	2015 RMB'000
At 1 January	400	400
Impairment loss recognised	–	–
At 31 December	400	400

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) Impairment of trade receivables (Continued)

As at 31 December 2016, trade receivables of the Group amounting to RMB400,000 (2015: RMB400,000) were individually determined to be impaired. The individually impaired receivables were outstanding for over 365 days at the end of the reporting period or were due from customers with financial difficulties. Accordingly, specific allowances for doubtful debts of RMB400,000 (2015: RMB400,000) were recognised.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	–	6
Past due but not impaired		
Less than 1 month past due	–	–
Over 1 month to 3 months past due	103	–
Over 3 months to 1 year past due	7,637	215
Over 1 year past due	–	6,762
	7,740	6,983

Receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(d) Other loan interest receivables

These were outstanding interests receivable from independent third parties to which the Golden Century Group, prior to its acquisition by the Group as detailed in note 29, granted certain loans which were bearing interest at rates ranging from 5.5% to 10.0% per annum. As security for all of the loans and the interest receivables, the borrowers provided collaterals, which are properties of the respective borrowers, to the Golden Century Group. The Golden Century Group was not permitted to sell or pledge the collaterals in the absence of default by the borrowers.

The collectability of these outstanding interests receivable were guaranteed by the borrowers' collateralised properties. Subsequent to 31 December 2016 and up to the date of approval of the financial statements, all other loan interest receivables have been fully settled and accordingly, no provision for impairment loss was considered necessary at the year end (2015: Nil).

(e) Prepayments and deposits

During the year ended 31 December 2015, the Group signed a purchase agreement in respect of intelligent electronic products with a supplier and prepaid for refundable deposits of RMB3,007,000 in accordance with the purchase agreement. The amount had been refunded to the Group during the year ended 31 December 2016 upon cancellation of the purchase agreement.

17. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows:		
Cash at bank and on hand	6,407	118,236

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	2,965	5,193
Other payables	3,051	2,836
Loan interest payables	14,805	–
Financial liabilities at amortised cost	20,821	8,029
Receipt in advance and accruals	506	–
Other tax payable		
– value-added tax payables	2,057	930
– land appreciation tax payables	14,889	–
– property tax payables	2,953	24
– others	2,087	1
	21,989	955
	43,316	8,984

As of the end of the reporting period, the ageing analysis of the trade payable based on invoice date is as follows:

	2016 RMB'000	2015 RMB'000
0-30 days	69	–
31-60 days	47	–
61-90 days	10	1,321
91-180 days	263	141
181-365 days	487	–
Over 365 days	2,089	3,731
	2,965	5,193

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position:

	2016 RMB'000	2015 RMB'000
At beginning of the year	1,397	1,371
Acquisition of business (note 29)	122	–
Provision for current tax	3,671	26
Under-provision in respect of previous years	420	4
Paid during the year	(420)	(4)
At end of the year	5,190	1,397

(b) Deferred tax liabilities recognised

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

	Investment properties RMB'000	Leasehold land and buildings RMB'000	Total RMB'000
At 1 January 2015	8,717	1,616	10,333
Charged to profit or loss (note 9(a))	–	173	173
At 31 December 2015 and 1 January 2016	8,717	1,789	10,506
Charged to profit or loss (note 9(a))	24,895	(4)	24,891
Acquisition of business (note 29)	156,913	–	156,913
At 31 December 2016	190,525	1,785	192,310

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION**(b) Deferred tax liabilities recognised** *(Continued)*

Note:

On 23 March 2016, China's Ministry of Finance and State Administration of Taxation jointly issued Circular Caishui [2016] 36 which contains the value-added tax ("VAT") rates and rules applicable to all of the industries which are transitioning from Business Tax to VAT with effect from 1 May 2016, including the real estate sector. The VAT rate for real estate sector is 11%, with grandfathering rules applicable to entities with properties acquired before 1 May 2016, for which 5% simplified VAT method would be applied on gross revenue from leasing or net gain from sales of properties.

(c) Deferred tax assets not recognised

As at 31 December 2015 and 2016, the Group did not have material unrecognised deferred tax assets.

20. BANK AND OTHER BORROWINGS

As at 31 December 2016, the Group had bank and other borrowing as follows:

	2016 RMB'000	2015 RMB'000
Secured bank borrowings	139,750	17,550
Secured borrowing from other financial institution	40,000	–
Other secured borrowing	1,358	–
	181,108	17,550

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. BANK AND OTHER BORROWINGS *(Continued)*

At 31 December 2016, interest-bearing bank and other borrowings were due for repayment as follows:

	2016 RMB'000	2015 RMB'000
Carrying amounts repayable:		
Within 1 year	104,658	1,800
After 1 year but within 2 years	14,300	1,800
After 2 years but within 5 years	42,900	5,400
After 5 years	19,250	8,550
	181,108	17,550
Less: Current portion	(104,658)	(1,800)
Non-current portion	76,450	15,750

As at 31 December 2016, bank and other borrowings were interest bearing at 2.5% to 9.0% per annum.

