天譽置業（控股）有限公司
SKYFAME REALTY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 00059)

2016 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. YU Pan
(Chairman and Chief Executive Officer)
Mr. WEN Xiaobing
(Deputy Chief Executive Officer)
Mr. JIANG Jing
Mr. WONG Lok

Non-executive Director:

Mr. ZHONG Guoxing

Independent Non-executive Directors:

Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

COMPANY SECRETARY

Ms. CHEUNG Lin Shun

AUDIT COMMITTEE

Mr. CHOY Shu Kwan *(Chairman)*
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

REMUNERATION COMMITTEE

Ms. CHUNG Lai Fong *(Chairman)*
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Mr. YU Pan

NOMINATION COMMITTEE

Mr. YU Pan *(Chairman)*
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

RISK MANAGEMENT COMMITTEE

Mr. WEN Xiaobing *(Chairman)*
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

SHARE LISTING

Main Board of The Stock Exchange
of Hong Kong Limited, Stock Code: 00059

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton, HM 11, Bermuda

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House, 2 Church Street
Hamilton, HM 11, Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen’s Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
China Minsheng Banking Corp., Ltd.
The Bank of East Asia, Limited

AUDITOR

BDO Limited
Certified Public Accountants

CORPORATE INFORMATION

BOND LISTING

The Stock Exchange of Hong Kong Limited

The Company's 0.1% bonds due 2024,
Stock Code: 05821

The Company's 0.1% bonds due 2024,
Stock Code: 05580

The Company's 0.1% bonds due 2025,
Stock Code: 05626

The Company's 0.1% bonds due 2026,
Stock Code: 05310

The Company's 0.1% bonds due 2026,
Stock Code: 05367

The Company's 0.1% bonds due 2031,
Stock Code: 05855

The Company's 0.1% bonds due 2031,
Stock Code: 05567

The Company's 0.1% bonds due 2032,
Stock Code: 05602

The Company's 0.1% bonds due 2033,
Stock Code: 05311

The Company's 0.1% bonds due 2033,
Stock Code: 05379

LEGAL ADVISERS

Hong Kong Laws:
Sidley Austin

Bermuda Laws:
Conyers Dill & Pearman

PRC Laws:
廣東瀛杜律師事務所
(Guangdong Yingdu Law Firm)
廣東聯合發展律師事務所
(Guangdong Lianhefazhan Law Firm)

COMPANY'S WEBSITE

http://www.tianyudc.com

CHAIRMAN'S STATEMENT

Over the past year, thanks to the dedication of our management team, the Company accomplished the sales target set at the beginning of the year. The Group's contracted sales for the year hit its record high, reaching RMB4.2 billion. The proven track record of rapidly improving performance has created a driving force and provided favourable conditions for the strong development of the Group in the coming years.

After ample market research and nearly two years of product development, the Group officially launched its "Youth Community" product in Nanning Skyfame Garden Project and ASEAN Maker Town Project last year. This product is developed to meet the rigid demand of the young people aged 20 to 35 who seek to buy and live in small homes. It also provides them with tailored community facilities and has built a platform for community operation services based on their common needs, so that their residential, living and entrepreneurial demands are all addressed in a creative manner. As seen from the market response last year, the excellent sales performance and high market recognition of the "Youth Community" product have made important contributions to the Group in achieving its business goal last year.

The Group's success in market has reaffirmed its determination and confidence. To this end, the Group has introduced a series of aggressive development strategies at the core of the "Youth Community" product. In the future, the Group will pursue its focus on addressing the residential, living and entrepreneurial demands of young people. It will continue to upgrade and enrich the offerings of the "Youth Community" product. It will also expedite the build-up of the "Youth Community". The Group will establish the operation platform for youth community, on which a myriad of quality social service resources and millions of young users are gathered, to consolidate the Group's leading industry position in such a market segment. Meanwhile, the Group will also develop itself as an integrated provider of social services for property development, community operation and entrepreneurship.

The implementation of market control measures in recent months is expected to rationalise land prices, which would allow the Group to acquire land at reasonable costs. Currently, the Group is actively planning to acquire more lands for new projects in all central PRC cities and their outskirts. A relatively stable land market would be beneficial for further expansion of land resources by the Group.

CHAIRMAN'S STATEMENT

Under the possible tightening financial policy in the PRC and the impact of U.S. interest hike on foreign capital flows, while increasing land resources, the Group will also pay great attention to the liquidity risk that would arise from additional borrowings. In doing so, the Group would be able to create a healthy environment for sustainable business growth within a balanced capital and loan structure and at reasonable finance costs.

Facing the current market situation, the directors of the Company and the management team of the Group will take proactive and appropriate measures to guard against potential market and operational risks, and transform them into opportunities.

Being also the chief executive officer of the Group, I would like to express my sincere gratitude to the management team, staff, customers, suppliers and business associates for their unwavering assistance and support to the Group in the past year and in the future.

Yu Pan
Chairman
Hong Kong, 31 March 2017

CORPORATE PROFILE

Skyfame Realty (Holdings) Limited, listed on the main board of The Stock Exchange of Hong Kong Limited under stock code 00059, is principally engaged in the property development, property investment and property management.

The Group focuses on the development of high-end properties with a wide range of property types, including commercial and residential properties, offices, serviced apartments and hotels. Rooted in Guangzhou, the Group explores into cities on mainland China with high potentials in the development of commercial and residential projects.

As of the date of this report, the Group has property development projects under construction with a total developable GFA of approximately 3,374,000 sq.m., in Guangzhou, Nanning and Xuzhou in Jiangsu province and potential land bank reserve of developable GFA of approximately 264,000 sq.m. in Guangzhou and Shenzhen.

Leveraging on its management expertise in property design, construction, sale and property management services as well as unique and prime locations of the sites, the Group has established itself as a highly reputable property developer.

Highlights of Events in 2016

April	• The Group completed and handed over the Tianhe Project in Guangzhou to the buyer, HNA Group.
June	• Structural design of the ASEAN Tower of Skyfame Nanning ASEAN Maker Town Project with a planned height of approximately 530 meter successfully passed the review by the PRC National Super High-rise Anti-seismic Committee.
Nov	• 70% equity interest in the project company of the Yongzhou Project and its shareholder's loan due to the Group were disposed to 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited*), a company controlled by Mr. YU Pan (an executive director, the chairman and controlling shareholder of the Company) at an aggregate consideration of approximately RMB277.2 million.
Nov	• The Group entered into a contract to acquire the equity interest in the Luogang Project in Guangzhou, providing the Group with a potential land bank reserve of developable GFA of approximately 122,000 sq.m.. The development of the land is subject to approval of the district government on the change of use of the land from industrial to that of commercial.
Dec	• The Group acquired through a public auction a land at the Xuzhou Quanshan economic development zone (徐州泉山經濟開發區), Jiangsu province. The project is planned to become an eco-residential and commercial development with total developable GFA of approximately 437,000 sq.m..
Dec	• The Group entered into a contract to acquire the equity interests in the Shenzhen Project in Guangming New Zone, Shenzhen, providing a potential land bank reserve with developable GFA of approximately 142,000 sq.m.. The development of land is subject to the project company's obtaining the development right from the governmental authority.
Dec	• Nanning Skyfame Garden Project commenced the delivery of properties to buyers by phases.

* *English name for identification purpose only*

CORPORATE PROFILE

Major Honours and Awards

Nanning Skyfame City received the award of "Gold Strategic Consumer Finance Partner" (「消費金融金牌戰略合作伙伴」) from China Minsheng Bank, Nanning Branch.
(March 2016)

Guangzhou Tianyu Property Management Company Limited won the award of "Four Star Property Service Project" for its "Tianyu-huafu" (「天譽 • 華府」) property management project
(April 2016)

Nanning Skyfame City won "The Most Popular Real Estate Project in Nanning 2016" (「2016南寧房地產人氣樓盤」)
(December 2016)

Guangzhou Skyfame Byland Project won the grand award of "Stylish Luxurious Housing of China Real Estate and Home Design Championship 2016" (「2016年度中國地產家居冠軍榜有態度品質豪宅」)
(December 2016)

Skyfame Nanning ASEAN Maker Town Project, held by 南寧天譽巨榮置業有限公司 (Nanning Tianyu Jurong Realty Company Limited), won the "Grand Award for Motivating and Contributing Urbanites 2016, by Guangxi Golden Brick Award" (「廣西地產金磚獎之 2016年度城市人居推動力貢獻大獎」)
(December 2016)

CORPORATE PROFILE

Nanning Skyfame City won the award of "Regional Property Model 2016, by Guangxi Golden Brick Award" (「廣西地產金磚獎之2016年度區域模範樓盤大獎」)
(December 2016)

Nanning Skyfame City received the "Most Popular Property Award 2016" of the "Friends of Residence Award" (which is dubbed the "Academy Award" of Guangxi property development industry) (「奧斯卡」-「住朋獎」之「2016年廣西年度人氣樓盤」)
(December 2016)

Skyfame Group won the award of "Top 20 All-Round Property Developers in Guangxi" (「廣西房地產企業綜合實力20強」) and "Top 5 Growing Property Developers in Guangxi" (「2016廣西成長型房地產企業5強」) in Guangxi Top 50 Real Estate Property Award 2016
(December 2016)

Nanning Skyfame City was chosen as the "Most Motivating Property in Nanning in Tecent Real Property Championship 2016" (「騰訊房地產南寧站之2016年度最具區域推動力樓盤」)
(January 2017)

Note: Nanning ASEAN Maker Town Project and Nanning Skyfame Garden Project are collectively named as "Nanning Skyfame City" (「南寧天譽城」)

MANAGEMENT DISCUSSION AND ANALYSIS

A. BUSINESS REVIEW

China's economy is going into a new normal slower GDP growth. The central government's mission is to keep the country embracing a sustainable economic growth by imposing policies to stimulate domestic consumption and investments in some selected sectors requiring governmental supports. In midst of the slowing economy, the property market experienced a rally year, and in line with this trend, the business of the Group in the past year experienced turbulence where sales were low in the first half of the year but accelerated in the second half. Stimulated by high liquidity in lending, property markets in the first-tier cities were red hot in 2016. In consequence, austerity measures to cool down the sentiment were imposed by many local governments in later months of the year.

Nonetheless, the property markets that the Group has concentrated have not been adversely affected by the uprising regulations as our projects in Nanning are not the targets of austerity, and sales in our Guangzhou project remains stable under the ever prevalent regulated property market in Guangzhou.

During the year, the Group underwent five development projects, namely Zhoutouzui Project and Tianhe Project in Guangzhou, Nanning Skyfame Garden Project, Nanning ASEAN Maker Town Project and Yongzhou Project. Other than Nanning Skyfame Garden Project, Tianhe Project and Yongzhou Project which were completed and delivered during the year, Zhoutouzui Project, Nanning Skyfame Garden were on presale and Nanning ASEAN Maker Town Project had its initial launch in November 2016. Presales of Zhoutouzui Project and Nanning Skyfame Garden Project were as promising as in 2015, though sales of the completed project in Yongzhou, a third-tier market, remained weak with slack demand. The Group achieved a record high contracted sales of approximately RMB4.2 billion, representing an increase of 28% over the contracted sales of properties in 2015 and a 116% of the annual target of RMB3.6 billion in the year.

In 2016, the Group delivered completed properties of a total saleable GFA of approximately 189,000 sq.m. to customers, comprising respectively total GFA of 112,000 sq.m. in Guangzhou Tianhe Project, 26,000 sq.m. in Yongzhou Project and 51,000 sq.m. in Nanning Skyfame Garden Project. Property sales of these projects brought to the Group a total revenue after direct tax of approximately RMB1,471.3 million, a growth of 446.4% from 2015.

In addition to the deliveries of completed properties to buyers of these projects, in November 2016, the Company completed a deal with the controlling shareholder of the Company, Mr. Yu Pan, whereas the Group's stake interests in Yongzhou Project was disposed to Mr. Yu, at a consideration of RMB277.2 million. The transaction brought to the Group a gain of disposal of RMB97.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO

1. *Properties under development*

As at the date of this report, the Group underwent the development of a total of four real estate development projects on mainland China. The Group's projects on hand renders a total developable GFA of approximately 3,374,000 sq.m. and total saleable GFA of 2,703,000 sq.m.

The details about the Group's projects on hand as at the date of this report are summarised below:

Project	Location	Property type	Estimated project total developable GFA (sq.m.) *(Note a)*	Estimated project total saleable GFA (sq.m.) *(Note a)*	Estimated completion year	The Group's interest
Zhoutouzui Project	Guangzhou	Residential and commercial	320,000	152,000 *(Note b)*	2017	100%
Nanning Skyfame Garden Project	Nanning	Residential, commercial and ancillary facilities	1,212,000	945,000 *(Note c)*	2016 to 2018	80%
Skyfame Nanning ASEAN Maker Town Project	Nanning	Composite development	1,405,000	1,204,000	2018 to 2022	100%
Xuzhou Project *(Note d)*	Xuzhou	Residential, commercial and ancillary facilities	437,000	402,000	2019 to 2020	90%
Total			3,374,000	2,703,000		

Notes:

(a) Project total developable/saleable GFAs presented here represent the total developable/saleable area in the project, including the area sold and delivered in the period and previous years.

(b) Excluded the 28% saleable GFA that are allocated to the cooperative partner of Zhoutouzui Project.

(c) Included saleable GFA of 245,000 sq.m. for resettlement housing in Nanning Skyfame Garden Project. Total saleable GFA of approximately 51,000 sq.m. of the project has been sold and delivered up to 31 December 2016.

(d) The land of Xuzhou Project was acquired in December 2016 through a public auction.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (continued)

1. *Properties under development (continued)*

Zhoutouzui Project

Skyfame Byland – Artist's Impression

The project, named as "Skyfame Byland" ("天譽半島"), is held by a sino-foreign cooperative joint venture enterprise which is jointly controlled by the Company and a third party, Guangzhou Port Group Co., Limited (廣州港集團有限公司, "**Port Authority**"), an original user of the land who is entitled to share 28% in developable GFA of the completed properties pursuant to a joint venture agreement entered into in 2001. The legal title over the remaining 72% of the completed properties rests with the Group.

The site, opposite to the renowned White Swan Hotel, offers a full waterfront view of the Pearl River. The project, situated on a site of 43,609 sq.m., is a mixed-use development with a total developable GFA of approximately 320,000 sq.m., consisting of 7 towers comprising residential apartments, offices, serviced apartments, and municipal and other facilities, underground car parking facilities and supporting commercial facilities.

As of the date of this report, the interior decoration works were being carried out and examinations for final inspection for completion was under process. The management expects that construction works of all towers will be completed and ready for delivery to buyers in 2017 and 2018. Other than a total saleable GFA of approximately 81,000 sq.m. in tower A4 and A5 and some car parking spaces that will be handed over to the Port Authority in 2017, it is planned that all other towers are developed for sales. As at 25 March 2017, residential units in tower A2, A3, A6 and A7 are on presale, for which sales of approximately RMB3.6 billion (total saleable GFA of approximately 87,000 sq.m.) have been contracted.

Skyfame Byland – Outlook

Nanning Skyfame Garden – Artist's Impression

Nanning Skyfame Garden Project

The project is situated in Wuxiang New District (五象新區), a new zone in Nanning, Guangxi province. Commenced construction since the Group acquired the land use right from a land auction in the first quarter of 2014, the project is being developed into a residential district, namely "Nanning Skyfame Garden" ("南寧天譽花園"), with a total developable GFA of approximately 1,212,000 sq.m., consisting of developable GFA of approximately 927,000 sq.m. (saleable GFA 700,000 sq.m.) for residential and retail properties and other facilities for sale and developable GFA of approximately 285,000 sq.m. (saleable GFA 245,000 sq.m.) of residential and commercial units for compensated housing for the resettlement of the original occupants. The project is divided into five zones, namely Zone 3, 4, 5, 6 and 7. Physical delivery of properties are scheduled to take place by phases through late 2016 to 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

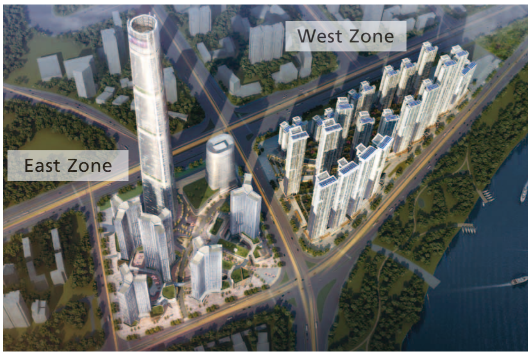
B. PROPERTY PORTFOLIO (continued)

1. *Properties under development (continued)*

Nanning Skyfame Garden Project (continued)

As of the date of this report, all the 5 zones are under construction. 56 out of a total 65 towers have been roof-topped and construction of 5 towers of apartments in saleable GFA of approximately 78,000 sq.m. were completed. Physical delivery of properties are scheduled to take place by phases through late 2016 to 2018. Property units in zone 3, 4 and 5 of saleable GFA of approximately 623,000 sq.m. have been put on the market for presale. By 25 March 2017, pre-sales totaling approximately RMB3.6 billion (total saleable GFA of approximately 567,000 sq.m., representing 95.4% of the available GFA for sale of residential units) have been contracted. An aggregated saleable GFA of approximately 51,000 sq.m. were delivered to buyers in 2016. In addition, aggregated saleable GFA of 245,000 sq.m. will be delivered to original land occupants for resettlement housing for which sale proceeds totaling RMB993.2 million have been received from the government.

Block 1-3 in Zone 3 of Nanning Skyfame Garden



Skyfame ASEAN Maker Town Project – Artist's Impression

Skyfame Nanning ASEAN Maker Town Project

In February 2015, the Group acquired through public auction for the land use rights of three land plots of site area of 194,221 sq.m. (equivalent to 291.33 mu) located at the north of Wuxiang Da Road, Wuxiang New Zone (五象新區), Liangqing District, Nanning, Guangxi, the People's Republic of China (the "**PRC**").

The development is planned to be a complex project which will become a landmark in Wuxiang New District. Planned total developable GFA is approximately 1,405,000 sq.m.. The project is divided into east and west zone and will be developed in phases. The east zone consists of A-class offices, retail properties and an international 5-star hotel proposed to be branded as the Westin Nanning in a skyscraper named as the Skyfame ASEAN Tower ("天譽東盟塔") with a planned height of approximately 530 meter, serviced apartments, retail properties, and ancillary facilities for youngsters named as "the World of Mr. Fish" ("魚先生的世界") while the west zone consists of residential and retail properties named as "Skyfame Byland" ("天譽半島"). Construction works of properties in all zones are expected to be completed between the years from 2018 to 2022.

Nanning ASEAN Maker Town Project and Nanning Skyfame Garden Project are collectively branded as "Nanning Skyfame City ("南寧天譽城").

Up to 25 March 2017, residential and commercial units of saleable GFA of approximately 92,000 sq.m. are on presale, for which sales of approximately RMB677.0 million (total saleable GFA of approximately 83,000 sq.m.) have been contracted.

Block 2-5 of Nanning Skyfame City

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (continued)

1. *Properties under development (continued)*

Xuzhou Project

Newly acquired through a public auction in December 2016, the land is situated in Times Avenue South and Xufeng Highway West, in the Xuzhou Quanshan economic development zone (徐州泉山經濟開發區), Jiangsu province, the PRC.

Xuzhou Project – Artist's Impression

Xuzhou Project is planned to become an eco-residential and commercial development on a site of 173,000 sq.m. (equivalent to 259 mu). Plot ratio is 1.8 to 2.2. Total developable GFA is about 437,000 sq.m., inclusive of an underground area of about 57,000 sq.m.. Construction works are expected to be completed in three phases by end of 2019. Preliminary development works commenced in December 2016.

2. *Projects completed and disposed of during 2016*

Tianhe Project

The project, consisting of a developable GFA of approximately 112,000 sq.m. in twin towers, is a mixed-use development that comprises an international 4-star hotel branded as Aloft Guangzhou Tianhe Hotel, serviced apartments and A-class offices situated in Tianhe District, a commercial business hub in central Guangzhou.

Tianhe Project – Outlook

The equity interest in the project company that was engaged in the development of the project was disposed pursuant to an agreement in 2010 for a gross consideration of RMB1.11 billion.

The properties were completed and handed over to the buyer in April 2016. Aloft Hotel has commenced operations since mid-May 2016. The transaction of the disposal of equity interest in the project company is recorded as property sales and the resulting profits booked in the consolidated financial statement of the Group for the year.

Yongzhou Project

The Project, named "Tianyu-huafu" ("天譽•華府"), features a residential development of villas, apartments and retail shops with a total saleable GFA of approximately 186,000 sq.m. on a 106-mu site in Lingling District, Yongzhou of Hunan Province and has been under development since 2012. The remaining 2 towers of high-rise apartments of saleable GFA of approximately 25,400 sq.m. were completed in May 2016.

On 16 November 2016, the Group disposed its 70% equity interests in the project company of Yongzhou Project and the shareholder's loan due by the project company to the Group at an aggregate consideration of approximately RMB277.2 million to 廣州市天譽房地產開發有限公司 (Guangzhou Tianyue Real Estate Development Company Limited*), a company controlled by Mr. YU Pan (an executive director, the chairman and controlling shareholder of the Company). The project carried a total GFA of approximately 42,000 sq.m. of commercial properties and 491 carparks unsold. The resulting gain from the disposal was credited in the consolidated statement of profit or loss for the year.

* *English name for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (continued)

3. *Potential land bank reserve*

In addition to the seeking of lands or projects which are ready for real estate development, the Group has also been participating in undertaking development works to redevelop industrial districts in first and second tier cities as strategic actions to expand its land reserves. In late second half of 2016, the Group had entered into two contracts to acquire equity interest in two companies owning some parcels of industrial land in Guangdong province which can be redeveloped into commercial and residential properties with a total developable GFA of 264,000 sq.m.. The obtaining of the land use rights for the anticipated development are subject to the completion of certain milestones that are expected to materialize during 2017 whereupon construction works of the projects will commence.

The details of the potential land bank reserves are as follows:

Project	Location	Property type	Estimated project total developable GFA (sq.m.)	Pending milestone for development	The Group's interest
Luogang Project	Luogang, Guangzhou	Serviced apartments, commercial and ancillary facilities	122,000	Government approval for the conversion of the land use from industrial to commercial	100%
Shenzhen Project	Guangming New Zone, Shenzhen (深圳光明新區)	SOHO offices, serviced apartments and ancillary facilities	142,000	Government's granting of development plan for the remodelling zone; and the project company's obtaining of the right to remodel the zone	100%
Total			264,000		

The management team is closely involved in the negotiations with the governmental authorities and the related land occupants for vacation of the land and application of the development rights.

Apart from the two aforesaid projects, the Group is also targeting to enhance its land reserves by entering into several preliminary agreements with third parties in relation to the Group's participation in the redevelopment of some old districts that are the subject matters of the urban redevelopment polices being implemented by the city governments in Guangzhou and Nanning. The timelines of the redevelopment plans are yet to be ascertained pending the progress of the execution of the redevelopment policies by the governments.

MANAGEMENT DISCUSSION AND ANALYSIS

C. INVESTMENT PROPERTIES

The Group also holds two investment properties for regular leasing income with details as follows:

A 17,300 sq.m. commercial podium at Tianyu Garden Phase II in Tianhe District, Guangzhou was revalued at an open market value totaling RMB456 million as at 31 December, 2016. The properties were 72.1% occupied, other than an area of 4,700 sq.m. which is being renovated to some contemporary co-working places and serviced offices for start-up enterprises and small tenants with expected soft-opening in April 2017.

A 8,700 sq.ft. office premise at AXA Centre in Wanchai, Hong Kong was fully occupied and was revalued at an open market value of approximately RMB132.4 million (approximately HK$148.0 million) as at 31 December 2016.

D. BUSINESS OUTLOOK

Despite the city-specific policies imposed by many local governments in the first-tier and second cities with objective to foster a solid business environment for stable and steady improvement in the industry in the long term, a downward adjustment in the general housing market has not been seen. While we foresee that property sales in the general market in 2017 will be cooled off as a result, we believe sale performance in the two cities that the Group has been concentrating continues to be steady in the coming years remain stable. Based on the presales result up to 25 March 2017, our Zhoutouzui Project and Nanning Skyfame Garden Project will turn contracted sales accumulated to a total of RMB7.5 billion into recognized sales in 2017 and 2018, depending on the timing of handing-over.

The satisfactory presales result to improved liquidity in 2016, a situation which our management expect to continue in 2017. The strengthened financial ability paves the ground for the Group to ride on a stronger organic cash inflow for building up new land reserves in cities with sizable population and affordable economic stance to support solid demand for housing. As the tightening monetary policies may impact the funding channels available to the developers, the Group has been cautious and selective in seeking acquisition opportunities in the first-tier and strong second-tier cities to expand its land bank at reasonable costs, with an objective to keep its sale momentum in the future years, and at the same time, to balance the expansion with a healthy leverage position, aiming to avoid excessive risk in liquidity.

In the coming year of 2017, our Zhoutouzui Project and Nanning ASEAN Maker Town Project will play the lead in sales for which the management has set an annual sale target of RMB4.6 billion, representing a 10% increment to the contracted sales in 2016 which will represent a new record high in the Group's revenue.

The Group has built up a more sizeable property portfolio ready for sales in the years to come. In the coming year, the Group's projects offer an aggregated saleable GFA of approximately 2,652,000 sq.m. for sales mainly in Nanning ASEAN Maker Town Project, Nanning Skyfame Garden Project, Zhoutouzui Project and the recently acquired Xuzhou Project. These sales will no doubt improve further the Group's free cash, allowing a stronger funding base or easier credit facilities from lenders so as to equip the Group in land acquisitions and future expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

E. FINANCIAL REVIEW

Sales Turnover and Margins

Property sales is the main income stream of the Group, constituting 97.6% of total revenue for the year. During the year, the completed twin towers in Tianhe Project, consisting of a hotel branded as Aloft Guangzhou Tianhe Hotel, serviced apartments and offices, delivered a total GFA of approximately 112,000 sq.m. to the buyer, residential properties of apartments in Nanning Skyfame Garden delivered a total GFA of approximately 51,000 sq.m. and residential properties of apartments, villas and commercial units in "Tianyu-huafu" development in Yongzhou, Hunan province delivered a total GFA of approximately 26,000 sq.m. to customers.

The equity interest in the project company engaged in the development of the Tianhe Project was disposed pursuant to an agreement in 2010 for a gross consideration of RMB1.11 billion, excluding the construction costs borne by the buyer. The transaction turned into property sales and the resulting profits booked in the accounts of the Group for the current year.

Overall gross margin on property sales is 19.3% (2015: 2.3%), The improvement is driven by the profit margin of 25.8% achieved in Tianhe Project which compensates the loss made in Yongzhou Project. The low-priced properties sold in Yongzhou Project is a result of the weak market in the region where demand is slack and inventories remain at high level.

The leasing of properties at the commercial podium at Tianyu Garden Phase II in Guangzhou and offices at AXA Centre in Wanchai, Hong Kong is the Group's secondary line of business, contributed a relatively stable revenue of RMB16.6 million this year, representing a drop of revenue by 9.8% from last year due to the decline in average occupancy. As at 31 December 2016, the occupancy rate of the commercial podium at Tianyu Garden Phase II is maintained steadily at 75.6%, whilst that of AXA Centre recovered to 100% after temporary vacancy of a property unit during the year. The gross margin of this income stream is 90.0% (2015: 89.0%).

The property management company provides a stable income of RMB20.1 million for the year (2015: RMB18.7 million). The operation enjoys a margin of 59.2% (2015: 61.1%).

Due to the higher proportion of property sales in revenue mix and having a higher profitability, overall gross margin of the Group for the year improved to 20.6% (2015: 11.1%).

Operating Expenses

As a result of the launching of pre-sale marketing activities in particular for the youth community residential units in Nanning Skyfame Garden Project and in Zhoutouzui Project, sales and marketing expenses, consisting of mainly advertising, promotions and commission, surged 132.6% to RMB107.0 million, of which sale commission increased by 1.8 times to RMB42.3 million that is in line with the rise in incentive commission given to agents to boost presales. Administrative and other operating expenses, amounting to RMB163.6 million, increased 19.0% from last year. Staff costs, being the biggest expense item constituting 58.1% of total operating expenses, amounted to RMB157.1 million (2015: RMB108.3 million), representing a 45.1% rise from last year. The rise in staff costs was due to the increased incentive bonuses awarded to employees which is commensurate with merits. Total staff costs RMB54.8 million (2015: RMB34.4 million) were capitalized as development costs of properties under development.