A bank borrowing of RMB15,750,000 was secured by certain investment properties (note 13), leasehold land and buildings held under operating lease (note 14). Bank borrowings of RMB124,000,000 were secured by certain investment properties (note 13) or/and guaranteed by Mr. Chen Jun, a controlling shareholder of the Company.

A borrowing of RMB40,000,000 from an other financial institution was secured by certain investment properties (note 13) and personal guarantee of Mr. Chen Jun, a controlling shareholder of the Company at 31 December 2016, and his spouse.

Other borrowing of RMB1,358,000 from an independent third party was secured by the pledge of all the issued shares of an indirect wholly-owned subsidiary of the Company, Qingdao Zhongtian Enterprise Development Company Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

21. CONVERTIBLE BONDS

During the year ended 31 December 2015, the remaining outstanding convertible bonds were not converted into shares before the maturity date and were matured on 10 November 2015 and was reclassified to other payables.

The movement of the convertible bonds for the years ended 31 December 2016 and 2015 is set out as below:

	RMB'000
At 1 January 2015	26
Change in fair value of convertible bonds	(13)
Reclassified to other payables (note 18) upon expiry on 10 November 2015	(13)
	<hr/>
At 31 December 2015, 1 January 2016 and 31 December 2016	-

22. SHARE CAPITAL

	2016		2015	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	10,000,000	100,000	10,000,000	100,000
	No. of shares '000	Amount RMB'000	No. of shares '000	Amount RMB'000
Issued and fully paid:				
At 1 January	286,209	2,634	238,509	2,243
Issue of ordinary shares related to acquisition transaction (note (a))	124,000	1,033	-	-
Placing of ordinary shares (note (b))	-	-	47,700	391
At 31 December	410,209	3,667	286,209	2,634

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. SHARE CAPITAL *(Continued)*

Note:

- (a) On 31 March 2016, 124,000,000 new ordinary shares of the Company with a par value of HK\$0.01 each were issued at an issue price of HK\$1.35 per share as part of the consideration for the acquisition of the entire interest of Golden Century Group as further detailed in note 29 below. The fair value of the issued shares is calculated on the closing market price of the ordinary shares of the Company of HK\$1.05 on 31 March 2016, being the date of share issue and completion of the Acquisition. These shares shall rank pari passu with all other shares in issue in all respects.
- (b) On 9 November 2015, 47,700,000 new ordinary shares of HK\$0.01 each were placed to placees at a price of HK\$1.08 per ordinary share under general mandate. The Company raised approximately RMB41,567,000 (net of directly attributable issuing expenses of approximately RMB635,000). The proceeds were intended to be used for general working capital of the Group and these shares shall rank pari passu with other shares in issue in all respects.

23. RESERVES

The Group

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.

The Company

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:

	Share premium (note a) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015	179,803	(82,226)	97,577
Shares issued upon placing shares, net of issuing expenses	41,176	–	41,176
Loss for the year	–	(5,318)	(5,318)
At 31 December 2015 and 1 January 2016	220,979	(87,544)	133,435
Issue of ordinary shares related to acquisition transaction (note 29)	107,215	–	107,215
Loss for the year	–	(4,329)	(4,329)
At 31 December 2016	328,194	(91,873)	236,321

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. RESERVES *(Continued)*

Nature and purpose of reserves are as follows:

(a) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Exchange reserve

The exchange reserve represents foreign exchange differences arising from the translation of the financial statements denominated in foreign currencies other than RMB.

(c) Property revaluation reserve

During the year ended 31 December 2013, certain properties previously occupied by the Group as owner-occupied property were transferred to investment properties and a revaluation surplus of RMB2,203,000 was credited to property revaluation reserve to account for the difference between the carrying amounts and the fair values of the properties at the date of change in use, determined using market comparison approach by independent firm of valuers. The corresponding deferred tax liability of RMB551,000 arising from gain on revaluation of properties were charged to other comprehensive income.

(d) Distributability of reserves

The Company's reserves available for distribution represent the share premium and accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors of the Company, as at 31 December 2016, the Company had reserves available for distribution to equity shareholders of RMB236,321,000 (2015: RMB133,435,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. RESERVES *(Continued)*

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group consists of cash and cash equivalent, convertible bonds and equity.