MANAGEMENT DISCUSSION AND ANALYSIS

E. FINANCIAL REVIEW (continued)

Finance Costs

Due to the decline in the Group's indebtedness during the year, finance costs dropped. Finance costs, including arrangement fees, incurred during the year decreased to RMB217.2 million, representing a drop of 20.2%. Most finance costs incurred were capitalized as costs of projects under development whilst only RMB3.1 million was charged against the operating results for the year. The Group's annualized blended borrowing cost for the year is 9.0% per annum, lower than the 10.8% for 2015. The drop in borrowing cost explains the strengthened capacity commanded by the Group in the debt capital market.

Non-operating Items

The disposal of the 70% stake interest in Yongzhou Project to the controlling shareholder of the Company at a sale consideration of RMB277.2 million in November 2016 brought a gain of RMB97.3 million to the Company.

The exchange rate of RMB against Hong Kong or US dollars depreciated by 6.8% during the year up to 31 December 2016. This converted into unrealised exchange losses of RMB97.2 million arising from the conversion of foreign denominated offshore debts into RMB at the exchange rates at year-end date.

Other non-operating items include net gain of RMB11.1 million on the changes in fair values of the derivative financial asset/liabilities embedded in the rights attached to the Company's bonds issued to some investors, and revaluation surplus of RMB10.1 million in fair market values of investment properties.

Taxation

Provision in taxation included provisions for corporate income taxes and land appreciation tax in the sales of properties during the year.

Profits/(Losses) Attributable to Shareholders

The Company reported a consolidated after-tax profit of RMB86.2 million for the year (2015: loss of RMB232.3 million) of which profits of 92.9 million were attributable to the shareholders of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

E. FINANCIAL REVIEW (continued)

Liquidity and Financial Resources

1. *Asset Base*

	Change in%	**2016** *RMB'000*	2015 *RMB'000*
Total assets	34.4%	13,920,633	10,357,027
Net assets	19.3%	1,799,968	1,509,005

Total assets, in aggregate of RMB13,920.6 million, expanded by 34.4% which was in line with the business growth of the Group in project development. Properties held for/under development, with total carrying costs of RMB8,132.2 million, is the biggest asset category constituting 58.4% of the total assets of the Group. Other major asset category is trade deposits and receivables of RMB1,476.1 million consisting of mainly deposits and progress payments made on new project acquisitions, prepaid taxes on presale contracts and prepaid construction costs. Other assets also include investment properties at fair market values totaling RMB588.4 million, properties held for sale of RMB177.2 million, properties for self-use, plant and equipment of RMB251.4 million, considerations receivable from the disposal of Tianhe Project and Yongzhou Project totaling RMB277.4 million, prepaid income tax of RMB93.4 million, deferred tax assets of 57.4 million, restricted cash and pledged deposits of RMB987.3 million, and cash and cash equivalents of RMB1,794.4 million.

Net assets of the Group rose to RMB1,800.0 million, as a result of mainly the earnings for the year retained and new equity issued of HK$187.2 million (equivalent to RMB158.8 million), net of expenses, raised by a share placing during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

E. FINANCIAL REVIEW (continued)

Liquidity and Financial Resources (continued)

2. *Capital structure and liquidity*

The indebtedness of the Group aggregates to RMB3,469.4 million at the year-end date, increased 25.1% from last year-end. Indebtedness, mainly borrowings from commercial banks and financial institutions, and corporate bonds issued to professional investors, also included money market loans of RMB375.9 million due to a bank that are secured by letters of credits issued by an onshore bank which are backed up by cash deposits placed with that onshore bank. Excluding these money market loans, the indebtedness of the Group amounted to RMB3,093.5 million. The increase in indebtedness is reflected by the expansion of business scale of the Group during the year. The details and maturity profile of the indebtedness are illustrated as follows:

	Within one year *RMB'000*	1 to 2 years *RMB'000*	2 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total carrying amount *RMB'000*
Bank and other borrowings					
– Secured bank borrowings	545,970	685,891	1,035,246	142,432	2,409,539
– Other secured borrowings	521,664	–	–	–	521,664
– Unsecured borrowings	–	–	118,662	406,198	524,860
	1,067,634	685,891	1,153,908	548,630	3,456,063
Derivative financial liabilities	11,177	–	–	2,182	13,359
	1,078,811	685,891	1,153,908	550,812	3,469,422

Borrowings that maturate within one year constitute 31.1% (2015: 70.3%) of the total indebtedness. The longer maturity of the indebtedness indicated the Group has a more comfortable indebtedness position where there is lesser pressure to refinance the debts when they fall due.

Despite the increase in indebtedness, the Group had improved liquidity in the year as shown by its marked increase in cash level, resulting that the net gearing ratio, calculated as total indebtedness net of cash and cash equivalents (the "**Net Debt**") divided by the equity attributable to shareholders of the Company plus Net Debt), is reduced to 42.4% at the year-end date (2015: 53.6%). The gearing ratio drops as a result of the combined effect of the reduced Net Debt and new equity raising by way of a share placing from which the proceeds were used to repay some of the Group's indebtedness.

MANAGEMENT DISCUSSION AND ANALYSIS

E. FINANCIAL REVIEW (continued)

Liquidity and Financial Resources (continued)

2. *Capital structure and liquidity (continued)*

The management has been carefully monitoring the indebtedness position, aiming to strike a balance between indebtedness and liquidity and ensuring both the obligations of indebtedness and financial needs of the Group are taken care. The management expects that the Group's improving sales generated from projects of bigger scale will further strengthen the liquidity and net assets of the Group and in turn the gearing position in the foreseeable years.

	Change in %	**2016** *RMB'000*	2015 *RMB'000*
Current assets			
Properties held for development	100.0%	**161,160**	–
Properties held for or under development	29.4%	**7,971,027**	6,159,277
Properties under Tianhe Project	-100.0%	**–**	786,168
Properties held for sale	-0.3%	**177,228**	177,850
Considerations receivable – current portion	164.2%	**277,401**	105,000
Trade and other receivables	197.6%	**1,476,130**	495,974
Short-term investments	-100.0%	**–**	460,000
Loan to non-controlling shareholder of subsidiary	159.3%	**52,900**	20,400
Prepaid income tax	100.0%	**93,368**	–
Restricted and pledged deposits	7.0%	**987,290**	922,729
Cash and cash equivalents	368.2%	**1,794,440**	383,255
Sub-total (A)	36.6%	**12,990,944**	9,510,653
Current liabilities			
Trade and other payables	-0.9%	**1,190,525**	1,200,733
Properties pre-sale deposits	96.5%	**7,290,196**	3,710,375
Bank and other borrowings – current portion	-47.0%	**1,067,634**	2,013,166
Derivative financial liabilities – current portion	100.0%	**11,177**	–
Consideration from disposal of Tianhe Project – current portion	-100.0%	**–**	990,360
Income tax payable	-100.0%	**–**	5,378
Sub-total (B)	20.7%	**9,559,532**	7,920,012
Net current assets (A-B)	115.7%	**3,431,412**	1,590,641
Current ratios (A/B)	13.2%	**1.36**	1.20

MANAGEMENT DISCUSSION AND ANALYSIS

E. FINANCIAL REVIEW (continued)

Liquidity and Financial Resources (continued)

2. *Capital structure and liquidity (continued)*

Current assets, totaling RMB12,990.9 million as at the year-end date, show a 36.6% increase than that on last year-end date. The increase is mainly due to the increased development costs on project under development, trade receivables and cash.

Total current liabilities at the current year-end amounted to RMB9,559.5 million, representing an increase of 20.7% from last year-end date. The increase is mainly due to the increase in pre-sale deposits which was partly offset by the drop in short-term borrowings.

The current ratio, being 1.4 times at the year-end (2015: 1.2 times), indicates a mild improvement in the liquidity position as a result of the strengthened cash level. Thanks to the stronger liquidity generated from the sale activities in the foreseeable future, the management foresees that the short-term indebtedness can be sufficiently served by the current assets of the Group.

3. *Borrowings and pledge of assets*

In favour of the commercial banks and financial instituions granting financing facilities to the Group, the office units at AXA Centre in Hong Kong, office premises at HNA Tower and certain commercial units at the commercial podium in Tianyu Garden Phase II in Guangzhou are mortgaged and cash deposits are pledged. In addition, shares of subsidiaries holding equity interests in Zhoutouzui Project and Skyfame Nanning ASEAN Maker Town Project, and 1,587,168,407 shares of the Company owned by the Company's controlling shareholder, Yu Pan, and personal guarantee provided by Mr Yu Pan are charged in favour of these financiers as collaterals. As at 31 December 2016, the outstanding balances of these secured indebtedness amounted to RMB2,942.4 million (2015: RMB2,402.5 million) whilst the pledged assets together with the underlying assets secured carried an aggregated realisable value estimated at approximately RMB12,843.1 million measured at open market values as at 31 December 2016 (2015: RMB7,425.3 million). These collaterals, together with the legal charge over the shares beneficially held by Mr Yu Pan and his personal guarantees, provide creditors with sufficient cover on their lending. The directors of the Company consider that the Group is sufficiently supported with assets to secure for its indebtedness, whilst, on the other hand, this also indicates that financiers have lowered their requirement on collaterals provided by the Group.

F. CONTINGENT LIABILITIES

The Group had no other material contingent liabilities as at 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

G. TREASURY MANAGEMENT

The Group is principally engaged in property development activities which are all conducted in the PRC and denominated in RMB, the functional currency of the Company's principal subsidiaries. At the same time, certain financing, property leasing and administrative activities of the Group are carried out and denominated in HK or US dollars. At the year-end date, the Group has foreign currency denominated borrowings and financial derivatives equivalent to RMB1,976.9 million, representing 56.9% of its indebtedness, and a Hong Kong property with carrying value equivalent to RMB132.4 million. The other assets and liabilities are mostly denominated in RMB.

During the year and up till the year-end date, RMB continued to depreciate against HK and US dollars by 6.8%. In consequence, foreign exchange losses of RMB97.2 million were recorded in the profit and loss for the year when liabilities denominated in foreign currencies are converted at RMB in the financial accounts of the Group. Apart from these unrealized exchange losses, exchange differences arising from the consolidation of assets and liabilities of a subsidiary operated in Hong Kong as at 31 December 2016 results to an exchange gain of RMB0.1 million. The gain is included as exchange reserve that forms part of the equity of the Company.

We expect that the volatility of RMB will continue in the foreseeable future. Further depreciation of RMB may happen that brings negative impacts on the profitability of the Group when exchange losses are realized as when foreign currency denominated indebtedness are repaid upon maturities. Unfortunately, no natural hedge against the depreciation in material aspects is available to the Group in the meantime. The management will instead make possible efforts to manage the exposure by reducing the foreign currency debts or taking useful hedging instruments at reasonable costs.

H. RISKS MANAGEMENT

There are lots of risks in the business that our management have to face and cope with, in particular under a downward economic cycle where property sales may be dragged and are unpredictable that lead to low profits and illiquidity in cash flows. In addition, as a mainland real estate developer, we have to face uncertainties led by governmental intervention and regulations. Assessing regularly the possible risks and their impacts on the business and operational environment, the management will from time to time develop strategies to alleviate the impacts. In late 2015, the Group set up a risk management committee with an objective to assist the Directors to formulate strategies and drive the management to develop policies to identify risks and develop appropriate policies and implement procedures to counter the risks in priority of significance in impacts.

I. EMPLOYEES

The Group recruits suitable staff in capable caliber to fill vacancies created as a result of the growing business. As at 31 December 2016, including four executive directors of the Company, the Group's full-time staff force increased to 586 (2015: 578), of which 142 work in site offices, 142 in the head office in Guangzhou and 10 in the office in Hong Kong for central management and supporting work in the property development business and 292 in the property management offices in Guangdong, Hunan provinces and Nanning. Employees are remunerated according to qualifications and experience, job nature and performance. They are incentivized by bonuses benchmarked on performance targets and options to acquire shares of the Company. Besides, training programs are offered to management trainees and staff at all levels. Remuneration packages are aligned with job markets in the business territories where the staff are located.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YU Pan *(Chairman and Chief Executive Officer)*
Aged 52, joined the Company in December 2004 when he took control of the Company through acquisition of a controlling interest in the Company. Mr. YU has over 27 years of experience in the development of high-end residential, commercial and hotel projects in the PRC. He is a founder of the prestigious real estate company, 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited*), which was set up in July 1997 and from which the Company acquired some real estate projects in Guangzhou in 2007. Mr. YU also acts as the chief executive officer of the Company, overseeing the strategic planning and corporate development of the Group.

Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*
Aged 48, was appointed as executive director in November 2013. He is also the Deputy Chief Executive Officer of the Group and President of the Guangzhou head office in charge of overall management of the property development and investment business in the PRC. Mr. WEN holds a Bachelor Degree in History from Beijing University（北京大學）and is a professionally qualified economist specialized in labor economics in the PRC. He has over 26 years of working experience in managerial positions in corporations in the PRC.

Mr. JIANG Jing
Aged 44, was appointed as executive director in July 2015. He is also the Vice President of Guangzhou head office and assists the Chief Executive Officer to explore investment and mergers and acquisition business. Mr. JIANG holds a Bachelor's Degree in Social Work and Management from 內蒙古農業大學 (Inner Mongolia Agricultural University). He is professionally qualified as an economist (Intermediate level) specialized in finance in the PRC and a mechanical engineer (Intermediate level). Mr. Jiang had 24 years of managerial and technical working experience in the PRC incorporated enterprises.

Mr. WONG Lok
Aged 59, joined the Company in August 2005. Mr. WONG has over 31 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

NON-EXECUTIVE DIRECTOR

Mr. ZHONG Guoxing
Aged 50, was appointed as non-executive director in October 2013. Mr. ZHONG graduated from the Hunan University, majoring in Manufacturing Accounting and holds a Master's Degree in Business Administration from the Asia International Open University (Macau). He has over 31 years of experience in banking, finance and assets management. Mr. ZHONG at present is the executive director and co-president of China Orient Assets Management (International) Holdings Limited, a subsidiary of China Orient Asset Management Corporation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOY Shu Kwan
Aged 62, joined the Company in December 2004. Mr. CHOY holds a Master Degree in Business Administration and has over 27 years of extensive experience in banking and investment management. He worked for the CITIC group for 20 years in Hong Kong. Before his resignation in 2007, he was the managing director of CITIC Capital Markets Limited. Mr. CHOY is also an independent non-executive director of Poly Property Group Co., Limited (Stock code: 119).

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. CHENG Wing Keung, Raymond

Aged 57, joined the Company in December 2004. Mr. CHENG is a practising solicitor in Hong Kong. He holds an honour degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. CHENG also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, the PRC. He has over 29 years of experience in legal, corporate finance, company secretarial and listing affairs. Mr. CHENG is an independent non-executive director in a listed company in Hong Kong, namely Elife Holdings Limited (Formerly known as Sino Resources Group Limited) (Stock code: 223).

Ms. CHUNG Lai Fong

Aged 49, joined the Company in December 2004. Ms. CHUNG is a practising barrister in Hong Kong. She holds a Bachelor of Laws (Honours) Degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. Ms. CHUNG is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 21 years of professional experience in accounting, taxation, company secretarial, legal, regulatory and corporate affairs.

COMPANY SECRETARY

Ms. CHEUNG Lin Shun

Aged 54, joined the company in March 2005 and has been the Company Secretary of the Company since then. Ms CHEUNG is also the Vice President in charge of all finance affairs at the corporate level of the Group. . Ms. CHEUNG is a professionally qualified accountant in Hong Kong. She holds a Master Degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. CHEUNG is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 31 years of experience in auditing, corporate secretarial, accounting and corporate finance obtained from an international accounting firm and a number of listed companies in Hong Kong.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LIN Shengjie
Aged 51, is the Vice President of the Guangzhou head office in charge of all general financial operations in the PRC. Mr. LIN is a Bachelor Degree graduate in finance and accountancy of Guangdong University of Finance & Economics (廣東財經大學) (Formerly known as Guangdong University of Business Studies (廣東商學院)) and has over 26 years of working experience in the finance and accounting in property development, direct investments in the PRC, Thailand and Hong Kong.

Mr. XIE Xiaohua
Aged 46, is the Vice President of Guangzhou head office in charge of engineering and costing at the Guangzhou head office. Mr. XIE graduated from Sun Yat-sen University (中山大學) with a Doctor's Degree in Science and holds a senior engineer certificate for geotechnical engineering. He has over 22 years of working experience in the area of engineering management in overall project development.

Ms. YUAN Hongfang
Aged 45, is the Vice President of the Guangzhou head office in charge of contract and legal matters of Guangzhou head office. Ms. YUAN graduated from Lingnan College, Sun Yat-sen University (中山大學嶺南學院) and holds a Master Degree in Business Management. She has over 22 years of working experience in finance, administration in the sectors.

Mr. ZHENG Zhong
Aged 46, is the Vice President of Guangzhou head office in charge of design matters at the Guangzhou head office. Mr. ZHENG graduated from Xiamen University (廈門大學) with a Bachelor's Degree in Engineering and holds a grade 1 registered architect certificate. He has over 24 years of working experience in the area of architectural design management and has worked in large-scale property developers in the PRC such as Aoyuan (奧園) and the Sincere Group (協信集團).

Mr. ZENG Youfan
Aged 41, is the Vice President of Guangzhou head office in charge of sales and marketing management. Mr. ZENG graduated from Henan University School of Economics (河南財經學院) with a Bachelor's Degree in Economics and holds a Project Management Professional certificate. He has 16 years of working experience in property sales and marketing in the PRC, working for Zhu Jiang Real Estate Development Co., Ltd. and New World China Land Limited in the past.

Mr. TAN Yongqiang
Aged 53, is the Vice President of Guangzhou head office in charge of property business development. Mr. TAN graduated from South China University of Technology (華南理工大學) with Bachelor's Degree in Industrial and Civil Construction. He is also a postgraduate in Business Administration from Western Sydney University. Mr. TAN has over 20 years of working experience in area of project management and has worked in large-scale group in the PRC such as Yuexiu Group.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

INTRODUCTION

This environmental and social responsibility report covers Skyfame Realty (Holdings) Limited ("**Skyfame**" or the "**Company**", together with its subsidiaries, the "**Group**") for the financial year ended 31 December 2016, and is to disclose the information on the Group's management approach and strategy in respect of environmental and social responsibility.

Environmental protection and social responsibility do not only help an enterprise to shape good public image. In the current capital environment, investors also concern what an enterprise contributes to the environment and the society. An enterprise with high awareness in social responsibility and environment protection wins goodwill and thus enhances investors' interest of investment and confidence in the enterprise. As a Chinese real estate enterprise listed in Hong Kong, Skyfame takes up its obligations in environmental and social responsibility while creating value for shareholders and striving for better performance.

This report discusses what measures the Group takes for the environment, how it creates quality working environment for employees and how it operates with responsible practices for the interest of customers. This report is prepared in compliance with the "Comply or Explain" provisions under the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

A. ENVIRONMENT

Pollutants are generated in the process of all property development projects. These mainly include: (i) various kinds of machineries noises produced during construction; (ii) dustings, exhaust air emission resulted from various kinds of machineries and transportation vehicles, and organic gases emitted from wastes left during renovation; (iii) wastewater generated from construction sites and domestic sewage generated by construction workers; (iv) remaining wastes material left in the construction site and garbage disposed of by construction workers. All these will adversely affect the surrounding environment, and corresponding pollution prevention and environmental management measures must be taken to reduce such impact.

The Group selects reliable construction contractors through bidding processes for its project development. The "Guidelines of Examination and Operation for Construction Entities" (《施工單位檢查作業指引》) has been developed by the Group's head office, which specifies that project engineering management/engineering team shall be responsible to conduct examination and assessment on construction entities on a quarterly basis. The involved departments include the project management centre and supervision unit. The examination and assessment work is divided into three parts, namely work quality, entities' quality and civilised safety management. The engineering management department of the project company coordinates the quality, progress, civilised safety, environmental control management and other matters. The project management centre of the Group monitors the construction of projects, supervises the project quality, progress, civilised safety and environmental management as well as takes part in final construction inspection and acceptance. In the course of examination, the engineering management department of the project company and the project management centre of the Group shall make sure the construction entities are in compliance with the established guidelines of the Group, including its environmental measures.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A1. Construction discharges

1. *Machinery noises*

Construction noises come from various kinds of machineries such as foundation piling machines, excavators, and bulldozers, etc. with noise levels ranging from 80~110dB(A). Renovation noises come from machines such as drills, collecting machines, cutting machines, electric saws and other mechanical noises with noise levels ranging from 70-92dB(A). To reduce the impact on the surrounding environment so that the boundaries of the construction sites can meet the requirements of "Emission Standard of Environment Noise for Boundary of Construction Site" (《建築施工場界環境噪音排放標準》) (GB12523-2011), the Group would procure construction entities to take the following measures to reduce the impact of noise emission:

a. Operation of machineries with high noise levels are prohibited during breaks, noon time and night time, and any extension of operation due to special circumstances must be reported and approved by the relevant department.

b. Use mechanical equipment with low noise levels or those equipped with sound-proof or muffler facilities as much as possible and efforts must be made to reduce noises at the sources of noise generation.

c. The entrances and exits for the construction trucks at the construction sites should be arranged at places away from sensitive spots.

d. For high noise-level machineries, proper shielding should be installed as an integrated measure for temporary sound insulation, sound muffling and vibration damping.

2. *Construction air emissions*

Construction air emissions mainly include the dustings resulted from constructions, the exhaust gas emitted from various construction machineries and transportation vehicles, and organic waste gases generated during renovation. Dustings mainly come from the process of handling, transportation and piling of construction materials, which result in the raising or spillage of dusts. The exhaust gas produced by the access of various kinds of construction machineries are mainly sulfur dioxide (SO_2) and nitrogen oxide (NOx). Organic waste gases come from toxic gases vaporized from various paints and coatings on plywood boards, fine wood boards, MDF, and particle boards. These gases include formaldehyde, benzene, ethanol, radon, polyvinyl chloride, ethyl benzene, polycyclic aromatic hydrocarbons and the like. To minimise the impact of the dustings to the surrounding atmosphere, the Group would procure construction entities to take the following preventive measures:

a. Construction sites should be 100% enclosed, and road surfaces within the construction sites should be 100% hardened.

b. Certain wetness should be maintained during excavation and drilling process by watering the operation surface; watering should be carried out regularly on loose and dry soil in the construction site; and proper watering should be carried out on dry surface of soil when backfilling the soil in order to prevent formation of dusts.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A1. Construction discharges (continued)

2. Construction air emissions (continued)

c. Dedicated locations should be set up with enclosure for the stacking and storing of building materials and misplacements are not allowed. Unwanted and spoiled materials should be transported away as soon as possible and accumulation of such wastes is not allowed. When not used, sand and soil in the construction site should be 100% covered.

d. During demolition of constructions, watering should be 100% carried out to suppress dusts.

e. When not in use, machineries should be turned off to reduce generation of exhaust gas from combustion.

f. Car wash facilities and ground surface water trench should be set up at the locations of site access and exit for rinsing of transportation trucks with water. Bodies of vehicles leaving the site should be 100% rinsed thoroughly before leaving the site to reduce dirt carried by the vehicles and chassis from scattering on the roads. Soil scattered on roads should be cleaned immediately to reduce dust during operation.

g. During the construction process, using disposed building materials as fuel is strictly prohibited. Accommodation and canteen facilities should not be set up in construction sites. During the construction period, bare soil in the site should be covered 100% or covered by greenery. When construction is completed, ground space, roads and vegetation previously occupied by the construction should be resumed immediately.

h. Ready mixed concrete must be used for construction projects located on both sides of city roads or within designated areas. Concrete mixers should not be set up on the site so as to reduce dust pollution.

3. Construction wastewater

Construction wastewater mainly come from surface runoff of heavy rain, domestic sewage from construction workers and wastes water from rinsing of ground surface. Pollution is reflected mainly by the quantity of suspended solids (SS), dichromate chemical oxygen demand index ($COD_{C}r$), biochemical oxygen demand indicator (BOD_5), and ammoniacal nitrogen indicator (NH_3-N) in wastewater. In order to minimise the impact of wastewater discharged during operation and to ensure that the discharged wastewater is in compliance with the requirements of the national standard specified in "Integrated Wastewater Discharge Standard"(《污水綜合排放標準》) GB12523, the Group would procure construction entities to take the following preventive measures:

a. During construction, construction entities must strictly follow the requirements in the "Temporary Provisions for Proper Management and Environmental Protection for Construction Sites" (《建設工程施工場地文明施工及環境管理暫行規定》). The discharge of surface water must be carefully planned, and should not be arbitrarily directed to pollute roads, environment or government facilities.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A1. Construction discharges (continued)

3. Construction wastewater (continued)

b. Wastewater generated during foundation piling work must be treated immediate by paying attention to dredging and discharge management. Pollutants in wastewater generated from washing and rinsing machineries and construction vehicles are mainly suspended solids. The rinsing and washing facilities should be set up at designated locations. The ground surface water ditches should be directed to temporary sedimentation tanks. After sedimentation, the wastewater can be recycled for use to reduce the use of clean water.

c. Muddy water generated during operation and sludge produced by punching pile drivers and bored piles must not be discharged without treatment, so as not to pollute the site and the surrounding environment. Temporary settling basins should be provided at backfill dumps and at locations where sludge is produced. Discharge of rain water containing sediments and muddy water must be organized and planned. They should only be discharged after sedimentation in settling basins for the removal of floating debris and reduction of sediments concentration so as to prevent any sewer blockage.

4. Construction solid wastes

Construction solid wastes mainly consist of large quantities of silt, muck, sludge resulted from surface excavation, residual waste construction materials and domestic garbage from workers; and wastes generated from renovation including residual wastes such as mortar surface cement, interior and exterior wall coating, plastic, flexible packaging, scrap metal wire, sawdust, etc. In order to reduce the accumulation of solid wastes during the construction period as well as the impact on the environment during transportation, the Group would procure construction entities to take the following measures:

a. Different types of solid wastes generated from construction should be placed separately.

b. Domestic garbage should be regularly cleaned and delivered to environmental health department.

c. Construction wastes that may cause flying dust should be separated with enclosure.

d. Load only proper quantities of residual mud so as to ensure no spillage nor flying dusts during transportation. The wastes should be only dumped to landfill sites designated by the relevant authorities.

e. Wastes such as brick rubbles are piled up in general. Wastes that can be reused, such as wood, bamboo, should be recycled for the conservation of resources.

f. Spoil grounds selected should not occupy farmlands or be close to rivers or reservoirs. They should be located in hill passes or low-lying areas.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A2. Use of resources

The Group emphasises the benefits of its projects to social development and living standards of people. From choice of building materials to layout of project design, Skyfame's projects are human-focused and conform to the nature. All of the Group's projects under construction have applied the concept of "Green Construction". A "Green Construction" is a concept that minimises the use of resources (in terms of energy, land, water and building materials), protects the environment, and minimizes pollution, so as to provide a healthy, useful and highly efficient space for the residents, and buildings that stand harmoniously with the nature.

The Group has been infusing this corporate concept into its construction projects which are in progress, and imposing strict control on these construction works to ensure adherence to the relevant construction regulations of the government. The overall designs of all projects-in-progress focus to fit in the surrounding natural environment and fully utilise the local natural resources. The construction should be sustainable, eco-friendly and integrated into the nature, with high energy efficiency and should not harm the local eco-system. The interior design of the buildings under construction needs to attend to the full utilisation of daylight to save energy. The buildings need to create a sense of proximity to the nature, and should be a healthy living environment. By controlling and lowering the exploitation and destruction to natural environment and resources, the Group endeavors to maintain a balance between the demand from and the contribution to the natural environment.