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 2015.

24. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2016 and 2015 were as follows:

	2016 RMB'000	2015 RMB'000
Authorised but not contracted for (note (a))	184,609	–
Contracted but not provided for (note (b))	1,885	155,000

Note:

- (a) As at 31 December 2016, the Group had authorised but not contracted for capital commitments for construction costs relating to the land held as investment property under development.
- (b) As at 31 December 2015, the Group contracted for acquisition of the Golden Century Group which was completed on 31 March 2016, details of which are disclosed in note 29.

26. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2016, the Group had total future minimum lease receivables and payables under non-cancellable operating leases are as follows:

	2016 RMB'000	2015 RMB'000
As lessor:		
Within 1 year	41,321	1,179
After 1 year but within 5 years	43,062	1,661
Over 5 years	2,073	–
	86,456	2,840
As lessee:		
Within 1 year	120	–
After 1 year but within 5 years	–	–
	120	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. COMMITMENTS UNDER OPERATING LEASES *(Continued)*

Operating lease rentals receivable represented rental receivables by the Group for its investment properties under operating lease arrangements, with leases negotiated for 3 to 10 years and rentals are fixed over the lease terms and do not include contingent rentals.

Operating lease payables represented rental payable by the Group to a third party of its office. Leases are principally negotiated for 1 year and rentals are fixed over the lease terms and do not include contingent rentals.

27. PLEDGED OF ASSETS

As at 31 December 2016, all of the issued shares of a subsidiary of the Group, Qingdao Zhongtian Enterprise Development Company Limited (2015: Nil), and the Group's properties with the following carrying amounts were pledged to secure bank and other borrowing (note 20).

	2016 RMB'000	2015 RMB'000
Investment properties (note 13)	689,570	42,600
Leasehold land and building held under operating lease (note 14)	8,237	8,405
	697,807	51,005

28. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2016, the directors are of the view that related parties of the Group include the following individuals:

Name of related party	Relationship with the Group
Chen Jun	Son of Chen Dezhao, legal representative and director of the PRC subsidiaries, and ultimate controlling party of the Company at 31 December 2016
Chen Dezhao	Executive director of the Company, father of Chen Jun
Zhao Yun	Executive director and Chief executive officer of the Company

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Saved for as disclosed elsewhere in the financial statements, the Group has the following related party balances and transactions:

(a) Amount due from a director

	2016		Maximum balance outstanding	
	RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Chen Dezhao	–	115	115	115
	–	115		

The amount due is unsecured, interest-free and repayable on demand.

(b) Amounts due to directors

	2016 RMB'000	2015 RMB'000
Chen Dezhao	191	–
Zhao Yun	30	15
	221	15

The amounts due are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Amount due to a controlling shareholder

	2016 RMB'000	2015 RMB'000
Chen Jun	13,858	–
	13,858	–

The amount due is unsecured, interest-free and repayable on demand.

(d) Transactions with a related company

	2016 RMB'000	2015 RMB'000
Rental expenses paid to a related company – Motor vehicle	139	96
	139	96

Rental expenses were paid to a related company, for which Mr. Chen Jun, a controlling (2015: substantial) shareholder of the Company is the director of the related company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)***(e) Key management personnel remuneration**

Remuneration for key management personnel, including amount paid to the Company's directors as disclosed in note 10 is as follows:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	544	2,742
Post-employment benefits	58	39
	602	2,781

The amount for the year ended 31 December 2015 included short-term employee benefits of RMB2,286,000 and post-employment benefits of RMB10,000 paid to Mr. Chen Jun, a controlling (2015: substantial) shareholder of the Company. Total remuneration is included in staff costs in note 8(b).

29. ACQUISITION OF BUSINESS

On 13 November 2015, the Group and Mr. Chen Jun, then substantial shareholder and former director of the Company, entered into a sale and purchase agreement (the "SPA") based on which, the Group agreed to acquire and Mr. Chen Jun agreed to sell the entire equity interests of Golden Century Trade Limited and its subsidiaries (the "Golden Century Group") at the consideration, comprising cash of RMB20,000,000 and 124,000,000 new ordinary shares at the par value of HK\$0.01 each of the Company at the issue price of HK\$1.35 per share, after an arm's length of negotiations (the "Acquisition"). In the Company's circular dated 6 March 2016 for the Acquisition, the Company's two joint independent financial advisers also provided an opinion to the Company's independent shareholders (excluding Mr. Chen Jun and his associates) that the consideration for the Acquisition was fair and reasonable. At the Company's extraordinary general meeting held on 22 March 2016, the Acquisition was approved by the independent shareholders of the Company. The Acquisition was completed on 31 March 2016 (the "Completion date"). The fair value of the consideration at the Completion Date was RMB128,248,000, including the fair value of RMB108,248,000 for those 124,000,000 new ordinary shares of the Company, determined by reference to the closing prices of the Company's shares on the issue date which was also the Completion date.

On the Completion date, the business activities of the Golden Century Group were property development, leasing and investment. The directors of the Company considered that the acquisition of the Golden Century Group could enrich its property portfolio, strengthen management expertise of the Group in property development, leasing and management, bring in synergy and enhance the competitive edge of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

29. ACQUISITION OF BUSINESS (Continued)

(a) The fair value of assets and liabilities of Golden Century Group at the Acquisition date, were as follows:

	Amounts recognised (at fair value) RMB'000
Fair value of assets and liabilities acquired of:	
Investment properties (<i>note (i)</i>)	592,350
Property, plant and equipment	146
Cash and cash equivalents	737
Trade and other receivables	30,185
Other loan receivables (<i>note (ii)</i>)	137,587
Trade payables	(16,935)
Other payables	(50,917)
Tax payable	(122)
Amount due to a shareholder of the Company	(10,290)
Bank and other borrowings	(370,006)
Deferred tax liabilities	(156,913)
	<hr/>
Net identifiable assets and liabilities	155,822
Gain on bargain purchase from business combination (<i>note (iv)</i>)	(27,574)
	<hr/>
Total consideration	128,248
	<hr/>
Fair value of consideration transferred	
– by shares (<i>note (iii)</i>)	108,248
– by cash	20,000
	<hr/>
	128,248
	<hr/>
	RMB'000
	<hr/>
Analysis of the net outflow of cash and cash equivalents in respect of the Acquisition:	
Cash consideration paid	(20,000)
Cash and cash equivalent acquired	737
	<hr/>
Net outflow of cash and cash equivalents in respect of the Acquisition	(19,263)
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

29. ACQUISITION OF BUSINESS *(Continued)*

- (a) The fair value of assets and liabilities of the Golden Century Group at the Acquisition date, were as follows:
(Continued)

Notes:

- (i) The fair value of the investment properties of the Golden Century Group at the Acquisition date was determined by the directors of the Company by reference a valuation report performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of valuers who has, amongst its staff, fellow of members of chartered surveyors with qualification and recent experiences in the location and category of similar properties being valued. The fair value of the investment properties were categorised as Level 3 valuation in the fair value hierarchy and the valuation methodologies and approaches are further disclosed in note 13.
- (ii) These loans were receivable from certain independent third parties which had fully repaid the principal of these other loans subsequent to completion of the Acquisition.
- (iii) The fair value for 124,000,000 new ordinary shares of HK\$0.01 each of the Company at the issue date was approximately HK\$130,200,000 (equivalent to approximately RMB108,248,000), which was determined by reference to the closing market price of the shares of the Company at HK\$1.05 per share at the issue date which was also the date of completion of the Acquisition.
- (iv) Prior to entering into the SPA, the consideration price for the Acquisition was determined after an arm's length of negotiations made between the Group and Mr. Chen Jun. The gain on bargain purchase arising from the Acquisition was mainly arising from decrease in the fair value of those 124,000,000 shares of the Company as part of the consideration, due to the drop in the price of the Company's shares from the date of the SPA to the Completion Date.
- (v) The Group incurred transaction costs of approximately HK\$2,777,000 for the Acquisition, of which, approximately RMB1,002,000 (equivalent to HK\$1,247,000) and RMB1,310,000 (equivalent to HK\$1,530,000) were expensed and included in general and administrative expenses for the years ended 31 December 2015 and 2016, respectively.
- (b) Since the completion of the Acquisition, the Golden Century Group contributed RMB29,226,000 to the Group's revenue and a profit of RMB40,645,000 to the Group's profit for the year ended 31 December 2016.

Had the Acquisition took place at the beginning of the reporting period, the revenue and the profit of the Group for the year ended 31 December 2016 would have been RMB41,530,000 and RMB60,214,000 respectively.

30. CONTINGENT LIABILITIES

As at 31 December 2016, an indirect wholly-owned subsidiary of the Company was involved in 2 legal cases in which an aggregate amount of RMB139,000 was claimed by the plaintiffs, who provided services to a subcontractor of the subsidiary of the Company. The claims were made collectively, against the subcontractor and its legal representative, and the subsidiary of the Company. Based on the legal opinion sought, the directors of the Company are of the view that the subsidiary of the Company shall have valid and good grounds to defend and dismiss the claims and accordingly, the exposure is considered to be remote.