1. *Conservation and use of energy*

   a. The thermal designs and HVAC of residential buildings are in compliance with the approved government's requirements, or the requirements published under the "Design Standards for Energy Efficiency of Residential Buildings" (《居住建築節能標準》).

   b. Structural forms, architectural orientations, space between buildings, and proportion of windows to walls are reasonably designed utilising the natural conditions of the venues, so that the residents can enjoy satisfactory sunlight, ventilation and lighting. Shading facilities should be provided as necessary.

   c. High efficiency lighting sources, high efficiency lighting equipment and accessories such as electronic ballasts with low dissipation are used in public areas and for partial lighting. Other energy conservation measures such as the application of time control or light control in areas with natural lighting are adopted. Make full use of solar, geothermal and other renewable energy sources according to local climates and resources conditions.

   d. Make use of natural lighting and ventilation (directly or indirectly from entrances and exits, open yards, side windows and skylights) in underground area.

   e. Effective heat insulation measures should be adopted with considerations of the buildings' architectural forms and orientations, so as to ensure heat insulation effect in summer.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A2. Use of resources (continued)

2. *Conservation and use of water resources*

   a. Water system planning should be devised at the time of project planning stage in order to coordinate, oversee and integrate various water resources.

   b. Take efficient measures to prevent damage or leakage of water pipes.

   c. Use water-saving appliances and equipment.

   d. When using non-traditional water sources, water safety measures should be taken and there should be no adverse effect to human health and the surrounding environment.

   e. Properly design the rainwater runoff channels on ground surface as well as on roof tops to reduce surface runoff, and adopt various methods of infiltration to increase rainwater infiltration.

   f. Non-traditional water sources such as recycled water and rainwater are used for irrigation.

   g. Use high efficiency and water conserving irrigation methods such as sprinkler irrigation and micro irrigation.

   h. Rainwater collection and utilisation schemes are determined logically based on technical and economical comparisons.

3. *Conservation and use of material resources*

   a. The content of harmful substances in building materials are in line with the requirements of current national standards including "Indoor Decoration and Refurbishing Materials – Limit of Formaldehyde Emission of Wooden Based Panels and Related Finished Products" (《室內裝飾裝修材料人造板及其製品中甲醛釋放限量》) GB18580, "Limit of Ammonia Emission of Concrete Admixture" (《混凝土外加劑中釋放氨的限量》) GB18588, and "Limit of Radioactive Nuclide from Building Materials" (《建築材料放射性核數限量》) GB6566.

   b. The architectural style is plain and simple, and without large quantities of decorative elements.

   c. Over 75% of total building materials in weight should be produced within 500km of the construction sites.

   d. Ready mixed concrete should be used for purpose of in situ concrete.

   e. High performance concrete and high strength steels are used as structural building materials.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A2. Use of resources (continued)

3. *Conservation and use of material resources (continued)*

f. The solid residual wastes resulted from construction work, old building demolition and site clean-up are classified for different treatments, and materials which can be reused are recovered and recycled.

g. Under the condition of ensured quality, the use of building materials produced from waste materials should not be less than 30% of similar materials used.

A3. The environment and natural resources

Property development involves a number of environmental factors, especially land resources. Property development activities inevitably affect the surrounding environment directly or indirectly. Therefore, conflicts always exist between environmental protection and development construction during the process of property development from land development to completion of projects. To resolve the conflicts and create constructive interactions between the two, property development plans must adopt designs that are friendly to a city's ecosystem, fitting into a city's current situation to avoid over-development, improving the allocation of social resources, conserving a city's resources in its design and layout, employing reasonable designs of building structures and utilising energy-saving technologies to lower energy consumption.

a. Facilities established in the construction sites should not damage any local cultural relics, natural water systems, wetlands, farmlands, basic farmlands, and other protected areas.

b. The locations of construction sites should be free from the threats such as floods, landslides and radon-containing soil. No sources of hazards such as electromagnetic radiation, fire, explosives and toxic substances should be found within the perimeter of the construction sites.

c. Architectural layouts in residential areas must ensure that requirements of indoor and outdoor sunlight environment, lighting and ventilation are in line with the currently national standards "Code of Urban Residential District Planning and Design" (《城市居住區規劃設計規範》) GB50180 with respect to standard sunlight requirements for residential buildings.

d. Adopt native landscaping by planting appropriate native plants that are accustomed to the local climate and soil conditions. The preferred choices are those that require little maintenance, and are resistant to extreme weather conditions and pests as well as not harmful to human health.

e. Green rate within the residential district should not be lower than 30%, and public green area per capita should not be less than 1 sq.m.

f. No pollution sources with discharge amount exceeding standards should exist in the residential district.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A3. The environment and natural resources (continued)

g. Specific environmental protection measures during the construction process are developed and implemented for the control of atmospheric pollution, soil pollution, noise pollution, water pollution, light pollution and impact to the surrounding areas resulted from the constructions.

h. Wind conditions in the residential district should be comfortable for outdoor walking during winter, and with natural ventilation during summer and the transition seasons.

i. Public service facilities in the residential district are set up according to planning for the district as well as for sharing with the adjacent districts. Integrated building designs are adopted as reasonably necessary.

j. Environmental noise levels in the residential district should comply with the requirements in "Standards for Acoustic Environmental Quality" (《聲環境質量標準》) GB3096.

k. Average heat islands intensity during day time in outdoor residential district should not be over 1.5°C.

l. Landscaping should be carried out according to local climate conditions and the natural distribution of vegetation. Different types of plant such as trees, shrubs and grass combine to form variations in the plant communities, with no less than 3.5 trees on each 100 sq.m. of vegetated land.

m. Water permeable paving should be adopted for non-motorized roads, outdoor parking lots and other hard surface grounds, with landscape greenery providing shades from the sun. The area of water permeable paving should not be less than 50% of outdoor area.

n. The construction site should be designed according to the original landscape topology.

o. Underground areas should be reasonably developed and utilised.

A4. Heritage conservation and urban redevelopment

In the development of "Tianyu-huafu" in Yongzhou during 2012 to 2016, the Group strived to maintain the heritage of Yongzhou. It redeveloped a major historic temple built in Ming Dynasty with an area of more than 20,000 sq.m. and revamped a number of scenic areas in Dongshan, Yongzhou. Further, in "Nanning Skyfame Garden" situated at Wuxiang New District (五象新區) in Nanning City, which has a developable area of approximately 1,207,000 sq.m., the Group allocated certain residential and commercial units with a developable area of approximately 289,000 sq.m. for resettling original shanty occupants. Such move demonstrates the Group's care for the resettlement of original occupants while rejuvenating old towns, and creates social harmony. The resettlement housing is expected to deliver between 2017 and 2018.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL

Employment and labour practices

B1. Employment

The Company has compiled the "Human Resources Management Manual" (《人力資源管理程序》), which sets out strict guidelines on the policies of human resources such as "Guidelines on the Recruitment Procedures" (《招聘管理作業指引》), "Operation Guidelines on Appointments and Confirmations of Employment" (《入職與轉正作業指引》), "Operation Guidelines on Termination Management" (《離職管理作業指引》), and "Operation Guidelines on Labour Contract" (《勞動合同管理作業指引》), regulating different aspects including recruitment, promotion, compensation and dismissal, working hour, rest days, diversity and other benefits. All guidelines are based on relevant laws and regulations, including but not restricted to the "Labour Law" (《勞動法》) and "Law on Employment Contract" (《勞動合同法》) of China, and the "Employment Ordinance" of Hong Kong. The Group strictly followed the above guidelines and related laws and regulations.

As at 31 December 2016, the Group employed 586 staff (2015: 578 staff) including 4 executive directors. The number approximates that of last year and was in line with the Company's principle of manpower control for 2016. Among the staff, 239 were undergraduates, representing 40.79% (2015: 40.48%) of the Group's total employees. The employees of the Group were relatively young, with 68.77% (2015: 72.66%) were under the age of 40. To accommodate the requirements for the development of new projects in 2017, the Company has been, from time to time, recruiting new college graduates as well as those having appropriate working experience. The Company was successful in recruiting youthful and energetic employees who have brought new impetus to the Company.

The Group strives to introduce appropriate staff based on the needs from the industry and manpower availability in the market. As the Group operates in the property construction industry, which tends to recruit male staff, it accounted for 67.24% (2015: 65.23%) of the total employees.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B1. Employment (continued)

Number of employees by age group and gender

	Gender	Under 30	31-40	41-50	Over 50	Total 2016	Total 2015
Head office/ Administration office	Male	11	47	23	5	**86**	100
	Female	14	38	9	5	**66**	66
	Sub-total	25	85	32	10	**152**	166
Project operation	Male	24	58	19	3	**104**	121
	Female	14	22	1	1	**38**	57
	Sub-total	38	80	20	4	**142**	178
Property management companies	Male	54	49	69	32	**204**	156
	Female	50	22	11	5	**88**	78
	Sub-total	104	71	80	37	**292**	234
Total in 2016	**Male**	**89**	**154**	**111**	**40**	**394**	
	Female	**78**	**82**	**21**	**11**	**192**	
	Total	**167**	**236**	**132**	**51**	**586**	
Total in 2015	Male	107	150	94	26		377
	Female	86	77	25	13		201
	Total	193	227	119	39		578

Number of employees by region

	Guangzhou	Nanning	Xuzhou	Yongzhou	Hong Kong	Total 2016	Total 2015
Head office/Administration office	142	0	0	0	10	**152**	166
Project operation	35	101	6	0	0	**142**	178
Property management	169	106	0	17	0	**292**	234
Total in 2016	**346**	**207**	**6**	**17**	**10**	**586**	
Total in 2015	376	135	0	57	10		578

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B1. Employment (continued)

Employee turnover rate by age group and region

	Region	Under 30	31-40	41-50	Over 50	Total number of departed employees (by region/ function)	Turnover rate (by region/ function) 2016 (note)	Turnover rate (by region/ function) 2015 (note)
Head office/administration office	Guangzhou	10	21	4	0	35	**23.49%**	18.37%
	Hong Kong	1	0	0	0	1	**10.00%**	0.00%
	Sub-total	11	21	4	0	36	**22.64%**	17.14%
Project operation	Guangzhou	0	7	2	0	9	**21.69%**	28.57%
	Nanning	7	12	6	1	26	**26.53%**	17.39%
	Sub-total	7	19	8	1	35	**24.56%**	24.32%
Property management	Guangzhou	29	17	15	7	68	**39.88%**	48.73%
	Nanning	11	25	4	2	42	**57.53%**	69.57%
	Yongzhou	2	2	4	1	9	**46.15%**	128.40%
	Sub-total	42	44	23	10	119	**45.25%**	64.41%
Total number of departed employees in 2016 (by age)		**60**	**84**	**35**	**11**	**190**		
Total turnover rate in 2016 (by age)		**35.29%**	**37.09%**	**28.34%**	**24.72%**		**32.48%**	
Total number of departed employees and turnover rate in 2015		96	74	41	18	229		39.93%

Employees are engaged in two different business segments, namely project operation and property management. Total turnover rate amounted to 32.48%, representing a slight decrease as compared with 39.93% last year. However, the Group recorded a slight increase in turnover rate of head office, administration office and project development functions. Tianhe Project and Yongzhou Project have entered into the stage of completion and delivery. Based on the principle of manpower control to cut down the scale of employees, vacancies from natural loss of project operation staff were not refilled. Such increase in turnover rate in respect of these projects was offset by the decrease in turnover rate of property management staff. In 2015, the outsourcing of the Yongzhou Project's security function has reduced the number of staff, contributing a relatively higher turnover rate of the property management staff in 2015, reaching 64.41%. The turnover rate of property management staff went down to 45.25% in 2016, which was lower than that of the previous two years. 119 (2015: 162) employees departed from the property management company, accounting for 62.63% of the Group's total departed employees, and thus raised the Group's total employee turnover rate to 32.48% (2015: 39.93%). For this year, among the 190 departed staff, 84 of them were at the age between 31-40, 60 of them were at the age below 30, which, in aggregate, accounted for 75.79% (2015: 74.24%) of the total departed employees. It was due to the fact that most of the Group's staff were young people. 68.77% of the Group's total employees were under the age of 40.

Note: Turnover rate = Number of departed employees during the year / ((number of employees at the beginning of the year + number of employees at the end of the year) / 2), and for 2016, without taking into account the Yongzhou project company disposed in late of the year.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B2. Health and Safety

The Company complies strictly to the PRC's laws and regulations to protect the employee's occupational safety and health. The Company has developed its enterprise occupational health guidelines according occupational health and safety standards including the Occupational Health and Safety Management System (OHSMS), ISO 9000 Quality Assurance System and ISO 14000 Environmental Management Standards, for the prevention of occupational diseases, protect workers' health, enhance employees' safety awareness, ensure safety in construction that satisfy both the goals of the enterprise and the needs of the employees. The Company has instructed department supervisors to be fully responsible for the management of occupational safety and health. To take better preventive measures, from time to time, the project companies' safety supervisors provide safety trainings to employees working at positions that are highly susceptible to occupational diseases, supervise and inspect the use of safety measures, and inspect and rectify the safety pitfalls in workplaces, so as to reduce the spread of epidemic diseases and ensure construction safety. The Group arranges relevant health checking for employees in positions that are highly susceptible to occupational diseases, and document their health profile. The Group also arranges annual body check for all employees to help identify potential health risks in advance so as to strengthen the employees' health protection. Employees' body check expenses in 2016 amounted to RMB113,520 (2015: RMB106,700), representing an increase of 6.39% as compared to 2015.

The Group has compiled the "Operation Guidelines on the Management of Construction Safety and Legitimacy" (《安全文明施工管理作業指引》). Through prevention and control measures, the Company has strived to reduce the probability of workplace accidents in construction projects, improve the image and environment of the construction sites and standardize safety management procedures and accident handling knowledge. Project companies assess the management measures prepared by the contractors in regard to construction safety and legitimacy, and conduct independent patrolling, sample checking and monitoring on every aspects of the construction sites, report to the relevant person-in-charge and the contractors when problems are identified and monitor the relevant rectifications. The Group's Projects Management Centre monitors the project companies' execution of safety management policies. The Company requires the contractors to establish trainings on safety education and techniques, which shall be held regularly and seasonally.

The Group's Project Management Centre periodically assigns the internal safety management team to inspect the safety of the projects under construction, the results of which will be reported to the senior management of the Group. During the year, the Group strictly complied with relevant laws and regulations and guidelines. In 2016, however, one industrial accident without casualty occurred. During the year, in the project under construction in Nanning, there was a fire triggered by inappropriate use of equipment which affected 400 sq.m. of the site. There were also two construction incidents at the site. The Company has imposed strict punishment to the management, which set a warning to the other project companies. The Company also formulated the "Administrative measures for the reporting, investigating and handling of safety production incidents" (《安全生產事故報告與調查處理管理辦法》), to stipulate the procedures of reporting, investigating and handling of safety incidents, to implement an accountability system on safety production incidents and to prevent and reduce the occurrence of safety production incidents.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B3. Development and Trainings

To enhance the Group's operation management as well as to meet the demand of business development, the Group has established the "Operation Guidelines on Staff Training Management" (《培訓管理作業指引》) and "Operation Guidelines on Staff Internal Transfer" (《員工異動管理作業指引》) to standardize the Group's staff training management. At every year end, the Group devises an annual training program for the coming year, which encompasses both internal and external trainings and is tailor made for the operating environment of every department. These training programs are reviewed and adjusted according to the progress of training assessed at the mid-year evaluation. All training programs aim to elevate the employee's efficiency in order to cope with changes in their working environment.

The Group also provides timely induction programs to new recruits, to introduce the Group's history and development, corporate culture, organisational structure, the Company's rules system, office operation platform, workflow and the Company's projects, so that new employees can be soon familiar with the Group's operation and thus improve their efficiency. Management trainee programs are conducted continuously every year. Trainings for management trainees are enhanced through the intensive training in classes and on-the-job training through rotations.

In 2016, the head Office and the project companies have provided 346 training sessions for employees at different levels, with a total of 6,655 participants. These training sessions included internal training totaling 552.5 hours and external training totaling 292 hours. Total cost of trainings amounted to RMB530,393 (2015: RMB353,000), representing an increase of 50.25% as compared with 2015. The training programs in 2016 mainly covered:

- to continually provide new staff with internal orientation trainings so as to help them have better understandings about the Group and integrate themselves smoothly into the Company for work. Further, the Group offers diversified trainings to management trainees, with the purposes of enhancing their expertise and competence of self-management.

- to generally raise the standard of the Group's marketing team in professional customer acquisition, in April 2016, the Group invited a well-known mentor who is experienced in corporate marketing and customer acquisition, to give the "Practical Special Training on Marketing, Customer Acquisition and Quick Destocking" (《營銷拓客及快速去化實戰專項培訓》);

- in response to the implementation of the policy on changing the levy of business tax to value-added tax ("**B2V**"), in May 2016, the Company invited a taxation specialist to give trainings and examinations on the "Interpretation and Responsive Strategy to the B2V Policy for Property Enterprises", and discussed with professors in respect of the detailed highlights of the B2V policy and its impact on the Group, so as to allow the Group to make adjustments appropriate to the change of policy and smooth transition;

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B3. Development and Trainings (continued)

- to raise the standard of the Group's project quality, safety and management, and to ensure the accomplishment of the Group's business goals, in late May 2016, the head office provided special training on the construction quality, safety and management.

- in furtherance of the enforcement of the Group's core management system, in late May to mid June and in late November to early December of 2016, the head office conducted various system trainings including the system, compliance audit, finance, development strategy, administration, manpower, marketing and project management and design under the newly released the "Manual for the authority and responsibility of Skyfame Group" (《天譽集團權責手冊》);

- to pursue the Skyfame's concept of people development and to strengthen the backup force of project management team, in late September, the head office launched the second round of project talent training program. Internal experienced business specialists were invited and external practical management specialists were engaged to talk about the successful experience and give lectures on the management of company operational control and the benchmark enterprises in the industry; and

- to regulate the internal management and raise the management standard of members at all managerial levels, in late October 2016, the head office launched a training program called "Refined Management on the Processes of Property Development" (《房地產開發流程精細化管理》). External practical management specialists were engaged to talk about the entire processes of project development in a simple but in-depth way.

B4. Incentives and recognitions

The head office has established a comprehensive employee assessment system. At the end of each year, every employee's performance is appraised and assessed. As a yardstick for annual bonus payment, the most outstanding employee and the most outstanding team are selected who will be presented with award certificates and monetary rewards as compliments of their contribution to the Company, and all employees are encouraged to strive for the achievement of the Company's objectives. During the year, the Company also offers special awards to teams or employees who have satisfactorily handled unexpected situations with remarkable performance or met working milestones in advance, so as to encourage all other employees to contribute to the Company.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B5. Recruitment and Retaining Talents

To meet the requirements for the Group's business expansion and to satisfy the Group's demand for talents, the Company recruits appropriate staff from the society from time to time, so as to strengthen and consolidate the Group's talent pool. Meanwhile, to provide a fair and impartial promotion channels for staff, in November, the Group conducted an internal screening to identify outstanding and young management members to assume the key positions for new development projects, which enabled the Group to provide outstanding internal staff with advancement opportunities and retain talents.

To resolve the Group's problems such as lack of talents to fill key positions, loss of talents on key positions and difficulties in training talents, the Company has prepared the "Proposal for Formation of Corporate Echelon Talent Pool" (《企業梯隊人才庫建設方案》) in 2014, for the improvement of the Group's human resources allocation, optimization of talent reserve mechanism, so as to implement a succession plan and a talent reserve plan for key positions.

The Company has also established the "Employee Share Options Scheme", under which, share options are granted to employees so that the results and performance of the Group are linked to the employees' individual performance. The purposes are to motivate employees in achieving the Group's long-term goals, to reward and provide incentives to employees in making continued contributions to the Group, and to recruit and retain talents. Pursuant to the share option schemes adopted on 4 August 2005 and 6 June 2015, the Company has granted a total of 162,850,000 share options to eligible staff, for the purpose of motivating the staff to continue to make contribution to the Group. As at 31 December 2016, there were 83,628,791 share options outstanding.

B6. Employee's Relation

To reward the staff for their dedication over the year and to enhance the communication and exchanges among employees, the head office organised a Chinese New Year gathering in late January. It also organised a Mid-Autumn night fair and the "Skyfame Glamour" photo contest in mid-September and early November, respectively.

Moreover, in order to enhance the team building and relationships between the staffs, the head office organises annual country-tours and project-visits to foster connections between the employees of different management centers and project companies. This May and June, the head office organised a three-day country tour for 2016 for its staffs to promote communication and interaction between different departments. This November, the head office also hosted a "Tianyu Family's Fun Sports Day". The Fun Sports Day has been a great boost in the sense of belongings and entrepreneurial unification in the staff and highlights the "Tianyu Family" corporate culture.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B7. Labour standards

The Group recruits its employees according to the "Operation Guidelines on Recruitment Management" (《招聘管理作業指引》) and in compliance with the labour laws and regulations of the relevant countries or provinces. One of the regulations is that employment of child labour and forced labour is prohibited, which the Group has strictly followed during the year. The Group reviews its own employment practices and inspects the labour employment of contractors through site visits from time to time, in order to prevent any potential breach of such regulations. Employees of the Group must complete the "Employee Registration Form" with accurate personal information (including resume, relevant certificates of education, background of career profile etc.), which are verified by the human resources department or administration office of project company before employment to ensure the legality of the entire recruitment procedure.

Operating Practices

B8. Supply chain management

Majority of the construction works and professional technical works under the Group's projects are outsourced to contractors in form of tenders. The selection process of suppliers and professional services providers is very strict and careful. The Group has set up the "Suppliers Management Program" (《供應商管理程序》)to regulate the selection, cooperation and management of suppliers, so as to improve the consolidation and results of the Company's external resources, and help achievement of the targets of various development projects and the Company's strategies. The Company maintains long and stable partnership with its suppliers in general. The Company has not encountered any difficulty in selecting supplies. As most of the construction materials are procured locally in the place of the development project, there should be no problem to locate an alternative supplier of major construction materials in the event that any supplier is unable to meet the demand of the Group. The Company has compiled the "Operation Guideline on Management of Supplier Resources Pool" (《供應商資源庫管理作業指引》), "Operation Guideline on Supplier Certification" (《供應商認證作業指引》) and "Operation Guideline on Supplier Assessment" (《供應商評估作業指引》)and established the supplier management information platform through which information about the suppliers are input to the database by category after qualification assessments or on-site reviews. With the set up and maintenance of the suppliers' database, the information of the suppliers is collected and processed systematically to ensure the Group can identify the most accommodating supplier in an efficient manner.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Operating Practices (continued)

B8. Supply chain management (continued)

To regulate the management of the Group's strategic procurement of construction materials and to enhance the procurement efficiency and transparency, the Group has set up a strategic procurement supplier stock-in and stock-out inspection group, which is responsible for the approval of the stock-in and stock-out of strategic procurement suppliers. At the end of each year, the Contract Tender Management Division works with the other management divisions and project companies in assessing and screening the performance of suppliers in order to reduce the environmental and social risks brought about by the underperforming suppliers to the operation of the Group (such as the harm to the Company's reputation due to environmental pollution in construction sites or employing illegal workers). To ensure that qualified suppliers on list can provide assurance of their qualities, the suppliers' ratings are updated to the suppliers' database according to the assessment reports approved by the Group's management, while those failing to pass the assessment are eliminated.

According to the Group's relevant policies or the contractors' "Regulation on the Maintenance of End-Product after Construction" (《建築成品保護規定》) which was monitored by the Company to set up, the engineering department of project company procures the main contractor to set up a working team to maintain the quality of the end-products by coordinating all its independent sub-contractors in such respects to ensure that the end-products are completed according to the requirements in the relevant contracts, so as to discharge all parties' responsibilities or otherwise impose penalties.

B9. Product Liability

1. Skyfame's Mission

Since the establishment of Skyfame, it has been committing to developing quality real estates and striving for excellence. Skyfame puts great emphasis on brand-building, for only products that suit the consumers' needs can create a favourable brand-image. Brand image creates greater social values only when it can imprint on the consumers' memories. Every Skyfame's project is developed according to the local market conditions and geographical environment, tailormade to meet the demands of the local market, and delivers excellent product with varieties and flexibility.

From residential to commercial buildings, including HNA Tower (formerly known as Skyfame Tower) and Guangzhou HNA Westin Hotel (formerly known as Guangzhou Skyfame Westin Hotel) which commenced operation in 2007, Skyfame City in Guiyang, Tianyu Huafu in Yongzhou, Wunan and Skyfame Garden in Nanning which were delivered for occupancy from 2010 to 2016, as well as every other project currently under construction, Skyfame has been following the development needs of the city and the society, and has won the acclaim of the industry and the society. With honesty and integrity as its principle and quality service as its management objectives, the Company has built up its brand and earned the recognition from customers in all regions with its quality products, market-oriented approach and integrity.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Operating Practices (continued)

B9. Product Liability (continued)

2. *Monitoring of Product Quality*

To ensure that the commodity properties built by the Company comply with the relevant regulations of the government, the Group has compiled the "Operation Guideline on Engineering Quality Control" (《工程質量控制作業指引》) for the monitoring of construction projects. It is used as a guideline to ensure that construction works comply with the relevant regulations, technical standards and fulfill the requirements as set out in the corresponding construction work/service contracts. The project companies review the construction proposals, quality assurance measures and business qualifications declared by the contractors, conduct site inspections to patrol and make sample-checks on the quality of construction. The Group's Project Management Centre provides technical support to project companies in these quality assurance measures.

The Group has also devised the "Operation Guidelines on Indoor Environmental Pollutions Control" (《室內環境污染控制作業指引》) to ensure that the construction materials used comply with the Government's regulations and meet environmental indicators. Effective indoor environmental pollution controls are carried out at key stages during the course of construction in order to prevent the delivery of unqualified products to customers. Departments responsible for procurement and tendering are required to comply with the Group's guidelines and the Government's relevant regulations when setting up procurement and out-source contracts. Project companies are responsible to monitor the radon concentration in soil and examine the delivered materials according to environmental protection indicators. They are also responsible to perform tests on indoor environment contamination rates and emission rates of materials that may cause pollution before being put in use, and monitor the concentration of pollutants before acceptance of completed works.

3. *Customers' Feedback*

To better understand customers' satisfaction on the work quality, the construction quality and the services provided by relevant entities of the Group in the course of property development, sales and post-sales service, the Group has developed the "Procedures for measuring and monitoring customer satisfaction" (《顧客滿意度測量監察程序》). Based on the results, the Group would propose corrective and preventive measures and continue to make improvement, in order to maintain or increase customers' satisfaction. In 2016, when delivering the units of Nanning Skyfame Garden to buyers, most of them showed satisfaction. The delivery rate reached 98.8%

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Operating Practices (continued)

B9. Product Liability (continued)

3. *Customers' Feedback (continued)*

Besides, to elevate the standard of the Company's products, services, and management, to enhance product quality and service, to ensure customers' complaints are resolved in a timely, accurate and reasonable manner and to achieve the Company's target of refining the Company's products and service continuously, the Group has set out the "Codes for Customers' Complaints Handling" (《顧客投訴處理程序》), in order to improve customer service, handle customers' enquiries in a timely and efficient manner, give stronger impression and experience to customers in all respects and increase their satisfaction. The complaint channels include the Group's Customer Service Division (with complaint and suggestion mail boxes (tousu@tianyudc.com and tydc110@163.com) and hotlines ((86-20) 2208 2803 and 2208 2827)), the sales department and property management of the project companies and the Company's website (http://www.tianyudc.com). In 2016, the Group received 47 complaints, 46 of which were about the projects in Nanning. The responsible units were able to response and resolve all of these complaints in a timely manner. The complaints are documented as references for improvement in the future.

B10. Anti-corruption

The Group has been protecting all its business from any illicit behavior in its operating environment. Honesty, integrity and fairness are the core values of the Group which all employees are required to fulfill and safeguard. In order to manifest such values, the "Staff Manual" (《員工手冊》) of the Group sets out the measures against any offender of anti-corruption regulations. The provision or recipient of bribery or interests (including commissions, handlings, rebates, rewards, vouchers, gifts, etc.) in any forms from business-related units are deemed as serious violations of the Group's regulations. The Company shall rescind the employment contract of the offender and may seek relevant economic and legal responsibilities from the offender.

The Group also prescribes its contract management procedures, which strictly prohibit business units and its staffs from obtaining direct or indirect monetary benefits from contracted parties through illicit means such as bribery and rebate when performing contracts.

Customers or business units may report any of our employees' violation of anti-corruption regulations to the Group's Complaints and Suggestions email box (tousu@tianyudc.com and tydc110@163.com) and hotline((86-20) 2208 2803 and 2208 2827)), or complaint through the Company's website (http://www.tianyudc.com).

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Community

B11. Community engagement

The Group's property management service adopts multiple measures to further increase the quality of services and create fresh experience to residents. In the "Customers' satisfaction survey"《顧客滿意度調查》conducted in 2016, the Group's scoring was higher than the industry average, indicating that its property management service was well recognised by the majority of residents. The "Customers' satisfaction survey"《顧客滿意度調查》also provides reference basis for property management companies to have deeper understanding of what the community needs. Through the "Customers' satisfaction survey"《顧客滿意度調查》, property management companies will be able to identify their weaknesses in the course of rendering property management services, and make specific rectifications promptly, so as to achieve an improved quality of property management services as well as an enhanced and an a higher degree of customers' satisfaction.

In order to have closer ties with all residents in the communities under its management, to enhance communication and interaction and, to promote friendly community culture, while showing the care for residents, property management companies, at varying intervals, organised different kinds of cultural activities for the communities under its management, such as the 1st of June Children's Fair, Book Festival, Mid-Autumn Festival Celebration and Christmas Fun Day. All these activities won strong support from the residents who enjoyed the activities with fun and laughter.

To safeguard the safety of lives and properties of the residents in the communities under its management, to promote their awareness of fire safety and to jointly maintain a happy community, property management companies organised a series of large-scale activities on the "National Fire Day" with the support of all communities under its management, for the promotion of fire safety. The activities included fire drill, fire safety knowledge seminar, emergency rescue knowledge seminar, etc., which significantly raised residents' awareness of fire safety.

B12. Start-up and community operation service for residents

To materialise its core strategy of "developing youth community", the Group is committed to build a technology innovation community where young innovators will be provided with professional start-up services. The scope of services will include providing a comprehensive and professional networking service system equipped with ancillary facilities such as open working spaces, conference rooms and show rooms for increased transparency of startup and innovation information; establishing community startup funds, introducing venture investors, attracting social funds to involve community start-up investment plans; developing youth innovation talent plan, giving comprehensive care and providing professional start-up guidance for young innovators, and helping them to achieve growth.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhance its corporate governance standards by emphasizing transparency, independence, accountability, responsibility and fairness. The Company exercises corporate governance through its Board of Directors (the "**Board**") and various committees with designated functions.

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period covered by the 2016 financial statements, in compliance with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") except for the following deviations:

Code Provision A.2.1 – Chairman and Chief Executive

The roles of chairman and chief executive officer of the Company are not separated as required but are currently dually performed by Mr. YU Pan since 2004.

Explanation on the deviation is elaborated below under the heading of "Segregation of the Management of the Board and the Management of the Group's Business".

Code Provision E.1.2 – Chairman Attending Annual General Meeting

Mr. YU Pan, the Chairman of the Board, was unable to attend the annual general meeting held on 30 June 2016 (the "**AGM**") due to other business engagements. Mr. WEN Xiaobing, the Deputy Chief Executive Officer, acted as chairman of the AGM which was properly convened to ensure effective communication with the shareholders of the Company at the AGM.

BOARD OF DIRECTORS

As at 31 December 2016, the Board comprised eight Directors as follows:

Executive Directors

Mr. YU Pan *(Chairman and Chief Executive Officer)*
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*
Mr. JIANG Jing
Mr. WONG Lok

Non-executive Directors

Mr. ZHONG Guoxing

Independent Non-executive Directors

Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

The terms of service of all the Independent Non-executive Directors are one year and are subject to automatic renewal and retirement provision under the amended and restated bye-laws of the Company (the "**Bye-laws**").

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

The Board held seven meetings in 2016. The record of attendance of each Director is as follows:

Name of Director	Number of Board Meetings Attended/Held	Attendance Rate	Attended the annual general meeting on 30 June 2016
Executive Directors			
Mr. YU Pan *(Chairman and Chief Executive Officer)*	7/7	100%	–
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*	6/7	85.71%	✓
Mr. JIANG Jing	2/7	28.57%	–
Mr. WONG Lok	6/7	85.71%	–
Non-executive Director			
Mr. ZHONG Guoxing	0/7	0%	–
Independent Non-executive Directors			
Mr. CHOY Shu Kwan	5/7	71.43%	–
Mr. CHENG Wing Keung, Raymond	7/7	100%	✓
Ms. CHUNG Lai Fong	7/7	100%	✓
Overall Attendance Rate		71.43%	37.5%

The Board is responsible for formulating and reviewing the long-term business directions and strategies, monitoring the operating and financial performance of the Group, and performing the corporate governance functions. Management is delegated by the Board with the authority to make decisions on daily operations. Both the Directors and management interact frequently to ensure efficient communications between the parties.

To the best knowledge of the Company, there is no financial, business and family relationship amongst the members of the Board, save as Mr. Wen Xiaobing is the executive director and legal representative of 廣州市天譽房地產開發有限公司(Guangzhou Tianyu Real Estate Development Company Limited*), a PRC incorporated company of which the Chairman of the Company, Mr. YU Pan, is the controlling shareholder.

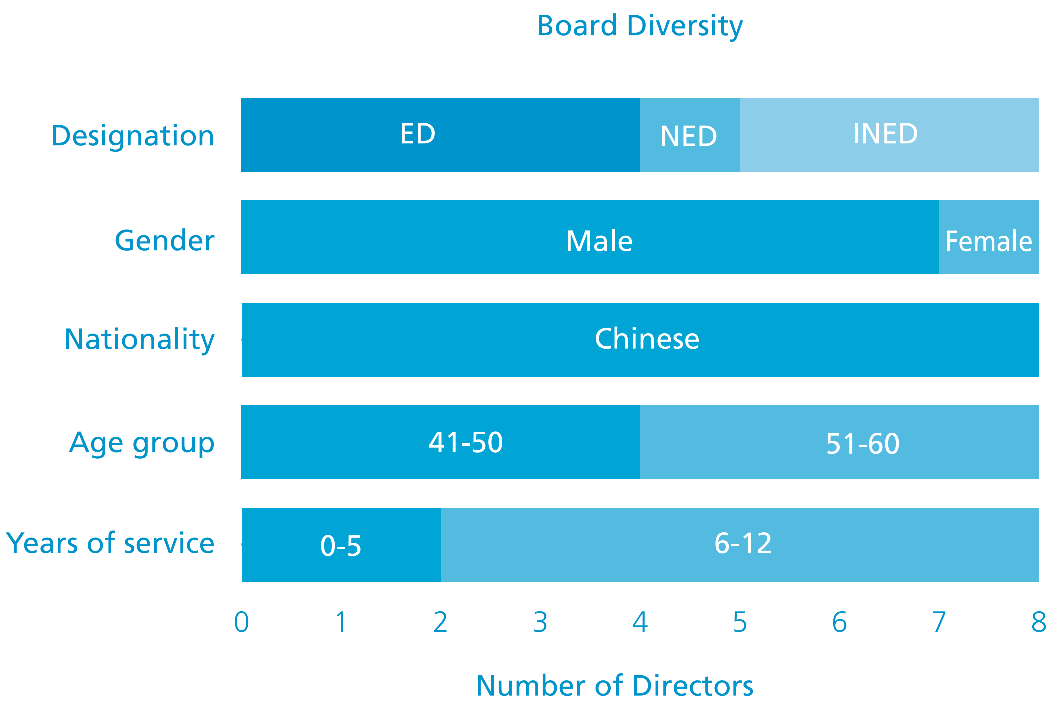
The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities of the Group.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board recognizes the contribution that diversification of the Board can enhance the quality of its performance but considers that it would be inappropriate to set targets on the diversity on the ground that all appointments of directors will be made on merit and individual basis. Notwithstanding, gender and other diversity issues will be taken into consideration when evaluating the skills, knowledge and experience of any candidate to fill any vacancy at the Board and candidates will be considered against contribution that he/she will bring to the Board, and at the same time with due regard to the diversity on the Board.

As at the date of this report, the Board's composition under major diversified perspectives is summarized as follows:



ED: Executive Director
NED: Non-executive Director
INED: Independent Non-executive Director

DIRECTORS' RESPONSIBILITY IN THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated financial statements on a going concern basis which give a true and fair view of the state of affairs of the Group in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own Code of Conduct for Securities Transactions by Directors and Relevant Employees of the Company (the "**Code**") on terms no less exact than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules and the Code is updated from time to time in accordance with the Listing Rules requirements. Following specific enquiry by the Company, all Directors of the Company confirmed that they have complied with the required standards as set out in the Code throughout the year under review.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-executive Director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Company has provided resources and supports to encourage the Directors to participate in professional development courses and seminars to develop and refresh their knowledge and skills. Besides, regulatory updates and relevant materials on amendment of Listing Rules were sent to the Directors for their awareness of the latest development on statutory requirements.

The training each Director received during the year ended 31 December 2016 is summarized as below:

Name of Director	**Reading materials regarding regulatory update and corporate governance matters**	**Attending seminars/ in-house workshops relevant to the Company's business and Listing Rules compliance**
Executive Directors		
Mr. YU Pan *(Chairman and Chief Executive Officer)*	✓	✓
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*	✓	✓
Mr. JIANG Jing	✓	–
Mr. WONG Lok	✓	–
Non-executive Director		
Mr. ZHONG Guoxing	✓	–
Independent Non-executive Directors		
Mr. CHOY Shu Kwan	✓	✓
Mr. CHENG Wing Keung, Raymond	✓	✓
Ms. CHUNG Lai Fong	✓	✓

CORPORATE GOVERNANCE REPORT

SEGREGATION OF THE MANAGEMENT OF THE BOARD AND THE MANAGEMENT OF THE GROUP'S BUSINESS

In pace with the business development and growth of the Group, the Group currently maintains a relatively small but efficient staff force in the management team to take care of the daily operations of the property development business. Both the roles of the Chairman of the Board and Chief Executive Officer who leads the management of the Company are currently played by Mr. YU Pan. The Board considers the current simple but efficient management team serves sufficiently enough the need of the Group. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out clearer division of responsibilities at the board level and the management team to ensure a more proper segregation of the management of the board of the Company and the management of the Group's business.

CORPORATE GOVERNANCE FUNCTIONS

The board has established four Board committees, namely, the Remuneration Committee, the Nomination Committee, the Audit Committees and Risk Management Committee. All Board committees have been established with defined written terms of reference, which are posted on the Company's website at http://www.tianyudc.com and the Stock Exchange's website at http://www.hkex.com.

All Board committees meet regularly and are provided with sufficient resources to perform their duties. The committee members can seek independent professional advice at the Company's expense upon reasonable request.

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Code which includes the following:

(i) to develop, review and monitor the Group's policies on corporate governance and compliance with legal and regulatory requirements;

(ii) to review and monitor the training and continuous professional development of directors;

(iii) to develop, review and monitor the code of conduct applicable to the employees and Directors; and

(iv) to review the Group's compliance with the corporate governance code and disclosure requirements in the Corporate Governance Report.

The Board has reviewed the Corporate Governance Report to ensure its compliance with the disclosure requirements as set out in the Appendix 14 to the Listing Rules. The Company has issued "Policies on Preservation and Disclosure of Price Sensitive Information" in May 2013 to comply with the requisite inside information disclosure requirements as specified under the Securities and Futures Ordinance and the Listing Rules.

REMUNERATION COMMITTEE

As at 31 December 2016, the Remuneration Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong (Chairman of the Remuneration Committee).

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE (continued)

The roles and functions of the Remuneration Committee are, amongst others, to make recommendations to the Board on the overall remuneration policy structured for all directors and senior management; and to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives achieved. The terms of reference of the Remuneration Committee are available at the Company's website at http://www.tianyudc.com and on the Stock Exchange's website at http://www.hkex.com.

The Remuneration Committee held one meeting in March 2016 and all the members attended the meeting. The matters discussed included (i) the review of the remuneration policy of the Group's directors and senior management; and (ii) the review of incentive bonus paid to directors and senior management for 2015.

Details of the remuneration of each director are set out in the consolidated financial statements on pages 104 to 105.

NOMINATION COMMITTEE

As at 31 December 2016, the Nomination Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board and Nomination Committee) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

The roles and functions of the Nomination Committee, amongst others, are to make recommendations to the Board on the procedures of appointment of directors and the selection from individuals nominated for directorship; to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually; and to make recommendations on any proposed changes to the Board to complement the Group's corporate strategies. The terms of reference of the Nomination Committee are available at the Company's website at http://www.tianyudc.com and the Stock Exchange's website at http://www.hkex.com.

The Nomination Committee held one meeting in March 2016 and all members attended. The matters discussed included (i) the review of the size, structure and composition of the Board; (ii) the assessment of the independence of independent non-executive directors; and (iii) the recommendation of retiring Directors for re-election in 2016 annual general meeting.

AUDIT COMMITTEE

As at 31 December 2016, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. CHOY Shu Kwan (Chairman of the Audit Committee), Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

The roles and functions of Audit Committee, amongst others, are as follows:

1. to review the integrity of accounts and financial reporting procedures;

2. to review and oversee the effectiveness of internal control systems;

3. to appoint external auditors and assess their qualifications, independence and performance; and

4. to review periodically the Company's and the Group's accounts for compliance with applicable accounting standards, legal and regulatory requirements on financial disclosures.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (continued)

The terms of reference of the Audit Committee are available at the Company's website at http://www.tianyudc.com and the Stock Exchange's website at http://www.hkex.com.

The Audit Committee held three meetings in March, August and November 2016 in which all members attended. The matters discussed in the meetings included: (i) reviewing the financial statements of the Company for the year ended 31 December 2015 and the six months ended 30 June 2016 before submission to the Board for approval; (ii) considering the findings disclosed in the bi-annual internal audit reports prepared by the Internal Audit Department; (iii) reviewing the effectiveness of the Group's internal controls system with discussion with the Chief Internal Auditor; and (iv) reviewing the 2017 work plan of Internal Audit Department; and (v) reviewing the status report of the Risk Management Committee in respect of their work done in 2016. The representatives of the external auditor were present at the meetings held on 14 November 2016 and 28 March 2016 and discussed with the committee members, amongst the other agendas, the scope of audit and presented their findings on major issues to the committee members on the audit of the financial statements for the year ended 31 December 2016. Both the annual results for the year ended 31 December 2015 and the interim result for the six months ended 30 June 2016 have been reviewed by the Audit Committee before presenting to the Board for approval.

AUDITORS' REMUNERATION

BDO Limited was re-appointed by the shareholders as the Company's auditor during 2016. Their engagement of the audit for 2016 was reviewed and approved by the Audit Committee on a meeting held on 14 November 2016.

During the year under review, the remuneration paid/payable to the Company's auditor is set out as follows:

Nature of service	**Fees** *(Renminbi)*
Audit services	
– Current year	1,382,000
Non-audit services *(note)*	
– Accountancy reports	537,000
– Disbursements	11,000
TOTAL	1,930,000

Note: The services provided was for the issue of accountancy report in relation to a connected and very substantial disposal transaction of the Company.

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognizes the importance of good communications with shareholders of the Company and understands that the Company's general meetings are a valuable forum for the Board to communicate directly with the shareholders. The members of the Board and committee members and the external auditor, where appropriate, are present to answer shareholders' questions in the meetings. Meeting circulars are distributed to all shareholders before the annual general meeting and special general meetings in accordance with the timeline requirement as laid down in the Listing Rules and the Bye-laws. All the resolutions proposed to be approved at the general meetings are taken by poll. The chairman of the meeting and/or the secretary of the Company explain the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll. Independent scruitineers are engaged to supervise the entire process of the voting. An announcement of the results of the poll will be published on the Company's websites at http://www.tianyudc.com and the Stock Exchange's at http://www.hkex.com.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has defined policy, namely the "Policies on Preservation and Disclosure of Price Sensitive Information", to govern the release of price sensitive information to the public in an equal, timely and effective manner to enable shareholders' easy appraisal of the Company's performance and business development. The Company has made prompt releases of information about the business and other affairs of the Group to the public and announced its annual and interim results in a timely manner within the time limits as laid down in the Listing Rules.

The 2017 annual general meeting is scheduled to be held at *Empire Room 1, 1st Floor, Empire Hotel Hong Kong•Wanchai, 33 Hennessy Road, Wanchai, Hong Kong on Thursday, 1 June 2017 at 2:30 p.m..*

SHAREHOLDERS' RIGHTS

To protect the rights of shareholders to have reasonable involvements in the Company's affairs, the Bye-laws and applicable laws in Bermuda (the place of incorporation of the Company) provide shareholders the following rights about the holding of general meetings of the Company:

Rights to convene a special general meeting

Pursuant to the amended and restated Bye-law 58 of the Company, members of the Company, holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board to transact or discuss any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of each requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (continued)

Procedures for putting forward proposals at shareholders' meeting

Subject to Section 79 of The Companies Act 1981 of Bermuda, it shall be the duty of the Company, on the requisition in writing of (i) either any number of members representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than one hundred members, at the expense of the requisitionists:

(a) to give to members of the company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and

(b) to circulate to members entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

Notice of any such intended resolution shall be deposited to the Company's registered office or principal place of business in Hong Kong not less than six weeks before the meeting (in the case of a requisition requiring notice of a resolution); and not less than one week before the meeting (in the case of any other requisition) together with a sum reasonably sufficient to meet the Company's expenses in sending the notice.

Upon receiving the requisition, the Company would take appropriate actions and make necessary arrangements in accordance with the requirements under the provision of the Bye-laws and Sections 79 and 80 of The Companies Act 1981 of Bermuda.

Company's contact details

For general enquires:

Enquiries, concerns and requisitions to the Board can be addressed to: (i) for shareholders and corporate investors, the secretary of the Company at the principal place of business in Hong Kong at Unit 1401, 14/F., AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong, or by fax to (852) 2890 4459, or by email to cs@sfr59.com or (ii) for other stakeholders, the customer officer at the head office in Guangzhou at 33/F., HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, the PRC (Postage code: 510610), or by telephone to (86 20) 2208 2888, or by fax to (86 20) 2208 2777.

For suggestions and complaints:

All the suggestions and complaints can be sent to our Hong Kong and Guangzhou offices as stated above or through the Company's website at http://www.tianyudc.com. The Company has set up separate mail box (tousu@tianyudc.com) and telephone lines (86(20) 2208 2803 and 2208 2827) to receive shareholders' and other stakeholders' suggestions and complaints which will be served by an officer designated for the relevant issues.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has overall responsibilities for maintaining sound and effective risk management and internal control systems of the Group. The management is responsible for designing a system of well-defined policies, controls and procedures which are executed from time to time. The Chief Internal Auditor and risk management team report to the Board regularly on the effectiveness of these control systems.

Internal Audit Department

The internal audit department is a designated operating unit set up in the Group which plays a dominating role to ensure the internal control and risk management systems are functioning. The Group's system of internal control includes a defined management structure with clear lines of reporting, limits of authority that are designed to help the management team to carry out the daily management functions for the accomplishment of the Group's business strategies. The internal audit department plays an important lead in the development of internal control systems of the Group that safeguard its assets against unauthorised use or disposition, to maintain proper accounting records of reliable financial information, and to comply with relevant laws and regulations. The internal control systems are designed to provide reasonable, though not absolute, assurance against material misstatement or loss, and to mitigate failure in material aspects in the Group's operations.

Risk Management Committee

The Board set up the Risk Management Committee in December 2014. The Risk Management Committee comprises one Executive Director, Mr. WEN Xiaobing and three Independent Non-executive Directors, namely Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong. The committee delegates its routine monitoring function to the risk management team which assists the management to develop systems to highlight risks and controls to alleviate risks. The risk management team consists of a risk management officer and the head of the internal audit department who report to the committee on a regular basis as to how the risk management work are carried out by the management and key risk factors highlighted by management are addressed to the senior management.

The Risk Management Committee held one meeting in November 2016 and all members attended to review the works performed and difficulties encountered by the risk management team during the year. Those high level risks factors including strategic, operational, financial and compliance were highlighted and control measures defined by operating units for alleviation of risks so identified were discussed in the meeting.

The major roles and functions of risk management team are to monitor and review the risk management system and advise to the Board about the effectiveness of and improvements to be made to the existing system and to review the internal control policies associated with the management of risks to ensure adequate control procedures have been developed in daily management to identify and encounter the risks.

The terms of reference of the Risk Management Committee are available at the Company's website at http://www.tianyudc.com and the Stock Exchange's website at http://www.hkex.com.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS AND RISK MANAGEMENT (continued)

Regular Review of the Risk Management and Internal Control Systems

Through regular interactions with the internal auditor and the Audit Committee, the Board has assessed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2016. The Chief Internal Auditor reports to the Chairman of the Board regularly and periodically to the Board through the Audit Committee with findings on regular and ad hoc internal audits. He developed the work plan for the year 2017 in late 2016 which was approved by the Audit Committee setting out the objectives and scopes of the audit work to be undertaken. The internal audit covers testing on controls over financial, operation and compliance aspects of the Group. In the internal audit reports issued by the internal audit department, the Chief Internal Auditor highlights deficiencies in controls and makes recommendations on the internal control systems to the responsible managers in the operating units under internal review. Interim and annual internal audit reports issued by the internal audit department during the year 2016, comprising the details of audit work, findings and recommendations of improvements in all audit assignments performed by the department, have been reviewed and discussed by the Audit Committee during the two audit committee meetings held in March and August 2016 respectively. In the internal audits performed in the year, the Chief Internal Auditor identifies no fundamental deficiencies with material adverse consequences, but points out potential risks and areas for improvements and recommends to the management the remedial actions to be taken by the management team. The internal audit department consistently follows up those highlighted issues with the departments covered by the audits to ensure proper improvement measures are executed by management and also the follow-up results are reported in its audit reports. Based on the audit findings and management responses noted from the assignments, though enhancements are required in certain areas that need to be taken for further improvements, the Board considers that, overall, the existing internal control system is effective and adequate in controlling the operations and safeguarding the assets of the Company, can prevent irregularities and protect the interests of its shareholders in material aspects.

DIRECTORS' REPORT

The Directors herein present their annual report together with the audited consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are property development, property investment and property management.

BUSINESS REVIEW

Details of the operation of the Company's principal business during the year, as required by Schedule 5 to the Companies Ordinance, including an indication of likely future development in the Group's business, an analysis of key performance indicators, a description of the principal risks and uncertainties facing the Group, and the Group's environmental policies and performance are set out under the section "Management Discussion and Analysis" on pages 9 to 22 and Environmental and Social Responsibility Report on pages 26 to 45 of this annual report respectively.

There is no important event affecting the Group that has occurred after the year ended 31 December 2016. Details of the Company's relationships with its employees, suppliers and customers that have a significant impact on the Group and on which the Group's success depends are set out in Environmental and Social Responsibility Report under the section headed "Social" in paragraph B6 (Employee's Relationship), and the section headed "Operation" in paragraphs B8 (Supply Chain Management) and B9.3 (Customers' Feedback).

The Group has strictly complied with relevant laws and regulations which have a significant impact on the operations of the Group during the year. In this regard, the Company has retained an in-house legal consultant and outsourced legal advisers in the PRC to provide advices on legal matters and, when necessary, will consult external lawyers of other territories in contemplated transactions.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 72.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2016.

PRINCIPAL PROPERTIES

Details of the Group's principal properties held for/under development, properties held for sale and investment properties are set out in notes 23, 24 and 17 to the financial statements respectively.

SHARE ISSUED IN THE YEAR

On 6 June 2016, an aggregate of 400,000,000 Shares were allotted and issued by way of placing to not less than six placees at the placing price of HK$0.48 per placing Share pursuant to the terms and conditions of the placing agreement dated 17 May 2016.

Details of the Company's share capital during the year are set out in note 36 to the financial statements.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2016, the Company's distributable reserves amounted to a deficiency of RMB376.0 million (net of the Company's contributed surplus of RMB16.1 million). Thus, the Company does not have reserve available for cash distribution and/or distribution in specie as computed in accordance with generally accepted accounting principles of Hong Kong. Nonetheless, the Company's share premium account in the amount of approximately RMB1,662.6 million can be distributed to shareholders of the Company in the form of fully paid bonus shares in accordance with Section 40 of the Companies Act 1981 of Bermuda.

EQUITY LINKED AGREEMENTS

Other than the share options and the convertible bonds issued by the Company as disclosed below, no equity-linked agreements that will or may result in the Company issuing shares were entered into by the Company during the year.

(a) Convertible Bonds

Pursuant to a subscription agreement entered into on 3 July 2015, the Company issued convertible bonds in an aggregate principle amount of HK$40,000,000 (the "**Convertible Bonds**") on 23 July 2015. The Convertible Bonds bear interest at the rate of 10% per annum which is payable every three (3) months in arrears. Pursuant to the terms and conditions of the bonds, the convertible bondholders have the right to convert all or any part of the principle amount of the Convertible Bonds into shares of the Company at an initial conversion price of HK$1.036 per share (subject to adjustment) at any time on and after its issue date up to its maturity date. The Convertible Bonds has a term of two (2) years from the issue date extendable for a further two (2) years at the sole and absolute discretion of the majority convertible bondholders. Based on the adjusted conversion price of HK$1.014 triggered by the placing of shares in June 2016, the maximum number of ordinary shares to be issued upon exercise of conversion rights is 39,447,731 share of the Company. There has been no conversion up to 31 December 2016.

Details of the convertible bonds are set out in note 33(d) to the financial statements.

(b) Share Options

The Company adopted a new share option scheme on 9 June 2015 (the "**2015 Scheme**") upon the expiry of the old scheme adopted in 2005 (the "**2005 Scheme**") to provide incentives and rewards to eligible participants who are directors of the Company and employees of the Group.

There have been a total of 89,850,000 and 73,000,000 share options granted under the 2005 Scheme and 2015 Scheme respectively. During the year, no share option was granted to eligible participants under the 2015 Scheme and 6,200,000 share options granted under the 2015 Scheme lapsed due to resignation of 7 employees. There were in total 83,628,791 share options outstanding as at 31 December 2016.

Details of the share options scheme are set out in note 38 to the financial statements.

DIRECTORS' REPORT

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in notes 37 and 49 to the financial statements respectively.

MAJOR CUSTOMERS AND SUPPLIERS

Sales of properties to Hainan Airline Hotel Holdings Group Co., Limited ("**HNA Hotel**") contribute 73.9% of the Group's revenue for the year. There is no other customer of the Group contributed more than 10% of the Group's revenue for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 34.8% and 52.5%, respectively, of the Group's total purchases for the year.

To the knowledge of the Directors, none of the Directors and their associates, or any shareholders who own more than 5% of the Company's share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

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

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

DIRECTORS AND THEIR SERVICE CONTRACTS

The Directors during the year and up to the date of this report were as follows:

Executive Directors
Mr. YU Pan *(Chairman and Chief Executive officer)*
Mr. WEN Xiaobing *(Deputy Chief Executive Officer))*
Mr. JIANG Jing
Mr. WONG Lok

Non-executive Director
Mr. ZHONG Guoxing

Independent Non-executive Directors
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

In accordance with Bye-law 84(1) of the Bye-laws, Mr. YU Pan, Mr. ZHONG Guoxing and Mr. CHENG Wing Keung, Raymond will retire from office by rotation at the forthcoming annual general meeting and being eligible, will offer themselves for re-election.

None of the Directors being proposed for re-election at the forthcoming general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' AND CONTROLLING SHAREHOLDER'S MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

on 27 September 2016, 廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited*) ("**Yu Jun**") as the vendor and an indirect wholly-owned subsidiary of the Company, and 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited*) ("**GZ Tianyu**") as the purchaser of which Mr. Yu Pan, the Chairman of the Company, is the controlling shareholder' entered into a disposal agreement pursuant to which GZ Tianyu acquired from Yu Jun (i) 70% equity interest of 永州市天譽房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited*) ("**YJ Tianyu**") and (ii) the shareholders' loan due from YJ Tianyu to Yu Jun at consideration of RMB55,023,795 and RMB224,619,978 respectively, subject to adjustments as set out in the disposal agreement. The disposal was completed on 16 December 2016.

On 5 December 2016, 南寧天譽巨成置業有限公司 (Nanning Tainyue Jucheng Realty Company Limited*) ("**Nanning TY Jucheng**") as investor, the Company's indirect non-wholly owned sudsidiary, entered into a fund agreement with 深圳前海易通基金管理有限公司 (Shenzhen Qianhai Yitong Fund Management Company Limited*) ("**Qianhai Yitong**") as fund manager, a PRC-incorporated company indirectly and beneficially owned by Mr. YU Pan and his spouse, Pursuant to the fund agreement, Nanning TY Jucheng invested RMB10,000,000 into the funds operated by Qianhai Yitong with a term of 8 years redeemable after 5 years. In return for the management service provided by Qianhai Yitong, a management fee is chargeable at fixed return of 2% per annum on the amounts invested and 20% chargeable on the return of investment exceeding an annualized return of 10%.