Except for the above, the Group has no material outstanding litigation as at 31 December 2016 and 2015. The directors of the Company considered that the Group has no material contingent liabilities as at 31 December 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

31. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 RMB'000	2015 RMB'000
Non-current asset			
Interests in subsidiaries, at cost less impairment		213,160	84,911
Current assets			
Other receivables		188	3,208
Amount due from a director		–	115
Amounts due from subsidiaries		33,917	13,522
Cash and cash equivalents		15	37,859
		34,120	54,704
Current liabilities			
Other payables		6,991	3,531
Amounts due to directors		221	15
Amount due to a subsidiary		80	–
		7,292	3,546
Net current assets		26,828	51,158
Net assets		239,988	136,069
Capital and reserves			
Share capital	22	3,667	2,634
Reserves	23	236,321	133,435
Total equity		239,988	136,069

Approved and authorised for issue by the board of directors of the Company on 28 March 2017 and signed on its behalf by:

Chen Dezhao
Director

Zhao Yun
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. EVENTS AFTER THE REPORTING PERIOD

On 6 February 2017, the Group entered into a loan agreement with an PRC bank from which the Group obtained a loan of RMB75,000,000 with a term period of 3 years commencing from 6 February 2017 to 6 February 2020. This bank borrowing is bearing interest at the rate of 4.75% per annum, secured by certain investment properties of the Group and guaranteed by Mr. Chen Jun, the ultimate controlling party of the Group at the reporting period end and at the date of approval for the consolidated financial statements.

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 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 followings which may be relevant to the Group.

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ⁴
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ²
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2019

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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)*

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and fair value through profit or loss (FVTPL) will continue with their respective classification and measurements upon the adoption of HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

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.

The directors do not anticipate that the application of the HKFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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**

As disclosed in note 2(g), 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 over the period of the lease. As disclosed in note 26, at 31 December 2016 the Group’s future minimum lease payments under non-cancellable operating leases amount to RMB120,000, the amount is payable within 1 year, which is not expected to be impacted by the new standard.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - i) the original liability is derecognised;
 - ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
 - iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Continued)***Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions** *(Continued)*

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments provide guidance on how an entity determines, in accordance with HKAS 12 Income Taxes, whether to recognise a deferred tax asset in relation to unrealised tax losses of a debt instrument that is classified as an available-for-sale financial asset in accordance with HKAS 39 Financial Instruments: Recognition and Measurement under certain specific facts and circumstances.

The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

34. ULTIMATE CONTROLLING PARTY

At the reporting period end and at the date of approval for the consolidated financial statements, the ultimate controlling party of the Company is Mr. Chen Jun, who was a substantial shareholder of the Company at 31 December 2015.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

Financial Summary

For the year ended 31 December 2016

	For the year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Results					
Revenue	23,995	9,702	12,200	3,855	31,414
Profit/(loss) from operations	(1,055)	(2,001)	(17,977)	(7,093)	102,050
Finance costs	–	–	–	(291)	(16,124)
Profit/(loss) before income tax	(1,055)	(2,001)	(17,977)	(7,384)	85,926
Income tax (expense)/credit	(129)	291	(717)	(203)	(28,982)
Profit/(loss) for the year from continuing operations	(1,184)	(1,710)	(18,694)	(7,587)	56,944
Loss from discontinued operation	(6,192)	–	–	–	–
Attributable to:					
Owners of the Company	(7,376)	(1,710)	(18,694)	(7,587)	56,944

	As at 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Assets and liabilities					
Total assets	125,780	114,329	141,025	179,669	739,071
Total liabilities	(32,963)	(21,570)	(33,788)	(38,452)	(436,003)
	92,817	92,759	107,237	141,217	303,068

PARTICULARS OF INVESTMENT PROPERTIES

Address	Use	Lease Term	Approximate gross floor area	Group's interest
11 commercial units, 24 office units, 244 underground car parking spaces and an underground storage unit of Zhongtian Building No. 38 Shandongtou Road Laoshan District Qingdao City Shandong Province The PRC	Commercial use	Medium-term lease	22,749 sq.m.	100%
All office units on Level 19 (currently known as 21st Floor) Huaren International Building No. 2 Shandong Road Shinan District Qingdao City Shandong Province The PRC	Commercial use	Medium-term lease	1,511 sq.m.	100%
A parcel of land No. 877 Huihai Road Chengyang District Qingdao City Shandong Province The PRC	Commercial use	Medium-term lease	91,165 sq.m.	100%