Except as those disclosed above and in the section of "Connected Transactions" of the report hereinafter, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its holding company was a party and in which a director and/or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out in section headed "Brief biographical details of directors and senior management" on page 23.

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 with directors or existed during the year.

* *English name is for identification purpose only.*

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in the Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

(a) Interests in the Shares or underlying Shares

Name of Director	**Company/ Associated corporation**	**Capacity**	**Number of Shares or underlying Shares** *(note 1)*	**Approximate shareholding percentage** *(note 2)*
Mr. YU Pan	Company	Interest of controlled corporation and/or beneficial owner	1,674,028,407 (long)	63.98%

Notes:

1. These Shares comprised (i) 228,364,000 existing Shares; and (ii) 1,445,664,407 existing Shares held directly by Grand Cosmos Holdings Limited ("**Grand Cosmos**"). The entire issued share capital of Grand Cosmos was held by Sharp Bright International Limited ("**Sharp Bright**"), the entire issued share capital of which was held by Mr. YU Pan. Among the total of 1,674,028,407 Shares, 1,587,168,407 Shares were charged in favour of UBS AG, Singapore Branch pursuant to a security agreement dated 25 June 2016 in relation to a loan facility of US$60 million granted to the Company by UBS AG, Singapore Branch in June 2016.

2. For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 2,616,531,175 Shares in issue as at 31 December 2016.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(b) Interests in underlying Shares arising from share options

As at 31 December 2016, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the 2005 Scheme and 2015 Scheme:

Name of Director	Exercise price (adjusted) (HK$) *(note 1)*	Exercise period	Number of underlying Shares	Approximate shareholding percentage *(note 3)*
Mr. WEN Xiaobing	0.6714	11 August 2012 to 10 August 2021 *(note 1)*	5,213,097	0.20%
	1.0820	26 June 2016 to 25 June 2025 *(note 2)*	8,000,000	0.31%
Mr. CHOY Shu Kwan	1.0820	26 June 2016 to 25 June 2025 *(note 2)*	1,000,000	0.04%
Mr. CHENG Wing Keung, Raymond	1.0820	26 June 2016 to 25 June 2025 *(note 2)*	1,000,000	0.04%
Ms. CHUNG Lai Fong	1.0820	26 June 2016 to 25 June 2025 *(note 2)*	1,000,000	0.04%

Note:

1. (i) First tranche (33.33% of the Options granted) is exercisable from 11 August 2012 to 10 August 2021;
   (ii) Second tranche (33.33% of the Options granted) is exercisable from 11 August 2015 to 10 August 2021; and
   (iii) Third tranche (33.34% of the Options granted) is exercisable from 11 August 2018 to 10 August 2021;

2. (i) First tranche (14.3% of the Options granted) is exercisable from 26 June 2016 to 25 June 2025;
   (ii) Second tranche (14.3% of the Options granted) is exercisable from 26 June 2017 to 25 June 2025;
   (iii) Third tranche (14.3% of the Options granted) is exercisable from 26 June 2018 to 25 June 2025;
   (iv) Fourth tranche (14.3% of the Options granted) is exercisable from 26 June 2019 to 25 June 2025;
   (v) Fifth tranche (14.3% of the Options granted) is exercisable from 26 June 2020 to 25 June 2025;
   (vi) Sixth tranche (14.3% of the Options granted) is exercisable from 26 June 2021 to 25 June 2025; and
   (vii) Seventh tranche (14.2% of the Options granted) is exercisable from 26 June 2022 to 25 June 2025.

3. For the purpose of this section, the percentage of shareholding in the Company was calculated on the basis of 2,616,531,175 Shares in issue as at 31 December 2016.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(b) Interests in underlying Shares arising from share options (continued)

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2016, Mr. YU Pan, the Chairman of the Company, is also a director and substantial shareholder of a company listed on the Shenzhen Stock Exchange, namely 綠景控股股份有限公司 (Lvjing Holding Co., Ltd.*) (“**Lvjing**”), Lvjing was previously principally engaged in the residential real estate development and property management business in the PRC, but has changed its business focus to the medical and healthcare industry and ceased its real estate development business in December 2016. Save as the aforesaid, none of the Directors and his/her respective close associates had any other interests in any business, which competes or is likely to compete, either directly or indirectly, with the Company's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules).

SUBSTANTIAL SHAREHOLDERS

At 31 December 2016, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Interests in the Shares or underlying Shares

Name of Shareholder	Capacity	Number of Shares and underlying Shares	Approximate shareholding percentage *(note 2)*
Sharp Bright	Interest of controlled corporation	1,445,664,407 (long) *(note 1)*	55.25%
Grand Cosmos	Beneficial owner	1,445,664,407 (long) *(note 1)*	55.25%

* *English name for identification purpose only*

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

1. The 1,445,664,407 existing Shares were held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. YU Pan, Mr. YU Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. The 1,445,664,407 Shares together with 141,504,000 Shares held by Mr. YU Pan were charged in favour of UBS AG, Singapore Branch pursuant to a security agreement dated 25 June 2016 in relation to a loan facility of US$60 million granted to the Company by UBS AG, Singapore Branch in June 2016.

2. For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 2,616,531,175 Shares in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any persons or corporations who had long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

CONNECTED TRANSACTIONS

Save as the transactions stated in note 45 to the consolidated financial statements, none of the Directors, substantial shareholders or controlling shareholders of the Company and their respective associates was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at 31 December 2016 which was significant in relation to the business of either the Group or has any material personal interest.

RETIRMENT BENEFIT SCHEMES

Particular of the retirement benefits schemes of the Group are set out in note 40 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 156.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirmed that the Company has maintained the prescribed amount of public float as required under the Listing Rules during the year and up to the date of this annual report.

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, the Director(s) 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 to any affairs of the Company.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

YU Pan
Chairman
Hong Kong, 31 March 2017

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") set out on pages 72 to 155, which comprise the consolidated statement of financial position as at 31 December 2016, 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 at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**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 for our opinion.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Revenue recognition – Revenue recognised from sales of properties (Tianhe project)
During the year ended 31 December 2016, the Group recognised RMB1,116 million of revenue from Tianhe project.

Revenue from the sale of Tianhe project is recognised when the revenue recognition criteria under HKAS 18 "Revenue" in respect of the sale of the underlying assets and liabilities of the Tianhe Project have been fully satisfied, with reference to the terms of the agreement governing the sale transaction and the current circumstances of the performance of certain obligations of the Group.

We have identified revenue recognised from sales of Tianhe project as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 7 in the consolidated financial statements.

How our audit addressed the key audit matter:
Our procedures in relation to this transaction included:

- Obtaining evidence regarding the transfer of risk and rewards of ownership;

- Reading the signed sale and purchase agreement;

- Reconciliation of the monetary amounts to the signed sale and purchase agreement and the final settlement statement; and

- Agreeing the outstanding consideration to the confirmation signed by the buyer.

Carrying values of properties held for development, properties under development and properties held for sale
The Group held several property projects and had entered into several arrangements during the year ended 31 December 2016 with a view to acquiring the underlying assets for property development.

The carrying amounts of the Group's properties held for development, properties under development and properties held for sale as at 31 December 2016 were RMB161 million, RMB7,971 million and RMB177 million respectively.

For the properties held for development and properties under development, management determined the net realisable value of the properties using the discounted cash flow forecast, which involved the use of estimates and assumptions including selling prices, construction costs and discount rate.

For the properties held for sale, management determined the net realisable value of the properties by the direct comparison approach, which involved the use of estimates and assumptions including recent sales price of similar properties with adjustments for any difference in nature, locality and condition of the properties.

INDEPENDENT AUDITOR'S REPORT

Independent external valuations were obtained in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including the costs of completion and fair market prices of similar nature. The valuations of these properties are also dependent upon the estimated costs to complete and expected developer's profit margin.

We have identified the carrying values of properties held for development, properties under development and properties held for sale as a key audit matter because of its significance to the consolidated financial statements.

Refer to notes 23 and 24 in the consolidated financial statements.

How our audit addressed the key audit matter:
Our procedures in relation to management's valuation of these properties included:

- Reading the signed sales and purchase agreements to identify the rights and obligations of the Group and vendors;

- Discussing with the management and understanding the details of the properties development projects;

- Obtaining and reviewing the statutory records for transfer of shares of the vehicles holding the properties development projects;

- Checking to payment advices and verifying the amounts paid;

- Assessing the appropriateness of the methodologies used by management for the assessments of the net realisable value of properties held for development, properties under development and properties held for sale;

- Evaluation of the independent external valuers' competence, capabilities and objectivity;

- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and

- Checking, on a sample basis, the accuracy and relevance of the input data used.

Valuation of investment properties
Management estimated the fair value of the Group's investment properties to be RMB588 million at 31 December 2016, with a revaluation gain of RMB10 million for the year ended 31 December 2016 recorded in the consolidated statement of profit or loss. Independent external valuations were obtained for the investment properties in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including capitalisation rates and fair market rents.

We identified valuation of investment properties as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 17 in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

How our audit addressed the key audit matter:
Our procedures in relation to management's valuation of investment properties included:

- Evaluation of the independent external valuers' competence, capabilities and objectivity;

- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and

- Checking, on a sample basis, the accuracy and relevance of the input data used.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 2016 annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES 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 requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

INDEPENDENT AUDITOR'S REPORT

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

This report is made solely to you, as a body, in accordance with Section 90 of Bermuda Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional 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.

INDEPENDENT AUDITOR'S REPORT

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and 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 directors, 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.

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate no. P05443

Hong Kong, 31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	7	**1,507,971**	306,321
Cost of sales and services		**(1,196,640)**	(272,393)
Gross profit		**311,331**	33,928
Other income and gains, net		**4,048**	1,402
Sales and marketing expenses		**(106,971)**	(46,000)
Administrative and other expenses		**(163,597)**	(137,516)
Unrealised exchange losses		**(97,231)**	(69,026)
Fair value changes in investment properties	17	**10,051**	6,736
Write-down of properties under development/properties held for sale	23, 24	**–**	(20,024)
Fair value changes in derivative financial asset/liabilities		**11,121**	2,632
Gain on disposal of subsidiaries		**97,285**	–
Finance costs	8	**(3,051)**	(1,813)
Finance income	8	**32,771**	21,198
Profit/(loss) before income tax	9	**95,757**	(208,483)
Income tax expenses	13	**(9,518)**	(23,781)
PROFIT/(LOSS) FOR THE YEAR		**86,239**	(232,264)
Other comprehensive income, items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on foreign operations		**(138)**	(891)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**86,101**	(233,155)
Profit/(loss) for the year attributable to:			
– Owners of the Company	14	**92,918**	(211,769)
– Non-controlling interests		**(6,679)**	(20,495)
		86,239	(232,264)
Total comprehensive income for the year attributable to:			
– Owners of the Company		**92,780**	(212,660)
– Non-controlling interests		**(6,679)**	(20,495)
		86,101	(233,155)
Earnings/(loss) per share – Basic and diluted	14	**RMB0.038**	(RMB0.096)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	16	**251,390**	262,725
Investment properties	17	**588,370**	570,058
Goodwill	19	**13,554**	13,554
Available-for-sale investment	20	**10,000**	–
Derivative financial asset	33	**9,022**	37
Deferred tax assets	35	**57,353**	–
		929,689	846,374
Current assets			
Properties held for development	23	**161,160**	–
Properties under development	23	**7,971,027**	6,159,277
Properties under Tianhe Project	18	**–**	786,168
Properties held for sale	24	**177,228**	177,850
Considerations receivable	22	**277,401**	105,000
Loan to a non-controlling shareholder of a subsidiary	26	**52,900**	20,400
Trade and other receivables	27	**1,476,130**	495,974
Short-term investments	28	**–**	460,000
Prepaid income tax		**93,368**	–
Restricted and pledged deposits	29	**987,290**	922,729
Cash and cash equivalents	30	**1,794,440**	383,255
		12,990,944	9,510,653
Current liabilities			
Trade and other payables	31	**1,190,525**	1,200,733
Properties pre-sale deposits		**7,290,196**	3,710,375
Bank and other borrowings – current portion	33	**1,067,634**	2,013,166
Derivative financial liabilities – current portion	33	**11,177**	–
Consideration from disposal of Tianhe Project	34	**–**	990,360
Income tax payable		**–**	5,378
		9,559,532	7,920,012
Net current assets		**3,431,412**	1,590,641
Total assets less current liabilities		**4,361,101**	2,437,015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Bank and other borrowings – non-current portion	33	**2,388,429**	746,656
Derivative financial liabilities – non-current portion	33	**2,182**	12,573
Deferred tax liabilities	35	**170,522**	168,781
		2,561,133	928,010
Net assets		**1,799,968**	1,509,005
Capital and reserves			
Share capital	36	**24,456**	21,068
Reserves	37	**1,740,653**	1,482,872
Equity attributable to owners of the Company		**1,765,109**	1,503,940
Non-controlling interests		**34,859**	5,065
Total equity		**1,799,968**	1,509,005

On behalf of the Board

YU Pan
Director

WEN Xiaobing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		Attributable to owners of the Company												
	Notes	Share capital RMB'000	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Property revaluation reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Foreign exchange reserve RMB'000	Other/ capital reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015		21,068	1,507,182	16,116	12,152	34,499	(293,095)	6,471	(412)	743	405,330	1,710,054	25,560	1,735,614
Loss for the year		–	–	–	–	–	–	–	–	–	(211,769)	(211,769)	(20,495)	(232,264)
Other comprehensive expenses		–	–	–	–	–	–	–	(891)	–	–	(891)	–	(891)
Total comprehensive expenses for the year		–	–	–	–	–	–	–	(891)	–	(211,769)	(212,660)	(20,495)	(233,155)
Recognition of equity-settled share-based payment expenses	*38*	–	–	–	6,546	–	–	–	–	–	–	6,546	–	6,546
Reallocation of lapsed options from share-based payment reserve to retained profits		–	–	–	(8,122)	–	–	–	–	–	8,122	–	–	–
At 31 December 2015 and 1 January 2016		**21,068**	**1,507,182**	**16,116**	**10,576**	**34,499**	**(293,095)**	**6,471**	**(1,303)**	**743**	**201,683**	**1,503,940**	**5,065**	**1,509,005**
Profit for the year		–	–	–	–	–	–	–	–	–	92,918	92,918	(6,679)	86,239
Other comprehensive expenses		–	–	–	–	–	–	–	(138)	–	–	(138)	–	(138)
Total comprehensive expenses for the year		–	–	–	–	–	–	–	(138)	–	92,918	92,780	(6,679)	86,101
Issue of shares:														
Share placing issue	*36(a)*	3,388	159,217	–	–	–	–	–	–	–	–	162,605	–	162,605
Share issue expenses		–	(3,812)	–	–	–	–	–	–	–	–	(3,812)	–	(3,812)
Transfer among reserves		–	–	–	–	(34,499)	–	–	–	–	34,499	–	–	–
Capital contribution		–	–	–	–	–	–	–	–	–	–	–	14,144	14,144
Disposals of subsidiaries	*39(b)*	–	–	–	–	–	–	–	–	–	–	–	22,329	22,329
Recognition of equity-settled share-based payment expenses	*38*	–	–	–	9,596	–	–	–	–	–	–	9,596	–	9,596
Reallocation of lapsed options from share-based payment reserve to retained profits		–	–	–	(994)	–	–	–	–	–	994	–	–	–
At 31 December 2016		**24,456**	**1,662,587**	**16,116**	**19,178**	**–**	**(293,095)**	**6,471**	**(1,441)**	**743**	**330,094**	**1,765,109**	**34,859**	**1,799,968**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Net cash from operating activities	39(a)	**378,383**	853,053
Investing activities			
Interest received		**27,437**	22,880
Disposal of subsidiaries, net of cash disposed of	39(b)	**125,159**	–
Purchases of property, plant and equipment		**(1,883)**	(2,949)
Acquisition of available-for-sale investment		**(10,000)**	–
Acquisition of short-term investments		**(760,000)**	(908,000)
Disposal of short-term investments		**1,220,000**	692,000
Loan advanced to a non-controlling shareholder of a subsidiary		**(32,500)**	(20,400)
Increase in restricted and pledged deposits		**(64,561)**	(587,885)
Net cash from/(used in) investing activities		**503,652**	(804,354)
Financing activities			
Proceeds from shares issued under share placing	36(a)	**162,605**	–
Expenses incurred on issue of shares		**(3,812)**	–
New bank and other borrowings		**4,090,870**	2,360,401
Repayment of bank and other borrowings		**(2,612,688)**	(1,530,852)
Other borrowing costs paid		**(99,370)**	(38,135)
Interest paid		**(1,022,267)**	(656,788)
Capital contributions from non-controlling shareholders of subsidiaries		**14,144**	–
Net cash from financing activities		**529,482**	134,626
Net increase in cash and cash equivalents		**1,411,517**	183,325
Effect of exchange rate changes on cash and cash equivalents		**(332)**	(1,175)
Cash and cash equivalents at beginning of year		**383,255**	201,105
Cash and cash equivalents at end of year	30	**1,794,440**	383,255

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

Skyfame Realty (Holdings) Limited (the "**Company**") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its (a) registered office, (b) head office and principal place of business in the People's Republic of China ("**PRC**"), and (c) principal place of business in Hong Kong are at (a) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; (b) 32nd to 33rd floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, PRC and (c) Unit 1401, 14th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong, respectively.

The Company's parent is Grand Cosmos Holdings Limited ("**Grand Cosmos**") and the directors of the Company (the "**Directors**") consider its ultimate holding company is Sharp Bright International Limited ("**Sharp Bright**"). Grand Cosmos and Sharp Bright are both incorporated in the British Virgin Islands (the "**BVI**").

The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**". The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries are property development, property investment and property management.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2016

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle
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 HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

Except as explained below, the adoption of these amendments has no material impact on the Group's financial statements.

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

Included in the clarifications is that an entity's share of other comprehensive income from equity accounted interests in associates and joint ventures is split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

The adoption of the amendments has no impact on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2016 (continued)

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not previously used revenue-based depreciation methods.

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are applied retrospectively in accordance with HKAS 8.

The adoption of the amendments has no impact on these financial statements as the Company has not elected to apply the equity method in its separate financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a subsidiary of an investment entity (including investment entities that account for their subsidiaries at fair value rather than consolidating them). An investment entity parent will consolidate a subsidiary only when the subsidiary is not itself an investment entity and the subsidiary's main purpose is to provide services that relate to the investment entity's investment activities. A non-investment entity applying the equity method to an associate or joint venture that is an investment entity may retain the fair value measurements that associate or joint venture used for its subsidiaries. An investment entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss should provide the disclosures related to investment entities as required by HKFRS 12. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Company is neither an intermediate parent entity nor an investment entity.

Amendments to HKFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

The amendments require an entity to apply the relevant principles of HKFRS 3 Business Combinations when it acquires an interest in a joint operation that constitutes a business as defined in that standard. The principles of HKFRS 3 are also applied upon the formation of a joint operation if an existing business as defined in that standard is contributed by at least one of the parties. The amendment are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not acquired or formed a joint operation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements have been issued but are not yet effective and have not been early adopted by the Group.

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

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

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

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

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

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

Amendments to HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Amendments to HKFRS 15 – Revenue from Contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework 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 and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps 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 each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

Amendments to HKFRS 15 – Revenue from Contracts with customers (continued)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

Amendments to HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except that the investment properties and derivative financial asset/liabilities are stated at their fair values as explained in the accounting policies set out in note 4.

(c) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

(d) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is same as the functional currency of the Company and its principal subsidiaries.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Business combination and basis of consolidation (continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Joint arrangements

The group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The group classifies its interests in joint arrangements as either:

- *Joint ventures*: where the group has rights to only the net assets of the joint arrangement; or

- *Joint operations*: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;

- The legal form of joint arrangements structured through a separate vehicle;

- The contractual terms of the joint arrangement agreement; and

- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("**CGUs**") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured 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.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold land	12 to 38 years
Buildings	12 to 30 years
Furniture, fixtures and equipment	2 to 5 years
Motor vehicles	4 to 10 years

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

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

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Investment properties

Investment properties are properties held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(g) Properties under development

Properties under development, including properties under Tianhe Project, are initially recognised at cost, and subsequently at the lower of cost and net realisable value. The cost of properties comprises land costs, development expenditure, professional fees and borrowing costs capitalised. Land costs include prepaid lease payments representing up-front payments to acquire long-term interests in lessee-occupied properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost represents the carrying amount of properties under development upon the completion of the construction of properties. Net realisable value represents the estimated selling price of properties sold in the ordinary course of business less estimated costs to be incurred in selling the properties.

(i) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

For Loans and receivables investments

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset

Available-for-sale investments

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(iii) Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(vii) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the financial asset expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled or expires.

(k) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided, net of discounts and sales related taxes as follows:

(i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed, the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are presented as current liabilities in the statement of financial position.

(ii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Property management service income is recognised when services are provided.

(iv) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(m) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Income taxes (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(n) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of the group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution pension plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

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

(p) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in the share-based payment reserve within equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment/investment property under cost model;
- interests in leasehold land held for own use under operating leases; and
- Investment in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of a non-financial asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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.

(s) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leasing (continued)

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expenses, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(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 key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Related parties (continued)

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 and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key sources of estimation uncertainty are as follows:

(a) Impairment of non-financial assets other than goodwill

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-financial assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus residual value of the asset on disposal. Where the recoverable amount of non-financial assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecast of future performance and long-term growth rates and the selection of discount rates. If these forecast and assumptions prove to be inaccurate or circumstances change, further write-down or reversal of the write-down of the carrying value of the non-financial assets may be required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(b) Income taxes and deferred taxes

The Group is subject to taxation in the PRC and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax 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 have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

(c) Land appreciation taxes

PRC land appreciation tax ("**LAT**") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including land use rights, borrowing costs and all property development expenditures.

Those subsidiaries of the Company which are engaged in property development business in the PRC are subject to land appreciation taxes, which have been included in income tax expense in profit or loss. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with the relevant tax authorities in respect of certain property development projects. 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. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and provision for land appreciation taxes in the period in which such determination is made.

(d) Provision for write-down in value of properties under development and properties held for sale

Management of the Group reviews the development budget and the estimation of net realisable value of the properties at the end of each reporting period, and makes provision for write-down in value, if any. These estimates are based on management's monitoring of the development progress, the current market conditions which may affect the cost to complete and/or the selling price, and the historical experience of selling the properties of similar nature. It could change as a result of changes in market conditions or internal factors of the Group. Such changes will have impact on the carrying amounts of the properties and the provision for write-down in value in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

(e) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgments in applying accounting policies are as follows:

(a) Consideration from disposal of Tianhe Project

During the year ended 31 December 2016, the management makes judgement on whether the revenue recognition criteria under HKAS 18 *Revenue* in respect of the sale of the underlying assets and liabilities of the Tianhe Project have been fully satisfied, with reference to the terms of the agreement governing the sale transaction and the current circumstances of the performance of certain obligations of the Group. As fully satisfied the revenue recognition criteria, the related revenue and costs of the project are charged to profit or loss for the year. More details have been set out in note 34.

(b) Acquisition of projects

During the year ended 31 December 2016, the Group had several acquisitions of projects. The management makes judgement on whether the Group has controls over the investees and the rights are substantive in accordance with HKFRS10. The Group consolidated the investees in the consolidated financial statements if control is existed. The Group classified the amounts paid as deposits if the Group did not obtain the control.

6. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the Group is currently organised into three operating divisions, i.e. property development, property investment and property management services. As management of the Group considers that nearly all consolidated revenue are attributable to the markets in the PRC and consolidated non-current/current assets are substantially located in the PRC, no geographical information is presented. The Group's reportable segments are as follows:

Property development	–	Property development and sale of properties
Property investment	–	Property leasing
Property management	–	Property management services

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses directly incurred by those segments. In addition to the segment performance in terms of segment results, management also provides other segment information concerning depreciation and amortisation, fair value changes in investment properties, gain from bargain purchase and write-down of properties under development/held for sale.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of short-term investments, cash and bank balances, unallocated bank and other borrowings, derivative financial asset/liabilities and taxes. Investment properties are included in segment assets but the related fair value changes in investment properties are excluded from segment results because the Group's senior executive management considers that they are not generated from operating activities.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-maker for assessment of segment performance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT REPORTING (continued)

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance in the consolidated financial statements is set out below:

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Total *RMB'000*
Year ended 31 December 2016				
Segment revenue				
Reportable segment revenue	1,471,330	24,549	32,863	1,528,742
Elimination of intra-segment revenue	–	(8,035)	(12,736)	(20,771)
Consolidated revenue from external customers	1,471,330	16,514	20,127	1,507,971
Segment results	(214,367)	7,800	(12,809)	(219,376)
Reconciliation:				
Unallocated corporate net expenses				166,956
				(52,420)
Fair value changes in investment properties	–	10,051	–	10,051
Gain on disposal of subsidiaries	97,285	–	–	97,285
Fair value changes in derivative financial asset/liabilities				11,121
Finance costs				(3,051)
Finance income				32,771
Consolidated profit before income tax				95,757
Other segment information:				
Depreciation and amortisation	(1,592)	(805)	(1,747)	(4,144)
Impairment loss on trade and other receivables	–	(11)	(156)	(167)
Additions to properties under Tianhe project	37,495	–	–	37,495
Additions to properties held for/under development	2,298,694	–	–	2,298,694
Capital expenditure	1,708	–	153	1,861
As at 31 December 2016				
Assets and liabilities				
Assets				
Reportable segment assets	9,927,387	1,283,999	41,697	11,253,083
Reconciliation:				
Derivative financial asset				9,022
Available-for-sale investment				10,000
Prepaid income tax				93,368
Deferred tax assets				57,353
Cash and cash equivalents				1,794,440
Unallocated restricted and pledged deposits				375,382
Unallocated corporate assets				
– Leasehold land and building				205,778
– Other corporate assets				122,207
Consolidated total assets				13,920,633
Liabilities				
Reportable segment liabilities	9,670,023	12,733	12,273	9,695,029
Reconciliation:				
Deferred tax liabilities				170,522
Derivative financial liabilities				13,359
Unallocated bank and other borrowings				2,232,665
Unallocated corporate liabilities				9,090
Consolidated total liabilities				12,120,665

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For the year ended 31 December 2016

6. SEGMENT REPORTING (continued)

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Total *RMB'000*
Year ended 31 December 2015				
Segment revenue				
Reportable segment revenue	269,427	26,410	29,123	324,960
Elimination of intra-segment revenue	–	(8,166)	(10,473)	(18,639)
Consolidated revenue from external customers	269,427	18,244	18,650	306,321
Segment results	(118,184)	12,827	(14,156)	(119,513)
Reconciliation:				
Unallocated corporate net expenses				(97,699)
				(217,212)
Fair value changes in investment properties	–	6,736	–	6,736
Write-down of properties under development/ properties held for sale	(20,024)	–	–	(20,024)
Fair value changes in derivative financial asset/ liabilities				2,632
Finance costs				(1,813)
Finance income				21,198
Consolidated loss before income tax				(208,483)
Other segment information:				
Depreciation and amortisation	(1,366)	(896)	(1,733)	(3,995)
Impairment loss on trade and other receivables	–	75	(285)	(210)
Additions to properties under Tianhe project	9,077	–	–	9,077
Additions to properties under development	2,395,868	–	–	2,395,868
Capital expenditure	1,869	–	161	2,030
As at 31 December 2015				
Assets and liabilities				
Assets				
Reportable segment assets	8,009,651	577,828	42,170	8,629,649
Reconciliation:				
Derivative financial asset				37
Short-term investments				460,000
Cash and cash equivalents				383,255
Unallocated restricted and pledged deposits				652,010
Unallocated corporate assets				
– Leasehold land and building				212,638
– Other corporate assets				19,438
Consolidated total assets				10,357,027
Liabilities				
Reportable segment liabilities	6,293,360	6,980	510,846	6,811,186
Reconciliation:				
Income tax payable				5,378
Deferred tax liabilities				168,781
Derivative financial liabilities				12,573
Unallocated bank and other borrowings				1,839,183
Unallocated corporate liabilities				10,921
Consolidated total liabilities				8,848,022

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT REPORTING (continued)

Information about major customers

Revenue from customers contributing over 10% of total revenue of the Group is as follows:

	2016	2015
	RMB'000	*RMB'000*
HNA Hotel *(Note)*	**1,115,557**	–

Note: Revenue from sale of properties.

None of the customers of the Group contributed more than 10% of the Group's revenue for the year ended 31 December 2015.

7. REVENUE

Revenue includes the net invoiced value of goods sold, contract revenue and rental income earned by the Group, and net of sales related taxes. The amounts of each significant category of revenue recognised during the year are as follows:

	2016	2015
	RMB'000	*RMB'000*
Sale of properties	**1,471,268**	269,288
Rental income	**16,576**	18,383
Property management services	**20,127**	18,650
	1,507,971	306,321

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. FINANCE COSTS AND INCOME

	2016	2015
	RMB'000	*RMB'000*
Finance costs:		
Interest on bank and other borrowings	**203,207**	245,730
Less: Amount capitalised as properties under development		
Interest on bank and other borrowings	**(200,169)**	(243,917)
	3,038	1,813
Other borrowing costs	**14,041**	26,569
Less: Amount capitalised as properties under development	**(14,028)**	(26,569)
	13	–
Finance costs charged to profit or loss	**3,051**	1,813
Finance income:		
Bank interest income	**24,876**	9,072
Interest income on short-term investments	**6,325**	11,814
Interest income on loan to a non-controlling shareholder of a subsidiary	**1,570**	312
Finance income credited to profit or loss	**32,771**	21,198

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 9.0% (2015: 10.8%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(Loss) before income tax for the year has been arrived at after charging/(crediting):

	Notes	2016 RMB'000	2015 RMB'000
Cost of properties sold		**1,186,772**	263,105
Write-down of properties under development/ properties held for sale		–	20,024
Cost of inventories recognised in profit or loss		**1,186,772**	283,129
Staff costs, including directors' emoluments	*10*	**102,344**	73,854
Auditor's remuneration			
– current year		**1,382**	793
– non-audit services		**548**	478
Depreciation of property, plant and equipment	*16*	**13,731**	13,178
Less: Amount capitalised as properties under development	*23*	**(139)**	(92)
Depreciation charged to profit or loss		**13,592**	13,086
Amortisation of leasehold land	*16*	**3,407**	3,407
Depreciation and amortisation charged to profit or loss		**16,999**	16,493
Minimum lease payments under operating lease in respect of:			
– rented office premises		–	574
– rented other premises		**320**	499
Unrealised exchange loss		**97,231**	69,026
Impairment loss on trade and other receivables		**167**	292
Bad debts recovered		–	(82)
Direct operating expenses arising from investment properties that generated rental income		**2,475**	2,821
Direct operating expenses arising from investment properties that did not generate rental income		**234**	192

10. STAFF COSTS

	2016 RMB'000	2015 RMB'000
Staff costs (including directors' emoluments) comprise:		
Basic salaries and other benefits	**95,815**	90,270
Bonuses	**46,423**	6,500
Equity-settled share-based payment expenses	**9,596**	6,546
Contributions to defined contribution pension plans	**5,262**	4,946
	157,096	108,262
Less: Amount capitalised as properties under development	**(54,752)**	(34,408)
Staff costs charged to profit or loss	**102,344**	73,854

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) (the Ordinance) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (the Regulation) are as follows:

	Fees	Salaries and other benefits	Bonuses	Equity-settled share-based payment expenses	Contributions to defined contribution pension plan	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note (a))	*(note (b))*			
2016						
Executive directors						
YU Pan	**–**	**2,104**	**795**	**–**	**15**	**2,914**
WEN Xiaobing	**102**	**1,747**	**691**	**1,164**	**68**	**3,772**
WONG Lok	**–**	**226**	**–**	**–**	**11**	**237**
JIANG Jing	**102**	**755**	**63**	**–**	**68**	**988**
Non-executive director						
ZHONG Guoxing	**–**	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors						
CHOY Shu Kwan	**205**	**–**	**–**	**133**	**–**	**338**
CHENG Wing Keung, Raymond	**205**	**–**	**–**	**133**	**–**	**338**
CHUNG Lai Fong	**205**	**–**	**–**	**133**	**–**	**338**
	819	**4,832**	**1,549**	**1,563**	**162**	**8,925**
2015						
Executive directors						
YU Pan	–	2,036	498	–	14	2,548
WEN Xiaobing	96	1,730	288	876	64	3,054
WONG Lok	–	213	–	–	10	223
JIANG Jing (appointed on 1 July 2015)	49	440	73	–	39	601
Non-executive director						
ZHONG Guoxing	–	–	–	–	–	–
Independent non-executive directors						
CHOY Shu Kwan	192	–	–	67	–	259
CHENG Wing Keung, Raymond	192	–	–	67	–	259
CHUNG Lai Fong	192	–	–	67	–	259
	721	4,419	859	1,077	127	7,203

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. DIRECTORS' EMOLUMENTS (continued)

Comparative information has been prepared with reference to the provisions in the Ordinance and the Regulation. Certain information has been restated due to the requirements in the Ordinance and the Regulation are not the same as the Hong Kong Companies Ordinance, Cap. 32.

Notes:

(a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind.

(b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the remuneration committee of the Company.

(c) Mr. WEN Xiaobing acted as chief executive of Guangzhou head office and his emoluments for the period are included in note 12 below.

(d) Equity-settled share-based payment represents the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share option is estimated according to the accounting policies for share-based payments as set out in Note 38 to the financial statements. Further details of the options granted are set out in Note 38.

There was no arrangement under which a Director has waived or agreed to waive any emoluments during the current and prior years.

12. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group during the year, two (2015: two) are Director whose emoluments are included in note 11 above. The emoluments of the remaining three (2015: three) are as follows:

	2016	2015
	RMB'000	*RMB'000*
Basic salaries and other benefits	**4,412**	4,192
Bonuses	**2,966**	894
Equity-settled share-based payment expenses	**3,326**	1,964
Contributions to defined contribution pension plans	**152**	143
	10,856	7,193

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. FIVE HIGHEST PAID INDIVIDUALS (continued)

Their emoluments are within the following bands:

	Number of individuals 2016	2015
RMB1,789,001 to RMB2,236,000 (equivalent to HK$2,000,001 to HK$2,500,000)	–	1
RMB2,236,001 to RMB2,684,000 (equivalent to HK$2,500,001 to HK$3,000,000)	–	1
RMB2,684,001 to RMB3,131,000 (equivalent to HK$3,000,001 to HK$3,500,000)	–	1
RMB3,131,001 to RMB3,578,000 (equivalent to HK$3,500,001 to HK$4,000,000)	**1**	–
RMB3,578,001 to RMB4,025,000 (equivalent to HK$4,000,001 to HK$4,500,000)	**2**	–

The emoluments paid or payable to members of senior management (excluding the directors as disclosed in note 11) are within the following bands:

	Number of senior management 2016	2015
RMBNil to RMB895,000 (equivalent to HK$Nil to HK$1,000,000)	**1**	–
RMB895,001 to RMB1,342,000 (equivalent to HK$1,000,001 to HK$1,500,000)	**1**	1
RMB1,342,001 to RMB1,789,000 (equivalent to HK$1,500,001 to HK$2,000,000)	**2**	1
RMB1,789,001 to RMB2,236,000 (equivalent to HK$2,000,001 to HK$2,500,000)	–	1
RMB2,236,001 to RMB2,684,000 (equivalent to HK$2,500,001 to HK$3,000,000)	**1**	1
RMB2,684,001 to RMB3,131,000 (equivalent to HK$3,000,001 to HK$3,500,000)	–	1
RMB3,131,001 to RMB3,578,000 (equivalent to HK$3,500,001 to HK$4,000,000)	**1**	–
RMB3,578,001 to RMB4,025,000 (equivalent to HK$4,000,001 to HK$4,500,000)	**2**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of comprehensive income represents:

	2016 RMB'000	2015 RMB'000
Current tax		
Hong Kong profits tax	–	–
PRC corporate tax		
– current year	**60,228**	233
– write-off of provisional corporate income taxes	–	7,576
PRC LAT		
– current year	**4,902**	9,471
– write-off of provisional LAT	–	6,768
	65,130	24,048
Deferred tax		
– current year	**(55,612)**	(267)
Total income tax expenses	**9,518**	23,781

No provision for Hong Kong profits tax has been made for the year ended 31 December 2016 (2015: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2015: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2015: 25%) of the estimated assessable profits.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit/(loss) before income tax per the consolidated statement of profit or loss as follows:

	2016 RMB'000	2015 RMB'000
Profit/(loss) before income tax	**95,757**	(208,483)
Tax calculated at the applicable income tax rate of 25% (2015: 25%)	**23,939**	(52,121)
Effect of different tax rates of entities operating in other jurisdictions	**8,212**	16,583
Tax effect of expenses not deductible for tax purposes	**219,514**	16,158
Tax effect of revenue not subject to tax	**(277,515)**	(948)
Tax effect of gian on disposal of a subsidiary	**(24,321)**	–
Tax effect of tax losses not recognised	**43,900**	13,580
Tax effect of LAT	**4,902**	16,239
Under-provision in respect of prior years	**2,897**	7,578
Tax effect of other temporary differences not recognised	**8,776**	6,783
Others	**(786)**	(71)
Income tax expense	**9,518**	23,781

14 EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the profit/(loss) attributable to ordinary shareholders of the Company and the following data:

	2016 RMB'000	2015 RMB'000
Profit/(loss) for the purposes of basic and diluted earnings/loss per share	**92,918**	(211,769)
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share	**2,444,946**	2,216,531
Basic	**RMB0.038**	(RMB0.096)
Diluted	**RMB0.038**	(RMB0.096)

The weighted average number of ordinary shares in issue during the year was adjusted to reflect the effect of issuing and allotment of placing shares on 6 June 2016.

For the year ended 31 December 2016 and 2015, basic earnings/(loss) per share is the same as diluted earnings/(loss) per share as any effect arising from the exercise of Company's options and convertible bonds is no dilutive.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. DIVIDENDS

The Company does not have distributable reserve available for payment of dividend for the year ended 31 December 2016 (2015: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost				
At 1 January 2015	269,164	11,058	7,626	287,848
Additions	–	1,187	1,762	2,949
Written off/disposals	–	(51)	–	(51)
Exchange differences	4,593	242	134	4,969
At 31 December 2015 and at 1 January 2016	**273,757**	**12,436**	**9,522**	**295,715**
Additions	**–**	**1,112**	**771**	**1,883**
Disposal of subsidiaries	**–**	**(486)**	**(866)**	**(1,352)**
Written off/disposals	**–**	**(29)**	**–**	**(29)**
Exchange differences	**5,325**	**282**	**155**	**5,762**
At 31 December 2016	**279,082**	**13,315**	**9,582**	**301,979**
Accumulated depreciation				
At 1 January 2015	9,466	3,239	3,150	15,855
Depreciation for the year	8,978	2,520	1,680	13,178
Amortisation for the year	3,407	–	–	3,407
Written off/disposals	–	(51)	–	(51)
Exchange differences	458	80	63	601
At 31 December 2015 and at 1 January 2016	**22,309**	**5,788**	**4,893**	**32,990**
Disposal of subsidiaries	**–**	**(377)**	**(363)**	**(740)**
Depreciation for the year	**9,395**	**2,677**	**1,659**	**13,731**
Amortisation for the year	**3,407**	**–**	**–**	**3,407**
Written off/disposals	**–**	**(29)**	**–**	**(29)**
Exchange differences	**977**	**146**	**107**	**1,230**
At 31 December 2016	**36,088**	**8,205**	**6,296**	**50,589**
Net book value				
At 31 December 2016	**242,994**	**5,110**	**3,286**	**251,390**
At 31 December 2015	251,448	6,648	4,629	262,725

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. INVESTMENT PROPERTIES

	2016	2015
	RMB'000	*RMB'000*
At beginning of year	**570,058**	556,533
Changes in fair value	**10,051**	6,736
Exchange differences	**8,261**	6,789
At end of year	**588,370**	570,058

Details of assessment of the fair value are set out in note 25.

18. PROPERTIES UNDER TIANHE PROJECT

Details of the project are set out in note 34. The following table reconciles the movement of the carrying amount of costs of the Tianhe Project during the year:

	2016	2015
	RMB'000	*RMB'000*
At beginning of year	**786,168**	777,090
Additions of other development costs	**37,495**	9,078
Disposal	**(823,663)**	–
At end of year	**–**	786,168

19. GOODWILL

	2016	2015
	RMB'000	*RMB'000*
Cost		
At beginning of year	**68,664**	68,664
At end of year	**68,664**	68,664
Accumulated impairment loss		
At beginning of year	**55,110**	55,110
At end of year	**55,110**	55,110
Net book value		
At end of year	**13,554**	13,554

NOTES TO THE FINANCIAL STATEMENTS

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19. GOODWILL (continued)

Goodwill acquired through business combinations has been allocated to the following CGU, namely property development, for impairment testing:

Project	Attributable CGU	2016 *RMB'000*	2015 *RMB'000*
Zhoutouzui Project	Property development *(Note)*	**13,554**	13,554

Note: Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition which was completed on 4 June 2007. The carrying amount of property development costs in relation to the Zhoutouzui Project is included in properties under development (as disclosed in note 23).

Impairment test for goodwill

The goodwill relates to the CGU within the operational segment of property development. The recoverable amount of the CGU is determined using value-in-use calculation. This calculation uses cash flow projection based on financial budget of this CGU which is approved by management covering a five-year period with key assumptions including revenue, direct costs and other operating expenses being referenced to past performance and management's reasonable expectations on the business outlook of this CGU.

Key assumptions are as follows:

CGU	Discount rate	Pre-tax operating margin
2016		
Property development	**8.00%**	**51.20%**
2015		
Property development	8.00%	31.70%

Discount rate is based on the Group's management's assessment of specific risks related to the CGU. Operating margin is based on the management's perception of the market outlook.

No impairment loss is provided for the year ended 31 December 2016 (2015: Nil). The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates sufficient cashflow projection that justifies the carrying value of the goodwill. Hence, the management did not consider impairment of goodwill necessary.

NOTES TO THE FINANCIAL STATEMENTS

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20. AVAILABLE-FOR-SALE INVESTMENT

	2016	2015
	RMB'000	*RMB'000*
Investment funds, at fair value	**10,000**	–

The available-for-sale investment is denominated in RMB and there is no public market for the investments. The fair value is based on net asset value of the investment funds at the end of the reporting period. During the year ended 31 December 2016, no change in fair value was recognized in other comprehensive income and accumulated in the investment revaluation reserve.

21. JOINT ARRANGEMENT

廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited)* ("**GZ Yucheng**"), a sino-foreign cooperative company with limited liabilities established in the PRC for a renewal term of 15 years commencing on 31 March 2003 by Guangzhou Zhoutouzui Development Limited ("**GZ Zhoutouzui**") and is accounted for as a joint operation in the Group's financial statements. The Group's accounts for its share of assets, liabilities and profit or loss in relation to the joint operation in accordance with the policy are set out in note 4(c). Details of GZ Yucheng are as follows:

Place and date of establishment	**Registered capital**	**Paid-up capital**	**Principal activity**
PRC, 31 March 2003	US$100,000,000	US$100,000,000 (approximately RMB656,641,000)	Property development in the PRC

Under the terms of the agreement entered into by the parties, (i) GZ Zhoutouzui is obligated for the investment of 100% of the capital of and provided financial support to GZ Yucheng; and (ii) another party, 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) ("**Port Authority**"), is entitled to 28% of the total gross floor area of the project upon completion of the proposed development and after which, Port Authority will not be entitled to any profit or loss generated by GZ Yucheng; and (iii) GZ Zhoutouzui is entitled to 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated or incurred by GZ Yucheng. GZ Zhoutouzui is also entitled to all assets other than the 28% properties to be allocated to Port Authority, and obliged to bear all the liabilities of GZ Yucheng under the arrangement.

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. CONSIDERATIONS RECEIVABLE

a. Disposal of Tianhe Project

	Gross consideration *RMB'000*	(Settled)/ Paid *RMB'000*	**2016** ***RMB'000***	2015 *RMB'000*
Gross sale consideration for the equity interest plus net assets of Huan Cheng (net of relocation cost of fire-station borne by the Group)	1,128,273	(988,273)	**140,000**	140,000
Less: Development costs and finance costs borne by the Group	(20,000)	20,000	**–**	(35,000)
Amortised cost, amount due within one year	1,108,273	(968,273)	**140,000**	105,000

The receivable relates to the final instalments receivable from the purchaser, Hainan Haikong Realty Company Limited, for the disposal of the equity interest in Guangzhou Huan Cheng Real Estate Development Company Limited ("**Huan Cheng**"), the developer of Tianhe Project, that is unsecured and interest-free. The amount of approximately RMB140,000,000 (2015: RMB105,000,000) represents the final instalment that was fully settled in January 2017.

b. Disposal of Yongzhou Project

	Gross consideration *RMB'000*	Settled *RMB'000*	**2016** ***RMB'000***	2015 *RMB'000*
Gross sale consideration for the equity interest plus net assets of Yongzhou Real Estate	277,223	(139,822)	**137,401**	–
Amortised cost, amount due within one year	277,223	(139,822)	**137,401**	–

The receivable relates to the final instalment receivable from the purchaser, 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited)*, for the disposal of the 70% equity interest in 永州市天譽房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited), the developer of Yongzhou Project, that is unsecured and interest-free. The final instalment was fully settled in January 2017.

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. PROPERTIES HELD FOR/UNDER DEVELOPMENT

Properties held for/under development in the PRC are as follows:

	2016 RMB'000	2015 RMB'000
Land use rights *(Note)*	**2,205,151**	2,091,426
Premium paid for the acquisition of the interest of the land, demolition and settlement costs	**649,883**	637,822
Construction costs	**4,214,393**	2,637,548
Others	**1,062,760**	809,040
	8,132,187	6,175,836
Less: Accumulated write-down in value	**–**	(16,559)
	8,132,187	6,159,277
Representing:		
Properties held for development	**161,160**	–
Properties under development	**7,971,027**	6,159,277
	8,132,187	6,159,277

Note:

Land use rights comprise cost of acquiring rights to use of lands located in the PRC for property development.

The following table reconciles the movement of the carrying amount of properties held for/under development during the year:

	2016 RMB'000	2015 RMB'000
At beginning of year	**6,159,277**	3,828,284
Additions		
– Capitalisation of depreciation of property, plant and equipment	**139**	92
– Capitalisation of finance costs	**214,197**	270,486
– Land and other development costs	**2,298,695**	2,395,868
	2,513,031	2,666,446
Completed properties transferred to properties held for sale	**(540,121)**	(327,274)
Impairment loss charged to profit or loss	**–**	(8,179)
At end of year	**8,132,187**	6,159,277

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

24. PROPERTIES HELD FOR SALE

	2016	2015
	RMB'000	*RMB'000*
Completed properties held for sale	**177,228**	189,695
Less: Impairment loss charged to profit or loss	–	(11,845)
	177,228	177,850

All completed properties held for sale as at 31 December 2016 were located in the PRC.

25. ANALYSIS OF PROPERTIES

(a) The analysis of the net book value of completed properties is as follows:

	2016	2015
	RMB'000	*RMB'000*
Land lease in the PRC and Hong Kong		
– Investment properties	**588,370**	570,058
– Leasehold land and building	**242,994**	251,448
– Properties held for sale	**177,228**	177,850
	1,008,592	999,356

(b) All of the Group's completed properties were revalued as at 31 December 2016 and 31 December 2015. The valuations were carried out by DTZ Debenham Tie Leung Shenzhen Valuation Company Limited – Guangzhou Branch and RHL Appraisal Limited, independent valuers who hold recognised and relevant professional qualifications and have relevant experience in the location and category of the completed properties being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(c) The Group's investment properties and leasehold land and building with carrying amounts as disclosed in note 44 are pledged to secure bank borrowings of the Group, as disclosed in note 33(a), at the end of the reporting period.

(d) For the year ended 31 December 2016, the rental income from investment properties amounted to RMB16,514,000 (2015: RMB18,244,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. ANALYSIS OF PROPERTIES (continued)

(e) Fair value

The following table gives information about how the fair values of investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Nature	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
2016				
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalization approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB416/ sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.
2015				
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalization approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB400/ sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. ANALYSIS OF PROPERTIES (continued)

(e) Fair value (continued)

The fair value of investment properties in the PRC as at 31 December 2016 and 31 December 2015 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy.

Fair value measurements and valuation processes

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of Directors of the Company.

The movements during the year in the balance of Level 3 fair value measurements are as follows:

	2016	2015
	RMB'000	*RMB'000*
Opening balance (level 3 recurring fair value)	**448,000**	447,000
Gains: included in other gains	**8,000**	1,000
Closing balance (level 3 recurring fair value)	**456,000**	448,000

26. LOAN TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The balance is unsecured, interest bearing at floating rate according to 110% of the 1-year lending rate quoted by the People's Bank of China and repayable in 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. TRADE AND OTHER RECEIVABLES

	Notes	**2016** **RMB'000**	2015 *RMB'000*
Current or less than 1 month		**588**	881
1 to 3 months		**1,741**	462
More than 3 months but less than 12 months		**629**	589
More than 1 year		**387**	114
Trade receivables from tenants and property occupants, net of impairment	*(a), (b)*	**3,345**	2,046
Refundable earnest money or payments made in project acquisitions		**156,463**	–
Progress payments made on acquisition of projects		**454,900**	
Receivable from district government for resettlement housing in a project		**52,272**	–
Unpaid up capital to be contributed by a non-controlling shareholder of a subsidiary		**13,800**	–
Refundable construction costs		**57,730**	19,159
Tender deposit in development project		**30,800**	30,800
Prepaid construction costs		**240,032**	110,636
Prepaid finance costs		**9,750**	141
Prepaid business taxes and surcharges		**280,866**	200,305
Maintenance funds paid on behalf of properties owners		**45,943**	41,161
Interest receivable on bank deposits/short-term investments		**8,706**	4,941
Other deposits, prepayments and other receivables	*(b)*	**121,523**	86,785
		1,476,130	495,974

Notes:

(a) The Group has a policy of allowing an average credit period of 8 to 30 days to its trade customers. The Group's formal credit policy in place is to monitor the Group's exposure to credit risk through regular reviews of receivables and follow-up actions taken on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(b) The analysis of the Group's trade receivables which are past due but not impaired is as follows:

	2016	2015
	RMB'000	*RMB'000*
1 to 3 months past due	**1,741**	462
More than 3 months but less than 12 months past due	**629**	589
More than 1 year past due	**387**	114
	2,757	1,165

The Group's trade receivables which are neither past due nor impaired relate to a number of tenants of the Group's properties for whom there is no recent history of default.

The balances of other classes within the trade and other receivables category are neither past due nor impaired. They mainly comprise progress payments made on acquisition of projects, refundable earnest money or payments made in project acquisitions, receivable from district government for resettlement housing in a project, prepaid construction costs paid to contractors on existing projects, prepaid taxes and maintenance funds paid to government on behalf of property buyers. Management considers that the credit risk associated with these receivables is minimal.

The movements of impairment loss on trade receivables of the Group are as follows:

	2016	2015
	RMB'000	*RMB'000*
At beginning of year	**1,403**	1,193
Impairment loss recognised	**167**	292
Bad debts recovered	**–**	(82)
At end of year	**1,570**	1,403

28. SHORT-TERM INVESTMENTS

The investment in saving plans issued by bank on mainland China were uplifted and there was no balance held as at 31 December 2016 (2015:RMB460,000,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

29. RESTRICTED AND PLEDGED DEPOSITS

	Notes	2016 RMB'000	2015 RMB'000
To secure for:			
– letter of credit issued by banks to guarantee repayment of money market loans	*(a)*	**375,382**	652,010
– the payment of construction cost of development projects	*(b)*	**611,616**	261,754
– others		**292**	8,965
		987,290	922,729

Notes:

(a) As at 31 December 2016, to secure two back-to-back letters of credits issued by a local bank in the PRC to a Macau-based bank to guarantee repayment of the latter's money market loan facility granted to a subsidiary in a total of HK$420,240,000 (approximately RMB375,905,000), bank deposits with an aggregate balance of RMB375,382,000 were placed in the local bank in the PRC.

(b) The balance represents deposits received from buyers of pre-sold properties. These deposits shall be released only to pay construction costs of the development projects.

30. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Short-term bank deposits	**437,473**	652,010
Cash at bank and in hand	**2,344,257**	653,974
	2,781,730	1,305,984
Less: Restricted and pledged deposits *(Note 29)*	**(987,290)**	(922,729)
	1,794,440	383,255

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

31. TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Current or less than 1 month	–	1,485
1 to 3 months	**1,012**	477
More than 3 months but less than 12 months	**5**	5
More than 12 months	**2**	198
Total trade payables	**1,019**	2,165
Construction costs payable	**875,480**	648,437
Tender receivable from the suppliers	**49,287**	49,397
Land cost payable	–	352,511
Receipts in advance, rental and other deposits from buyers, customers and/or tenants	**16,745**	16,404
Receipts in advance from government on a project clearance	**68,297**	54,630
Compensation payable	**26,250**	11,250
Accrued business taxes and surcharges	**62,840**	19,685
Interest payable on bank and other borrowings	**3,542**	6,472
Other accrued expenses and other payables	**87,065**	39,782
	1,190,525	1,200,733

32. FINANCIAL GUARANTEE CONTRACT

(a) During the year ended 31 December 2016 and 31 December 2015, the Company provided corporate guarantees to secure for the repayment of a third party and subsidiaries' borrowings. The Directors consider that the exposure of these guarantees is minimal, and therefore no liabilities associated with the financial guarantee contracts are recognised as at 31 December 2016 and 31 December 2015.

(b) As at 31 December 2016, the Group provides guarantees to the extent of approximately RMB3,406,943,000 (2015: RMB1,178,900,000) in respect of credit facilities granted by certain banks relating to the mortgage loans arranged for some buyers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these buyers, the Group is responsible for repaying the outstanding mortgage principal, accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take legal action against the defaulted buyers for losses and take possession of the related properties from the defaulted buyers. Such guarantees shall terminate upon delivery of properties and issuance of relevant property ownership certificates to the property buyers. The management, with its assessment of the current and outlook of the market, perceives that the possibility of default in mortgage loans by home buyers is remote and, in the event of default, the liabilities caused to the Group will be minimal as the loss will be adequately mitigated by the proceed recovered from the sales of the repossessed properties. Accordingly, no provision is made in the accounts for the financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES

	Notes	2016 RMB'000	2015 RMB'000
Bank and other borrowings			
Secured bank borrowings:			
(i) term loans, revolving loans and construction loans	*(a)*	**2,033,634**	538,483
(ii) money market loans	*(b)*	**375,905**	891,591
Other secured borrowings:			
(i) trust loan	*(c)*	**–**	500,000
(ii) secured loan	*(d)*	**486,209**	434,824
(iii) secured bonds	*(d)*	**35,455**	31,739
Unsecured borrowings:			
(i) unsecured bonds	*(e)*	**524,860**	251,185
(ii) other borrowings	*(f)*	**–**	112,000
		3,456,063	2,759,822
At the end of the year, the maturity profile of the bank and other borrowings are as follows:			
On demand or within one year		**1,067,634**	2,013,166
More than one year, but not exceeding two years		**685,891**	578,563
More than two years, but not exceeding five years		**1,153,908**	–
After five years		**548,630**	168,093
		3,456,063	2,759,822
Amounts due within one year included in current liabilities		**(1,067,634)**	(2,013,166)
Amounts due after one year		**2,388,429**	746,656
Derivative financial asset			
– Company Redemption Rights on Unsecured Bonds	*(e)*	**(9,022)**	(37)
Derivative financial liabilities			
– Exchange Rights and Extension Rights on Secured Bonds	*(d)*	**11,177**	5,877
– Holder Redemption Rights on Unsecured Bonds	*(e)*	**2,182**	6,696
		13,359	12,573
Amounts due within one year included in current liabilities		**(11,177)**	–
Amounts due after one year		**2,182**	12,573

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes:

(a) At 31 December 2016, all the bank borrowings are secured by mortgages of ownership titles of properties under development and investment properties with an aggregate carrying amount of approximately RMB2,785,621,000 (2015: RMB3,024,205,000). The bank borrowings carry interest at variable market rates ranging from 2.50% to 6.5% per annum (2015: 2.75% to 5.23% per annum) as at 31 December 2016. In addition to the mortgages, the Company provides corporate guarantee to secure for the repayment of a term loan and revolving loans with carrying value of approximately RMB149,310,000 (2015: RMB117,843,000) A construction loan of approximately RMB1,223,400,000 (2015: RMB420,640,000) is secured by the personal guarantee provided by Mr. YU Pan.

On 28 June 2016, a commercial bank loan from the Singapore branch of a foreign bank was drawn down by the Company in principal amount US$60,000,000 (approximately RMB416,220,000) which is secured by personal guarantee provided by Mr. YU Pan and legal charge over 1,587,168,407 shares of the Company beneficially owned by Mr. YU Pan. The bank loan was amortised at the effective interest method by applying an effective interest rate at 13.81%. The loan was repayable in a lump sum on June 2018.

Other than two term loans respectively of approximately RMB68,805,000 (2015: RMB67,575,000) which is repayable by monthly instalments until 2033 and RMB269,076,000 by monthly instalments until 2026, bank borrowings in an aggregate amount of approximately RMB1,695,753,000 (2015: RMB470,908,000) are repayable in the years between 2017 and 2019.

As at 31 December 2016, the carrying values of the aforesaid bank borrowings are RMB2,033,634,000 (2015: RMB538,483,000).

(b) As at 31 December 2016, the money market loans in aggregate of approximately RMB375,905,000 (2015: RMB891,591,000) extended by bank in Macau were secured by bank deposits of RMB375,382,000. The money market loans carry interest at a fixed rate of 1.9% per annum (2015: 1.32% to 2.70% per annum).

(c) The trust loan due to a financial institution was fully repaid on 18 January 2016.

(d) In July 2015, a lender extended a loan to the Company of HK$560,000,000 (RMB500,920,000) (the "**Loan**") and subscribed for convertible bonds issued by the Company in an aggregate principle amount of HK$40,000,000 (RMB35,780,000) (the "**Convertible Bonds**"). The Loan bears interests at 10% per annum. The Loan has a term of two years and is repayable on 22 July 2017.

The Convertible Bonds bear interests on the outstanding principal amount at 10% per annum which is payable every three (3) months. Pursuant to the terms and conditions of the instrument dated 23 July 2015, the convertible bondholders shall have the right to convert all or any part of the principal amount of the Convertible Bonds into shares of the Company at an adjusted conversion price of HK$1.014 per share (subject to adjustment) at any time on and after the issue date up to the maturity date of the Convertible Bonds. The Convertible Bonds has a term of two (2) years from the issue date and extendable for a further two (2) years by the holders of the Convertible Bonds.

The Loan and the Convertible Bonds are amortised using the effective interest method by applying the effective interest rates of 16.13% and 16.10% per annum respectively.

Pursuant to the two share charges both dated 23 July 2015, Fortunate Start Investments Limited, a wholly owned subsidiary of the Company, has charged all its rights, title and interest in GZ Zhoutouzui in favour of the lender to secure the repayment of the Loan and the Convertible Bonds.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes: (continued)

(d) (continued)

As at 31 December 2016, the carrying values of the Loan and the Convertible Bonds are RMB486,209,000 and RMB35,455,000 (2015:RMB434,824,000 and RMB31,739,000) respectively. The movements of the Loan and Convertible Bonds are as follows:

	Loan	Convertible Bonds	**Total**
	RMB'000	*RMB'000*	***RMB'000***
At 31 December 2015 and 1 January 2016	434,824	31,739	**466,563**
Accrued interest expense	69,187	4,943	**74,130**
Interest paid	(48,279)	(3,396)	**(51,675)**
Exchange differences	30,477	2,169	**32,646**
At 31 December 2016 – Amounts due within one year	486,209	35,455	**521,664**

(e) As at 31 December 2016, the Company has issued to some professional investors unsecured bonds respectively with the principal amounts in aggregate of HK$290,000,000 (RMB259,405,000) due on 12 September 2024 (the "**2024 Bonds**"), HK$80,000,000 (RMB71,560,000) due on 12 September 2025 (the "**2025 Bonds**"), HK$30,000,000 (RMB26,835,000) due on 12 September 2026 (the "**2026 Bonds**"), HK$570,000,000 (RMB509,865,000) due on 14 November 2031 (the "**2031 Bonds**"), HK$960,000,000 (RMB858,720,000) due on 14 November 2032 (the "**2032 Bonds**"), and HK$240,000,000 (RMB214,680,000) due on 14 November 2033 (the "**2033 Bonds**"). The 2024 Bonds, 2025 Bonds and 2026 Bonds carry coupon interest at 7.5%, whilst the 2031 Bonds, 2032 Bonds and 2033 Bonds carry coupon interest at 8.0% per annum. Interests chargeable on the bonds were payable in advance upon the issue of the bonds. In addition to the coupon interests, the bonds are subject to an annual interest of 0.1% per annum payable annually on 14 October (for the 2024 Bonds, 2025 Bonds and 2026 Bonds) and 14 November (for the 2031 Bonds, 2032 Bonds and 2033 Bonds) until maturity. The bonds were amortised at the effective interest method by applying the effective interest rate ranging from 11.75% to 13.10% per annum.

All Bondholders have the right to redeem the bonds either after 8th anniversary date from the issue of the bonds or at any time with agreed notice period. The Company has the right to redeem the 2031 Bonds, 2032 Bonds and 2033 Bonds on specific dates or periods.

The unsecured bonds in aggregated principal amount of HK$100,000,000 carried at RMB83,092,000 as at 31 December 2015 and due in 2016 (the "**2016 Bonds**") were fully repaid during the year.

During the year, the Company has completed placings of unsecured bonds to some professional investors in an aggregate principal amount of HK$100,000,000 (RMB89,450,000) due on 4 July 2019 (the "**2019 Bonds (A)**"). The 2019 Bonds (A) carrying interest at the actual rate of 10% per annum, which are payable quarterly in arrears, and mature in 2019. The 2019 Bonds (A) were amortised at the effective interest method by applying the effective interest rate of 14.30% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes: (continued)

(e) (continued)

In November 2016, the Company entered into a placing agreement with an arranger and bookrunner in relation to the placing of the unsecured and unsubordinated bonds up to HK$200,000,000 due in 2019 (the "**2019 Bonds (B)**"). During the year, the Company has issued the 2019 Bonds (B) in an aggregate principal amount of HK$45,400,000 (approximately RMB40,610,000). The 2019 Bonds (B) carry interests at the actual rate of 5% per annum, payable quarterly in arrears, and will mature in 2019. The 2019 Bonds (B) were amortised at the effective interest method by applying the effective interest rate of 10.75% per annum.

The movements of the bonds are as follows:

	2016 Bonds	2019 Bonds (A)	2019 Bonds (B)	2024 Bonds	2025 Bonds	2026 Bonds	2031 Bonds	2032 Bonds	2033 Bonds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nominal value	**–**	**100,000**	**45,400**	**290,000**	**80,000**	**30,000**	**570,000**	**960,000**	**240,000**	**2,315,400**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Nominal value	**–**	**89,450**	**40,610**	**259,405**	**71,560**	**26,835**	**509,865**	**858,720**	**214,680**	**2,071,125**
Liability component of carrying amount										
At 31 December 2014 and 1 January 2015	72,595	–	–	24,923	–	–	6,939	–	–	104,457
Issue of the bonds, net of transaction costs	–	–	–	143,019	–	–	396,348	16,011	–	555,378
Discounts and interest paid	(7,995)	–	–	(91,763)	–	–	(331,817)	(13,574)	–	(445,149)
Accrued interest expense	13,817	–	–	5,654	–	–	4,307	–	–	23,778
Exchange differences	4,675	–	–	4,324	–	–	3,685	37	–	12,721
At 31 December 2015 and 1 January 2016	**83,092**	**–**	**–**	**86,157**	**–**	**–**	**79,462**	**2,474**	**–**	**251,185**
Issue of the bonds, net of transaction costs	**–**	**76,597**	**33,819**	**–**	**64,374**	**25,294**	**–**	**760,682**	**211,869**	**1,172,635**
Repayment	**(83,982)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(83,982)**
Discounts and interest paid	**(3,152)**	**(2,170)**	**–**	**(248)**	**(40,753)**	**(16,856)**	**(498)**	**(635,189)**	**(179,952)**	**(878,818)**
Accrued interest expense	**3,844**	**5,495**	**440**	**11,336**	**1,016**	**3**	**9,988**	**5,432**	**10**	**37,564**
Exchange differences	**198**	**3,618**	**862**	**6,306**	**1,549**	**215**	**5,793**	**7,333**	**402**	**26,276**
At 31 December 2016	**–**	**83,540**	**35,121**	**103,551**	**26,186**	**8,656**	**94,745**	**140,732**	**32,329**	**524,860**

(f) The unsecured loan advanced from a third party was fully repaid.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. CONSIDERATION FROM DISPOSAL OF TIANHE PROJECT

The balance of RMB990,360,000 carried forward from 2015 represented the considerations received from the disposal of Tianhe Project (the "**Disposal**"). The Disposal was pursuant to a disposal agreement for the transfer of the entire equity interest in Huan Cheng, the project company for the development of the Tianhe Project, entered into between the Company, a former subsidiary and HNA Hotel on 26 July 2010. Despite of the completion of the Disposal Agreement on 20 September 2010, under the Disposal Agreement, the Company had obligations to complete the Tianhe Project within a specified timeline. The Project was completed on April 2016 and the entire consideration receivable from the disposal was recognized as revenue from the sale of properties for the year.

35. DEFERRED TAX ASSETS/LIABILITIES

Movements of the deferred tax assets/liabilities are as follows:

			Revaluation of properties			
	Land appreciation tax	Tax losses	Leasehold land and building	Investment properties	Properties under development	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	–	–	6,813	85,627	76,608	169,048
(Credit)/charged to profit or loss	–	–	(517)	250	–	(267)
At 31 December 2015 and at 1 January 2016	**–**	**–**	**6,296**	**85,877**	**76,608**	**168,781**
(Credit)/charged to profit or loss	**(20,727)**	**(36,626)**	**(259)**	**2,000**	**–**	**(55,612)**
At 31 December 2016	**(20,727)**	**(36,626)**	**6,037**	**87,877**	**76,608**	**113,169**

As at 31 December 2016, the Group have estimated unutilised tax losses of approximately RMB321,486,000 (2015: RMB370,489,000) for offsetting against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses include a balance of RMB140,778,000 (2015: RMB100,053,000) which may be carried forward indefinitely, and the remaining balance of RMB180,708,000 (2015: RMB270,436,000) will expire in five years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

36. SHARE CAPITAL

(a) Authorised and issued share capital

	Number of shares	Nominal value	Equivalent nominal value
	Ordinary share capital of HK$0.01 each	Ordinary share capital of HK$0.01 each	of ordinary share capital of HK$0.01 each
	'000	*HK$'000*	*RMB'000*
Authorised:			
At 31 December 2015 and 2016	**30,000,000**	**300,000**	**311,316**
Issued and fully paid:			
Ordinary shares of HK$0.01 each			
At 31 December 2015 and at 1 January 2016	**2,216,531**	**22,165**	**21,068**
Issue and allotment of placing shares *(Note)*	**400,000**	**4,000**	**3,388**
At 31 December 2016	**2,616,531**	**26,165**	**24,456**

Note:

Pursuant to a placing agreement entered by the Company with a placing agent on 17 May 2016 in relation to the placing of 400,000,000 shares of the Company at a price of HK$0.48 per share (the "**Placing**"), the Placing was completed on 6 June 2016 and 400,000,000 shares were issued and allotted to seven placees, raising proceeds, net of direct expenses, totaling approximately HK$187,500,000 (RMB158,793,000).

(b) Capital management policy

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it by adjusting applicable policies on dividend pay-out, return to shareholders and debt and equity raising or redemption, in the light of changes in economic conditions. There have been no material changes in these objectives and policies or processes during the current and prior years.

The Company monitors capital using gearing ratio, which is calculated as net debt to the summation of capital and net debt. Net debt includes bank and other borrowings, derivative financial liabilities and loans from non-controlling shareholders of a subsidiary less cash and cash equivalents and restricted bank deposits backing up the money market loans. Capital represents equity attributable to owners of the Company.

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For the year ended 31 December 2016

36. SHARE CAPITAL (continued)

(b) Capital management policy (continued)

The gearing ratio as at the end of the reporting period is calculated based on the following:

	2016	2015
	RMB'000	*RMB'000*
Total debt	**3,469,422**	2,772,395
Less: restricted bank deposits backing up the money market loans	**(375,382)**	(652,010)
Less: cash and cash equivalents	**(1,794,440)**	(383,255)
Net debt	**1,299,600**	1,737,130
Equity attributable to owners	**1,765,109**	1,503,940
Capital plus net debt	**3,064,709**	3,241,070
Gearing ratio (Net debt/Capital plus net debt)	**42.4%**	53.6%

37. RESERVES

	Share premium	Contributed surplus reserve	Share-based payment reserve	Property revaluation reserve	Merger reserve	Statutory reserves	Foreign exchange reserve	Other/ capital reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	1,507,182	16,116	12,152	34,499	(293,095)	6,471	(412)	743	405,330	1,688,986
Recognition of equity-settled share-based payment expenses	–	–	6,546	–	–	–	–	–	–	6,546
Reallocation of lapsed options from share-based payment reserve to retained profits	–	–	(8,122)	–	–	–	–	–	8,122	–
Exchange differences arising on foreign operations	–	–	–	–	–	–	(891)	–	–	(891)
Loss for the year	–	–	–	–	–	–	–	–	(211,769)	(211,769)
As at 31 December 2015 and at 1 January 2016	**1,507,182**	**16,116**	**10,576**	**34,499**	**(293,095)**	**6,471**	**(1,303)**	**743**	**201,683**	**1,482,872**
Issue of shares: Share placing	**159,217**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**159,217**
Share issue expenses	**(3,812)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,812)**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**9,596**	**–**	**–**	**–**	**–**	**–**	**–**	**9,596**
Reallocation of lapsed options from share-based payment reserve to retained profits	**–**	**–**	**(994)**	**–**	**–**	**–**	**–**	**–**	**994**	**–**
Exchange differences arising on foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**(138)**	**–**	**–**	**(138)**
Transfer among reserves	**–**	**–**	**–**	**(34,499)**	**–**	**–**	**–**	**–**	**34,499**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**92,918**	**92,918**
At 31 December 2016	**1,662,587**	**16,116**	**19,178**	**–**	**(293,095)**	**6,471**	**(1,441)**	**743**	**330,094**	**1,740,653**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. RESERVES (continued)

(a) **The following describes the nature and purpose of each reserve within owners' equity:**

Share premium	The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.
Contributed surplus reserve	The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to a capital re-organisation. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its owners out of the contributed surplus reserve.
Share-based payment reserve	The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(o).
Property revaluation reserve	Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from non-controlling shareholders prior to 1 January 2007.
Merger reserve	The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World Trading Limited.
Statutory reserves	In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Company were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. RESERVES (continued)

(a) **The following describes the nature and purpose of each reserve within owners' equity: (continued)**

Foreign exchange reserve	The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(n).
Capital reserve	The amount represents the portion of contribution from the non-controlling shareholders of a subsidiary attributable to owners of the Company.

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(a) 2005 Scheme

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "**2005 Scheme**").

The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2005 Scheme include the Directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee (including the executive and nonexecutive Directors), executive or officer of any member of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company. Each option gives the holder the right to subscribe or one ordinary share in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2005 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2005 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10%. of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2005 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) 2005 Scheme (continued)

The total number of Company's shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1%. of the total number of shares in issue at the offer date (the "**Individual Limited**"). Any further grant of options in excess of the Individual Limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the "**Board**") in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

(b) 2015 Scheme

The 2005 Scheme expired on 3 August 2015. Therefore, the Company has adopted a new share option scheme on 9 June 2015 (the "**2015 Scheme**").

The Company operates the 2015 Scheme for the purposes of continuing to provide incentives or rewards to eligible participants for contribution they have made or may make to the Group and/or any entity/entities in which the Group holds any entity interest (the "**Invested Entity**"). The Board may at its discretion, grant share options to any of the eligible participants. Eligible participants of the 2015 Scheme include (i) any employee or proposed employee (whether full time or part time), and including executive directors; and (ii) any directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Invested Entity, and for the purpose of the 2015 Scheme, share options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. The 2015 Scheme became effective on 9 June 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares available for issue upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2015 Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2015 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2015 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and any other share option schemes of the Company must not exceed, in aggregate, 30% of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised, cancelled and outstanding options) under the 2015 Scheme and any other share option scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue at the date of grant. Any further grant of options in excess of the aforesaid limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its close associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

Details of the movement of the share options are as follows:

				During the year ended 31 December 2015				During the year ended 31 December 2016			
Date of grant	Exercise period	Adjusted exercise price per share	Number of options outstanding at 1 January 2015	Options granted	Options exercised	Options lapsed/ cancelled	Number of options outstanding at 31 December 2015 and 1 January 2016	Options granted	Options exercised	Options lapsed	Number of options outstanding at 31 December 2016
								(Note)			
12 September 2006	13 March 2007 to 31 July 2015	HK$1.2565	29,089,079	–	–	(29,089,079)	–	–	–	–	–
11 August 2011	11 August 2012 to 10 August 2021	HK$0.6714	5,942,929	–	–	–	5,942,929	–	–	–	**5,942,929**
11 August 2011	11 August 2015 to 10 August 2021	HK$0.6714	5,942,930	–	–	–	5,942,930	–	–	–	**5,942,930**
11 August 2011	11 August 2018 to 10 August 2021	HK$0.6714	5,942,932	–	–	–	5,942,932	–	–	–	**5,942,932**
			17,828,791	–	–	–	17,828,791	–	–	–	**17,828,791**
26 June 2015	26 June 2016 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2017 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2018 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2019 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2020 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2021 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2022 to 25 June 2025	HK$1.0820	–	10,366,000	–	(142,000)	10,224,000	–	–	(880,400)	**9,343,600**
			–	73,000,000	–	(1,000,000)	72,000,000	–	–	(6,200,000)	**65,800,000**
			46,917,870	73,000,000	–	(30,089,079)	89,828,791	–	–	(6,200,000)	**83,628,791**
Weighted average exercise price			HK$1.0342	HK$1.0820	–	HK$1.2507	HK$1.0005	–	–	HK$1.0820	**HK$0.9945**
Analysis by category:											
Directors			12,302,907	11,000,000	–	(7,089,810)	16,213,097	–	–	–	**16,213,097**
Other employees			29,401,866	62,000,000	–	(17,786,172)	73,615,694	–	–	(6,200,000)	**67,415,694**
Non-employees			5,213,097	–	–	(5,213,097)	–	–	–	–	–
			46,917,870	73,000,000	–	(30,089,079)	89,828,791	–	–	(6,200,000)	**83,628,791**

Note: The fair value of options granted was determined using the binominal (Cox, Ross, Rubinstein) option pricing valuation model by an independent valuer, APAC Asset Valuation and Consulting Limited. The significant inputs into the model were closing share price at the date of grant/valuation date, expected volatility based on past few years historical price volatility of the Company, vesting period of the options, risk-free rate, being the yield of Hong Kong government bonds, life of the options, expiration of the options and expected ordinary dividend.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

The estimated fair value of each option granted on 12 September 2006 and 11 August 2011 were HK$0.28 and HK$0.42 respectively. The following information is relevant in the determination of the fair value of options granted during the year under the 2005 Scheme:

Option pricing model	Binomial Model
Date of grant	12 September 2006
Closing share price at the date of grant	HK$1.30
Exercise price per share	HK$1.31
Annual risk-free rate	3.66%~3.92%
Expected volatility	35%
Life of the option	9 years
Expected dividend yield	0

Option pricing model	Binomial Model
Date of grant	11 August 2011
Closing share price at the date of grant	HK$0.67
Exercise price per share	HK$0.70
Annual risk-free rate	1.84%
Expected volatility	74%
Life of the option	10 years
Expected dividend yield	0

The share options granted on 12 September 2006 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	Number of share options exercisable
From 13/3/2007 to 31/7/2015	33.00%
From 13/3/2008 to 31/7/2015	33.00%
From 13/3/2009 to 31/7/2015	34.00%
	100.00%

The share options granted on and 11 August 2011 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	Number of share options exercisable
From 11/8/2012 to 10/8/2021	33%
From 11/8/2015 to 10/8/2021	33%
From 11/8/2018 to 10/8/2021	34%
	100%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

The estimated fair value of each option granted on 26 June 2015 was HK$0.58. The following information is relevant in the determination of the fair value of options granted during the year under the 2015 Scheme:

	2015
Option pricing model	**Binomial Model**
Date of grant	**26 June 2015**
Closing share price at the date of grant	**HK$1.02**
Exercise price per share	**HK$1.082**
Annual risk-free rate	**1.81%**
Expected volatility	**56%**
Life of the option	**10 years**
Expected dividend yield	**Nil**

The share options granted on 26 June 2015 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	**Number of share options exercisable**
From 26/6/2016 to 25/6/2025	14.30%
From 26/6/2017 to 25/6/2025	14.30%
From 26/6/2018 to 25/6/2025	14.30%
From 26/6/2019 to 25/6/2025	14.30%
From 26/6/2020 to 25/6/2025	14.30%
From 26/6/2021 to 25/6/2025	14.30%
From 26/6/2022 to 25/6/2025	14.20%
	100.00%

The fair value of share options granted is recognized as employee costs with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods. The Group recognised RMB9,596,000 (2015: RMB6,546,000) (as disclosed in note 10), as equity-settled share-based payment expenses for the year ended 31 December 2016 in relation to share options granted by the Company.

The exercise price of options outstanding at the end of the year ranged between HK$0.9945 to HK$1.2507. During the year, no option was exercised, hence, no weighted average share price at the date of exercise of option is disclosed. The weighted average fair value of each option granted during the year was HK$0.53 (2015: HK$0.51).

The number of exercisable options as at 31 December 2016 is 21,295,259 (2015: 11,885,859) (granted in 2011 and 2015). The weighted average remaining contractual life of the outstanding options as at 31 December 2016 is 8.20 years (2015: 8.25 years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit/(loss) before income tax to net cash from operating activities

	Note	2016 RMB'000	2015 RMB'000
Profit/(loss) before income tax		**95,757**	(208,483)
Adjustments for:			
Finance costs		**3,051**	1,813
Finance income		**(32,771)**	(21,198)
Equity-settled share-based payment expenses		**9,596**	6,546
Depreciation of property, plant and equipment		**13,592**	13,086
Amortisation of leasehold land		**3,407**	3,407
Exchange loss, net		**107,090**	76,877
Fair value changes in financial derivative asset/liabilities		**(11,121)**	(2,632)
Impairment loss on trade and other receivables		**167**	210
Gain on disposal of subsidiaries	*(b)*	**(97,285)**	–
Fair value changes in investment properties		**(10,051)**	(6,736)
Write-down of properties under development/properties held for sale		**–**	20,024
Operating loss before working capital changes		**81,432**	(117,086)
Decrease/(increase) in properties under Tianhe Project		**786,168**	(9,077)
Increase in properties under development		**(2,392,906)**	(1,551,395)
Decrease in properties held for sale		**359,460**	263,105
Increase in trade and other receivables		**(981,448)**	(41,019)
Increase in trade and other payables		**112,108**	143,131
Increase in properties pre-sale deposits		**3,595,842**	2,249,035
Consideration will be received from disposal of Tianhe Project and Yongzhou Project		**(1,094,602)**	–
Cash generated from operations		**466,054**	936,694
Income tax paid		**(87,671)**	(83,641)
Net cash from operating activities		**378,383**	853,053

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Disposal of a subsidiary

Disposal of 70% interest in the Yongzhou Project

On 27 September 2016, a subsidiary of the Company, 廣州譽浚諮詢服務有限公司 (GZ Yu Jun Consulting Service Company Limited)*, entered into an agreement with 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited)*, pursuant to which GZ Yu Jun agreed to dispose of its 70% equity interest in 永州房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited)* ("**YZ Tianyu**"), which is engaged in the development of Yongzhou Project, and YZ Tianyu to repay the shareholder loan owned to GZ Yu Jun by YZ Tianyu. The 70% equity interest was transferred and the shareholder loan repaid at an aggregate consideration of approximately RMB271,510,000, net of direct expenses, on 30 November 2016, resulting in a gain of approximately RMB97,285,000 which was charged in the consolidated profit or loss for the year.

Consideration received:	***RMB'000***
Cash received, net of direct expenses	**271,510**

Analysis of assets and liabilities over which control was lost:	**30 November 2016** ***RMB'000***
Property, plant and equipment	**612**
Properties held for sale	**181,283**
Trade and other receivables	**11,630**
Cash and cash equivalents	**13,344**
Trade and other payables	**(26,680)**
Prepaid tax/Income tax payable	**(11,357)**
Properties pre-sale deposits	**(16,021)**
Advanced payments received from customers	**(915)**
Net assets disposed of	**151,896**

Gain on disposal of YZ Tianyu:	***RMB'000***
Consideration received	**271,510**
Net asset disposed of	**(151,896)**
Non-controlling interests	**(22,329)**
Gain on disposal of YZ Tianyu	**97,285**

Net cash inflow arising from the disposal:	***RMB'000***
Cash received	**139,822**
Direct expenses incurred	**(5,713)**
Direct expenses accrued	**4,394**
Cash received, net of direct expenses	**138,503**
Bank balances and cash disposed of	**(13,344)**
	125,159

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

As stipulated by the labour regulations of the PRC, the Group participates in the defined contribution pension plans organised by the municipal and provincial governments for the benefits of its employees in the PRC. The Group is required to make contributions to the plans at ranges of specified percentages of the eligible employees' salaries.

The Group also participates in the 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 and have not previously participated in the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (approximately RMB25,000). The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

Under all the plans, the Group has no other obligation for the payment of its employees' retirement and other postretirement benefits other than contributions described above.

41. OPERATING LEASE COMMITMENTS

Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

	2016	2015
	RMB'000	*RMB'000*
Within one year	**390**	388

Lessor

At the end of the reporting period, the Group had commitments for future minimum rental receivable under non-cancellable operating leases in respect of commercial properties leased out which fall due as follows:

	2016	2015
	RMB'000	*RMB'000*
Within one year	**12,333**	13,060
Later than one year but within five years	**33,950**	36,838
Later than five years	**13,667**	20,714
	59,950	70,612

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For the year ended 31 December 2016

42. COMMITMENTS

	2016 RMB'000	2015 RMB'000
Expenditure contracted but not provided for in respect of		
– Property construction and development costs	**2,246,094**	1,970,841

43. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2016.

In July 2015, a legal action was raised against GZ Yucheng, the project company of Zhoutouzui Project, by Guangzhou Port Group Carrier Services Co., Limited (廣州港集團客運服務有限公司), awholly-owned subsidiary of Port Authority, to claim for compensation in the amount of RMB20.0 million for the demolition and relocation of occupants of the site of Zhoutouzui Project. The claim was made pursuant to an agreement entered into with Port Authority and GZ Yucheng on 18 September 2001 and as supplemented by an agreement dated 18 December 2003 entered into with Port Authority and GZ Yucheng. Due to a problem about the legal identity of the claimant encountered, on 29 April 2016, the case was withdrawn by the claimant whilst Port Authority initiated another legal action with a revised claim of RMB12 million on 28 April 2016. A settlement agreement was reached between the parties on 1 September 2016 at a settlement amount of RMB9.8 million which was paid on 7 September 2016.

Other than the above-mentioned, the Group had no other material contingent liabilities as at 31 December 2015.

44. PLEDGE OF ASSETS

As at 31 December 2016, the Group's assets with carrying amounts included in the following categories in the consolidated statement of financial position were pledged to secure credit facilities granted to the Group as disclosed in note 33:

	2016 RMB'000	2015 RMB'000
Leasehold land and building	**205,778**	212,638
Investment properties	**588,370**	570,058
Properties under development	**1,991,473**	2,838,422
Short-term investments	**–**	460,000
Pledged deposits	**375,382**	652,010
	3,161,003	4,733,128

In addition, at the 31 December 2016, shares in certain subsidiaries of the Company were charged to secure the Secured Bonds and certain loan facilities were secured by corporate guarantees provided by the Company, personal guarantee provided by Mr. YU Pan and legal charge over shares beneficially owned by Mr. YU Pan, as disclosed in notes 33(a) and 33(d).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

45. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties:

(a) Material transactions with related parties

Related party relationship	Type of transaction	2016 RMB'000	2015 RMB'000
		Transaction amount	
Companies beneficially owned by Mr. YU Pan and his spouse	(i) Rental income received from office leasing	**111**	111
	(ii) Management fee paid to a related company	**(200)**	–
	(iii) Consideration received from disposal of Yongzhou Project	**277,223**	–

(b) Personal guarantee by the Chairman

As at 31 December 2016, Mr. YU Pan and a company controlled by him have provided personal guarantee and corporate guarantee to banks in respect of the loan facilities extended to some Company's subsidiaries, which are disclosed in notes 33(a) and 33(d).

(c) Compensation of key management personnel

The remuneration of members of senior management, including Directors' emoluments as disclosed in note 11, incurred during the year is as follows:

	2016 RMB'000	2015 RMB'000
Short-term benefits	**20,908**	13,744
Other long-term benefits	**549**	429
Equity-settled share-based payment expenses	**5,249**	3,490
	26,706	17,663

Members of senior management are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial assets of the Group mainly include available-for-sale investment, cash and cash equivalents, restricted and pledged deposits, consideration receivable, trade and other receivables, derivative financial asset, short-term investments and loan to a non-controlling shareholder of a subsidiary. Financial liabilities of the Group include bank and other borrowings, derivative financial liabilities and trade and other payables. The Group does not hold any financial instruments for trading purposes at the end of the reporting period.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(a) Foreign currency risk

The Group and the Company have transactional currency exposures. Such exposures arise from financing and operating activities of the group entities conducted in currencies other than the functional currency.

The carrying amounts of the Group's monetary assets/(liabilities) which are denominated in currencies other than the functional currencies of the respective group entities at the end of the reporting period are as follows:

	2016	2015
	RMB'000	*RMB'000*
Derivative financial asset		
– HK$	**9,022**	37
Cash and cash equivalents		
– US$	**1,339**	1,949
– HK$	**15,706**	272,034
Bank and other borrowings		
– US$	**(391,849)**	(458,448)
– HK$	**(1,571,738)**	(1,268,734)
Derivative financial liabilities		
– HK$	**(13,359)**	(12,573)

The following table demonstrates the effect of sensitivity to reasonably possible changes in US$ and HK$ exchange rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2016		2015	
	Change in exchange rate	**Increase (decrease) in loss after income tax**	Change in exchange rate	Increase (decrease) in loss after income tax
	%	***RMB'000***	%	*RMB'000*
If United States dollar weakens against Renminbi	**4%**	**15,620**	4%	18,260
If United States dollar strengthens against Renminbi	**4%**	**(15,620)**	4%	(18,260)
If Hong Kong dollar weakens against Renminbi	**4%**	**62,415**	4%	40,369
If Hong Kong dollar strengthens against Renminbi	**4%**	**(62,415)**	4%	(40,369)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk

The following table details the interest rate profile of the Group's financial assets and liabilities as at the end of the reporting period based upon which the Company's management evaluates the interest rate risk:

	2016		2015	
	Effective interest rate *(% per annum)*	**Amount** *RMB'000*	Effective interest rate *(% per annum)*	Amount *RMB'000*
The Group				
Financial assets				
Fixed rate receivables				
– Available-for-sale investment	**8.00%**	**10,000**	–	–
– Short term investments	**–**	**–**	3.60% to 5.00%	460,000
– Restricted and pledged deposits	**1.90%**	**375,382**	2.50% to 3.28%	652,010
Floating rate receivables				
– Loan to a non-controlling shareholder of a subsidiary	**4.79%**	**52,900**	4.79%	20,400
– Restricted and pledged deposits	**0.35%**	**611,908**	0.35%	270,719
– Other cash at bank	**0.01% to 0.35%**	**1,827,759**	0.01% to 0.35%	381,058
Financial liabilities				
Fixed rate borrowings				
– Other borrowings	**10.75% to 16.13%**	**1,438,373**	10.30% to 18.14%	1,329,749
Floating rate borrowings				
– Bank borrowings	**1.90% to 8.50%**	**2,017,690**	2.75% to 5.23%	1,430,074

The Group's exposure to interest rate risk for changes in interest rates primarily relates to the Group's restricted and pledged deposits, loan to a non-controlling shareholder of a subsidiary, cash at bank included in cash and cash equivalents and floating rate bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk of the Group's borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2016		2015	
	Increase/ (decrease) in basis points	**(Decrease)/ increase in loss after income tax *RMB'000***	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax *RMB'000*
Floating rate financial assets				
Increase in floating rate	**100**	**24,926**	100	6,722
Decrease in floating rate	**(100)**	**(24,926)**	(100)	(6,722)
Floating rate financial liabilities				
Increase in floating rate	**500**	**(100,885)**	500	(71,504)
Decrease in floating rate	**(500)**	**100,885**	(500)	71,504

(c) Credit risk

The Group's exposure to credit risk arises from the considerations receivable and trade and other receivables. Management has performed in-depth due diligence reviews of the financial background and creditability of the counterparties who owe debts to the Group. All considerations receivable for the disposal of interests in Tianhe Project and Yongzhou Project were fully settled in due course pursuant to the disposal agreements.

Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount. At the end of the reporting period, there is no significant concentration of credit risk in trade and other receivables.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and restricted and pledged deposits, arises from possible default of the counterparty is low. At the end of the reporting period, the Group has placed these deposits with banks and financial institutions of high credit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(d) Liquidity risk

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

	Total undiscounted cashflow							
	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2016								
Trade and other payables	**3,578**	**236,218**	**950,729**	**–**	**–**	**–**	**1,190,525**	**1,190,525**
Bank and other borrowings	**149,310**	**416,694**	**695,074**	**839,102**	**1,255,881**	**2,116,422**	**5,472,483**	**3,456,063**
Guarantee for property mortgage	**3,406,943**	**–**	**–**	**–**	**–**	**–**	**3,406,943**	**–**
	3,559,831	**652,912**	**1,645,803**	**839,102**	**1,255,881**	**2,116,422**	**10,069,951**	**4,646,588**
2015								
Trade and other payables	4,212	116,545	1,079,976	–	–	–	1,200,733	1,200,733
Bank and other borrowings	117,843	1,215,007 *(Note)*	775,016 *(Note)*	676,278	3,686	777,814	3,565,644	2,759,822
Guarantee for property mortgage	1,178,900	–	–	–	–	–	1,178,900	–
	1,300,955	1,331,552	1,854,992	676,278	3,686	777,814	5,945,277	3,960,555

Note: As at 31 December 2016, the bank borrowings of the Group of approximately RMB375,905,000 (2015: RMB891,591,000), were secured by standby letters of credit issued by bank that were secured by the Group's bank deposits of RMB375,382,000 (2015: RMB460,000,000) maturing at the same time of the bank borrowing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The following table shows the carrying amount and fair value of financial assets and liabilities of the Group and the Company at the end of the reporting period:

	2016		2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivable				
– Trade and other receivables	**1,476,130**	***(Note)***	479,100	*(Note)*
– Consideration receivable	**277,401**	***(Note)***	105,000	*(Note)*
– Available-for-sale investment	**10,000**	***(Note)***	–	–
– Short-term investments	**–**	**–**	460,000	*(Note)*
– Loan to a non-controlling shareholder of a subsidiary	**52,900**	***(Note)***	20,400	*(Note)*
– Restricted and pledged deposits	**987,290**	***(Note)***	922,729	*(Note)*
– Cash and cash equivalents	**1,794,440**	***(Note)***	383,255	*(Note)*
Fair value through profit or loss				
– Derivative financial asset	**9,022**	**9,022**	37	37
Financial liabilities				
Financial liabilities at amortised costs				
– Trade and other payables	**1,190,525**	***(Note)***	1,146,528	*(Note)*
– Bank and other borrowings:				
the Secured Loan	**486,209**	**500,917**	434,824	454,758
the Secured Bonds	**35,455**	**36,355**	31,739	33,009
the Unseured Bonds	**406,198**	**468,997**	168,093	170,934
others	**2,528,201**	***(Note)***	2,125,166	*(Note)*
Fair value through profit or loss				
– Derivative financial liabilities	**13,359**	**13,359**	12,573	12,573

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Note:

Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, consideration receivable, available-for-sale investment, short-term investments, loan to a non-controlling shareholder of a subsidiary, restricted and pledged deposits, cash and cash equivalents, derivative financial asset, trade and other payables and bank and other borrowings.

The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at the end of the reporting period.

The fair value of bank and other borrowings issued for disclosure purposes has been determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions.

Financial instruments measured at fair value

The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, option pricing models are used for option derivatives.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the liability that are not based on observable market data (unobservable inputs).

	2016 **Level 3** ***RMB'000***	2015 Level 3 *RMB'000*
Financial asset at fair value through profit or loss		
– Derivative	**9,022**	37
Financial liabilities at fair value through profit or loss		
– Derivatives	**13,359**	12,573

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Note: (continued)

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	Financial asset *RMB'000*	Financial liabilities *RMB'000*	2016 *RMB'000*	2015 *RMB'000*
At 1 January	(37)	12,573	**12,536**	32
Issue of the Secured/Unsecured Bonds	(3,566)	5,566	**2,000**	14,301
Total gains or losses:				
– Changes in fair value recognised in profit or loss during the year	(5,273)	(5,848)	**(11,121)**	(2,632)
– Exchange differences	(146)	1,068	**922**	835
At 31 December	(9,022)	13,359	**4,337**	12,536

During the year ended 31 December 2016, there were no transfers between instruments in Level 1 and Level 2, or transfers 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.

Liabilities for which fair value are disclosed

	Valuation technique	Significant inputs	2016 Level 2 *RMB'000*	2015 Level 2 *RMB'000*
Bank and other borrowings				
– the Secured Loan	The hull-white trinomial tree	Discount rate and short-term volatility parameter	**500,917**	454,758
– the Secured Bonds	Discounted cash flow	Discount rate and bond yield	**36,355**	33,009
– the Unsecured Bonds	The hull-white trinomial tree	Discount rate and short-term volatility parameter	**524,311**	170,934

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Financial asset/liabilities	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs *(Note)*	Relationship of unobservable inputs to fair value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Conversion option	Level 3	Binomial Option Pricing Model	Underlying share price[1]	Higher share price, higher conversion option value
				Volatility[2]	Higher volatility, higher conversion option value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Extension option	Level 3	Binomial Option Pricing Model	Effective interest rate (discount rate)[3]	Higher effective interest rate, lower extenson option value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Holder Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate[4]	Higher discount rate, higher the holder redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the holder redemption rights
Financial assets at fair value through profit or loss	Derivative financial assets – Company Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate[4]	Higher the discount rate, lower the company redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the company redemption rights

Note:

1. If the underlying share price is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities (Conversion option and Extension option) would increase/decrease by approximately RMB881,000 and RMB880,000 respectively as at 31 December 2016 (2015: RMB484,000 and 483,000).

2. If the volatility is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities (Conversion option and Extension option) would increase/decrease by approximately RMB450,000 and RMB456,000 respectively as at 31 December 2016 (2015: RMB287,000 and 291,000).

3. If the discount rate is 1% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities (Conversion option and Extension option) would decrease/increase by approximately RMB3,109,000 and RMB3,160,000 respectively as at 31 December 2016 (2015: RMB6,661,000 and 6,821,000).

4. If the discount rate is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities (Holder Redemption Rights and Company Redemption Rights) would decrease/increase by approximately RMB15,765,000 and RMB17,764,000 respectively as at 31 December 2016 (2015: RMB6,456,000 and 7,086,000).

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For the year ended 31 December 2016

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
Non-current assets		
Interests in subsidiaries	**3,090,174**	3,277,323
Derivative financial asset	**9,022**	37
	3,099,196	3,277,360
Current assets		
Amounts due from subsidiaries	**24,090**	3,478
Prepayments and other receivables	**14,478**	13,999
Cash and cash equivalents	**4,697**	266,096
	43,265	283,573
Current liabilities		
Accruals and other payables	**1,933**	5,253
Amounts due to subsidiaries	**302,743**	1,287,077
Other borrowings – current portion	**521,664**	340,239
Derivative financial liabilities – current portion	**11,177**	–
Income tax payable	**55,830**	–
	893,347	1,632,569
Net current liabilities	**(850,082)**	(1,348,996)
Total assets less current liabilities	**2,249,114**	1,928,364
Non-current liabilities		
Other borrowings – non-current portion	**916,709**	746,656
Derivative financial liabilities – non-current portion	**2,182**	12,573
	918,891	759,229
Net assets	**1,330,223**	1,169,135
Capital and reserves		
Share capital	**24,456**	21,068
Reserves	**1,305,767**	1,148,067
Total equity	**1,330,223**	1,169,135

On behalf of the Board

Yu Pan
Director

Wen Xiaobing
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

49. RESERVES OF THE COMPANY

	Share premium	Contributed surplus reserve	Share-based payment reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	1,507,182	16,116	12,152	(201,254)	1,334,196
Recognition of equity-settled share-based payment expenses	–	–	6,546	–	6,546
Reallocation of lapsed options from share-based payment reserve to accumulated losses	–	–	(8,122)	8,122	–
Loss for the year	–	–	–	(192,675)	(192,675)
As at 31 December 2015 and at 1 January 2016	**1,507,182**	**16,116**	**10,576**	**(385,807)**	**1,148,067**
Issue of shares: Share placing	**159,217**	**–**	**–**	**–**	**159,217**
Share issue expenses	**(3,812)**	**–**	**–**	**–**	**(3,812)**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**9,596**	**–**	**9,596**
Reallocation of lapsed options from share-based payment reserve to accumulated losses	**–**	**–**	**(994)**	**994**	**–**
Loss for the year	**–**	**–**	**–**	**(7,301)**	**(7,301)**
At 31 December 2016	**1,662,587**	**16,116**	**19,178**	**(392,114)**	**1,305,767**

50. PRINCIPAL SUBSIDIARIES

	Notes	2016	2015
		RMB'000	*RMB'000*
Interests in subsidiaries – non-current portion			
Unlisted investments, at cost	*(a), (c)*	**3,090,174**	3,277,323
Amounts due from subsidiaries – current portion			
Amounts due from subsidiaries	*(b)*	**42,076**	21,464
Less: Provision for impairment loss		**(17,986)**	(17,986)
		24,090	3,478
		3,114,264	3,280,801
Amounts due to subsidiaries	*(b)*	**(302,743)**	(1,287,077)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

50. PRINCIPAL SUBSIDIARIES (continued)

Notes:

(a) Details of the Company's principal operating subsidiaries as at 31 December 2016 are as follows:

Name of subsidiaries	Place of incorporation/ establishment operation	Particulars of issued ordinary shares/ paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
廣州市創豪譽投資管理諮詢有限公司 (前稱廣州市創譽房地產有限公司) (Guangzhou Chuanghaoyu Investment Management Consulting Company Limited* ("**Chuanghaoyu**")	PRC	United States dollar ("US$") 6,000,000	–	100%	Provision of investments management services, property management, property sales and leasing
廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)*	PRC	RMB53,000,000	–	100%	Provision of property management services
廣州市天譽科技創新投資有限公司 (Guangzhou Tianyu Technology Innovative Company Limited)*	PRC	RMB50,000,000	–	70%	Provision of innovative technology operating services
廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited)* ("**GZ Yu Jun**")	PRC	HK$5,000,000	–	100%	Investment holding and provision of property development project management services in the PRC
Guangzhou Zhoutouzui Development Limited	Hong Kong	HK$100	–	100%	Investment holding
南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited)* ("**Nanning Jucheng**")	PRC	RMB50,000,000	–	80%	Property development in the PRC
南寧天譽巨榮置業有限公司 (Nanning Tianyu Jurong Realty Company Limited)*	PRC	RMB50,000,000	–	100%	Property development in the PRC
南寧天譽譽浚投資有限公司 (Nanning Tianyu Yujun Investment Company Limited)*	PRC	RMB50,000,000	–	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(a) (continued)

Name of subsidiaries	Place of incorporation/ establishment operation	Particulars of issued ordinary shares/ paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
Skyfame Management Services Limited	Hong Kong	HK$1	100%	–	Provision of management services to group entities
Trenco Holdings Limited	Hong Kong	HK$10,000	–	100%	Investment holding
Waymax Investments Limited	Hong Kong	HK$1	100%	–	Property investment
Winprofit Investments Limited	BVI	US$100	100%	–	Investment holding
徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited)* (“**Xuzhou Yucheng**”)	PRC	RMB138,000,000	–	90%	Property development in the PRC
永州天譽旅遊發展有限公司 (Yongzhou Tianyu Tourism Development Company Limited)* (“**YZ Tianyu Tourism**”)	PRC	RMB100,000,000	–	70%	Scenic zone management, property development and hotel operation in the PRC

* *English name is for identification purpose only.*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

Chuanghaoyu and GZ Yu Jun are wholly foreign-owned enterprises established with limited liability in the PRC.

Xuzhou Yucheng is a sino-foreign joint venture company established in the PRC.

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	Nanning Jucheng As at 31 December		YZ Tianyu Real Estate As at 31 December		YZ Tianyu Tourism As at 31 December		Xuzhou Yucheng As at 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Current								
Assets	**4,572,035**	2,883,855	**–**	254,326	**98,811**	129,442	**181,456**	–
Liabilities	**(4,617,069)**	(2,884,822)	**–**	(337,870)	**(3)**	(30,003)	**–**	–
	(45,034)	(967)	**–**	(83,544)	**98,808**	99,439	**181,456**	–
Non–current								
Assets	**1,061**	1,307	**–**	755	**4**	6	**–**	–
Liabilities	**–**	–	**–**	–	**–**	–	**(43,506)**	–
	1,061	1,307	**–**	755	**4**	6	**(43,506)**	–
Net assets/(liabilities)	**(43,973)**	340	**–**	(82,789)	**98,812**	99,445	**137,950**	–
Accumulated non–controlling interests	**(8,794)**	68	**–**	(24,837)	**29,643**	29,834	**13,795**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

Summarised statement of profit or loss and other comprehensive income

	Nanning Jucheng For the year ended 31 December		YZ Tianyu Real Estate For the year ended 31 December		YZ Tianyu Tourism For the year ended 31 December		Xuzhou Yucheng For the year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**276,265**	–	**79,508**	269,427	**–**	–	**–**	–
Profit/(loss) before income tax	**(44,313)**	(30,363)	**14,177**	(24,245)	**(5)**	(13)	**(47)**	–
Income tax expense	**–**	–	**(5,817)**	(23,816)	**–**	–	**–**	–
Profit/(loss) after tax and total comprehensive income	**(44,313)**	(30,363)	**8,360**	(48,061)	**(5)**	(13)	**(47)**	–
Profit/(loss) allocated to non-controlling interests	**(8,862)**	(6,073)	**2,508**	(14,418)	**(2)**	(4)	**(5)**	–
Dividends paid to non-controlling interests	**–**	–	**–**	–	**–**	–	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

Summarised statement of cash flows

	Nanning Jucheng For the year ended 31 December		YZ Tianyu Real Estate For the year ended 31 December		YZ Tianyu Tourism For the year ended 31 December		Xuzhou Yucheng For the year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash flows from operating activities								
Cash generated from(used in)/from operations	**744,208**	391,104	**(8,216)**	30,735	**7,609**	4,384	**(168,503)**	–
Income tax paid	**(33,122)**	(41,052)	**(1,045)**	(3,916)	**–**	–	**–**	–
Other borrowing costs paid	**–**	–	**–**	(610)	**–**	–	**–**	–
Interest paid	**(4,005)**	(52,215)	**–**	(5,749)	**–**	–	**–**	–
Net cash from/(used in) from operating activities	**707,081**	297,837	**(9,261)**	20,460	**7,609**	4,384	**(168,503)**	–
Cash flows from investing activities								
Interest received	**2,323**	650	**38**	155	**–**	1	**–**	–
Disposal of a subsidiary, net of cash disposed of	**–**	–	**(13,344)**	–	**–**	–	**–**	–
Purchase of property, plant and equipment	**(311)**	(1,226)	**–**	–	**–**	–	**–**	–
Acquisitions of available-for-sale investment	**(10,000)**	–	**–**	–				
Acquisitions of short–term investments	**–**	–	**–**	(35,000)	**–**	–	**–**	–
Disposal of short term investments	**–**	7,500	**–**	64,000				
Increase in restricted and pledged deposits	**(78,610)**	(3,798)	**–**	–	**–**	–	**–**	–
Net cash from/(used in) investing activities	**(86,598)**	3,126	**(13,306)**	29,155	**–**	1	**–**	–
Cash flows from financing activities								
Repayment of bank and other borrowings	**–**	–	**–**	(145,000)	**–**	–	**–**	–
Advance from/(repayment to) intermediate/immediate holding company or fellow subsidiaries	**(446,732)**	(185,536)	**3,879**	70,698	**(7,619)**	(4,560)	**43,486**	–
Loan to shareholders	**(162,500)**	(102,000)	**–**	–	**–**	–	**–**	–
Capital contribution from shareholders	**–**	–	**–**	–	**–**	–	**125,317**	–
Net cash from/(used in) financing activities	**(609,232)**	(287,536)	**3,879**	(74,302)	**(7,619)**	(4,560)	**168,803**	–
Net increase/(decrease) in cash and cash equivalents	**11,251**	13,427	**(18,688)**	(24,687)	**(10)**	(175)	**300**	–
Cash and cash equivalents at beginning of year	**58,484**	45,058	**18,688**	43,375	**15**	190	**–**	–
Cash and cash equivalents at the end of year	**69,735**	58,485	**–**	18,688	**5**	15	**300**	–

The information above is the amount before inter-company eliminations.

51. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 31 March 2017.

FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the results, assets and liabilities of the Group:

	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
For the year ended 31 December					
Revenue	**1,507,971**	306,321	157,870	675,706	53,803
Profit/(loss) before income tax	**95,757**	(208,483)	(168,326)	140,911	(113,773)
Income tax (expense)/credit	**(9,518)**	(23,781)	8,346	(28,238)	(8,157)
Profit/(loss) before income tax	**86,239**	(232,264)	(159,980)	112,673	(121,930)
Attributable to					
– Owners of the Company	**92,918**	(211,769)	(141,252)	63,989	(79,976)
– Non-controlling interests	**(6,679)**	(20,495)	(18,728)	48,684	(41,954)
	86,239	(232,264)	(159,980)	112,673	(121,930)
FINANCIAL POSITION					
At 31 December					
Total assets	**13,920,633**	10,357,027	6,924,966	5,007,247	4,703,820
Total liabilities	**(12,120,665)**	(8,848,022)	(5,189,352)	(3,081,598)	(2,900,903)
Net assets	**1,799,968**	1,509,005	1,735,614	1,925,649	1,802,917
Non-controlling interests	**(34,859)**	(5,065)	(25,560)	(75,668)	(18,484)
Equity attributable to owners of the Company	**1,765,109**	1,503,940	1,710,054	1,849,981	1,784,433

PARTICULARS OF PROPERTY PORTFOLIO

Location	Lease period	Site area	Development type	Gross floor area (GFA)	Effective equity interest % held	Stage of development	Anticipated completion of construction	Market value in existing state	Market value attributable to the Group	Carrying book value	Carrying book value attributable to the Group
		(sq.m.)		*(sq.m. approx.)*				*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(A) Details of the Group's properties under development/held for sale at 31 December 2016 are as follows:											
1. Zhoutouzui Project:	2009 to	43,609	**Above ground:**		100%	Construction	2017	**6,400,000**	**6,400,000**	3,620,455	3,620,455
Skyfame Byland, the north of	2049/		Residential	148,552		in progress		*(Note 1)*	*(Note 2)*		
Machong, west of Hongde Road,	2059/		Hotel/								
south and east of Pearl River,	2079		Serviced apartment	8,275							
Haizhu District, Guangzhou,			Office	26,067							
Guangdong Province, the PRC.			Commercial	3,069							
			Refuge floor, open floor and municipal facilities	24,820							
			Kindergarten	2,881							
				213,664							
			Reserved building	5,904							
				219,568							
			Underground:								
			Commercial (Club house)	1,225							
			Carparks (2,093 lots)	79,654							
			Utility rooms and others	18,643							
				99,522							
			Total	319,090							
2. Nanning ASEAN Maker Town Project:	2015	194,221	Shopping arcade	70,213	100%	Construction	2018 to 2022	**3,600,000**	**3,600,000**	1,139,868	1,139,868
North of Wuxiang Avenue,	to		Shopping mall	9,000		in progress		*(Note 1)*			
Wuxiang New District, Nanning,	2055/		Office in landmark tower	198,882							
Guangxi Zhuang Autonomous District,	2065/		Hotel in landmark tower	40,928							
the PRC.	2085		Hotel facilities building	9,342							
			Side tower	58,620							
			High-rise office	188,340							
			High-rise residential	526,323							
			Public facilities	7,253							
			Basement								
			– Carparks (5,879 lots)	280,283							
			– Shopping arcade	16,000							
			Total	1,405,184							
3. Nanning Skyfame Garden Project:	2014	231,563	**Commodity portion**		80%	Construction	2016 to 2018	**3,900,000**	**3,120,000**	3,387,932	2,710,346
Liangxing Road, Wuxiang New District,	to		Residential	630,277		in progress		*(Note 1)*			
Nanning, Guangxi Zhuang	2054/		Commercial	31,028							
Autonomous District, the PRC.	2084		Public facilities & podium	38,672							
			Primary School	12,030							
			Carparks	211,000							
				923,007							
			Resettlement portion								
			Residential	175,009							
			Commercial	56,542							
			Public facilities & podium	18,201							
			Carparks	39,537							
				289,289							
			Sub-total	1,212,296							
			Area sold and delivered	(50,902)							
			Total	1,161,394							
4. Xuzhou Project:	2016	172,764	Residential	357,591	90%	Construction	2018 to 2019	**227,000**	**204,300**	156,060	140,454
South of the Times Avenue, west of the	to		Commercial	20,000		in progress		*(Note 1)*			
XuFeng Highway, Quanshan District,	2056/		Kindergarten	3,000							
Xuzhou, Jiangsu Province,	2086		Carparks (2,068 lots)	56,621							
the PRC											
			Total	437,212							
				3,322,880				14,127,000	13,324,300	8,304,315	7,611,123

PARTICULARS OF PROPERTY PORTFOLIO

Location	Lease period	Usage	Gross floor area (GFA) *(sq.m. approx.)*	Effective equity interest % held	Market value in existing state *RMB'000*	Market value attributable to the Group *RMB'000*
(B) Details of the Group's investment properties at 31 December 2016 are as follows:						
1. Retail units on 2/F and 5/F, 22 units on mezzanine floor and room 403 of 4/F, Tianyu Garden Phase 2, situated at 136 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2000 to 2040	Office/retail	17,343	100%	**456,000** *(Note 1)*	**456,000**
2. Unit 02-05, 14th Floor AXA Centre, 151 Gloucester Road, Wan Chai, Hong Kong.	1928 to 2027	Office	813	100%	**132,370** *(Note 3)*	**132,370**
			18,156		**588,370**	**588,370**
(C) Details of the Group's leasehold land and building at 31 December 2016 are as follows:						
1. Office units on levels 32 and 33 of HNA Tower, suited at 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province the PRC	2001 to 2051	Office	4,126	100%	**160,900** *(Note 1)*	**160,900**
2. Retail units on 6/F of the commercial podium, Tianyu Garden Phase 2, situated at 138 and 146 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2000 to 2040	Office/retail	2,448	100%	**54,000** *(Note 1)*	**54,000**
3. Unit 01, 14th Floor and Car Parking Space Nos.307 and 308 on 3rd Floor, AXA Centre, 151 Gloucester Road, Wan Chai, Hong Kong.	1928 to 2027	Office/car parking	534	100%	**91,255** *(Note 3)*	**91,255**
			7,108		**306,155**	**306,155**
Total (A to C)					**15,021,525**	**14,218,825**

Notes:

1. The properties under development/held for sales and completed properties were revalued on an open market value basis by an independent firm of professional valuers, DTZ Debenham Tie Leung Shenzhen Valuation Company Limited – Guangzhou Branch, Chartered Surveyors, as at 31 December 2016. Valuation of properties under development is based on the assumptions that the properties will be developed and completed in accordance with the Group's latest development proposal, and that all consents, approvals and licences from relevant government authorities have been obtained without onerous condition or delay.

2. The open market value has already reflected the entitlement of 28% interest over the completed properties in the development by a Chinese co-operative joint venture partner.

3. The properties were revalued on an open market value basis by an independent firm of professional valuers, RHL Appraisal Limited, Chartered Surveyors, as at 31 December 2016.