NEW CITY DEVELOPMENT GROUP LIMITED
新城市建設發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0456)

Annual Report **2016**

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Han Junran (Chairman)
Mr. Fu Yiu Kwong
Mr. Luo Min
Mr. Seto Man Fai

Independent Non-Executive Directors

Mr. Chan Yiu Tung, Anthony
Mr. Zheng Qing
Dr. Ouyang Qingru
Mr. Zhang Jing
Mr. Leung Kwai Wah Alex

COMPANY SECRETARY

Ms. Chan Yim Kum

REGISTERED OFFICE

P.O. Box 31119 Grand Pavilion, Hibiscus Way,
802 West Bay Road
Grand Cayman, KY1-1205, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit D, 17/F, MG Tower,
133 Hoi Bun Road,
Kwun Tong,
Kowloon,
Hong Kong

AUDITORS

Ascenda Cachet CPA Limited
13F Neich Tower,
128 Gloucester Road,
Wanchai,
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank
China Citic Bank International Limited

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
North Point, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Han Junran
Mr. Fu Yiu Kwong

Financial Highlights

	2016 HK$'000	2015 HK$'000	Change
Revenue	**34,982**	39,064	-10.45%
Profit from operations	**1,231**	3,737	-67.06%
Profit for the year	**1,219**	3,715	-67.19%
Total equity	**603,693**	629,432	-4.09%
Total assets	**980,331**	1,114,443	-12.03%
Total liabilities	**(376,638)**	(485,011)	-22.34%
Basic earnings per share (HK cents)	**0.04**	0.13	-69.23%

Chairman's Statement

BUSINESS AND OPERATION REVIEW

BUSINESS REVIEW

The Group recorded a turnover of approximately HK$34,982,000 and recorded a profit after tax of approximately HK$1,219,000 for the year.

Major business arrangements

Continuing Connected Transactions

On 30 May 2016, new tenancy agreements (the "New Tenancy Agreements") were respectively entered into (i) between New Rank Services Limited (a wholly-owned subsidiary of the Company) as tenant and Winrich Investments Limited as landlord; (ii) between New Rank Services Limited as tenant and Goldrich Investments Limited as landlord for leasing of the office premises; and (iii) between New Rank Services Limited as tenant and Jiacheng Jiaxin International Property Management (Hong Kong) Limited as landlord for leasing of the staff quarter and car parking space. The New Tenancy Agreements are for a term of two years commencing from 1 June 2016. All of Winrich Investments Limited, Goldrich Investments Limited and Jiacheng Jiaxin International Property Management (Hong Kong) Limited are companies indirectly wholly-owned by an associate of a connected person of the Company, and therefore the transactions contemplated under the New Tenancy Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

OUTLOOK

The Group's wholly-owned subsidiary, Guangdong Changliu Investment Company Limited ("Changliu"), currently is the Group's main operating unit. Due to the slowdown of economic growth in China and the falling Renminbi exchange rate, the Group's rental and related management service income from Changliu slightly decreased. Leasing will continue to be the main commercial activity of Changliu. However, the Group will endeavor to develop feasible measures for enhancing the rental value of Changliu's properties.

The Company will focus on cultural and innovative projects in the coming year. We realize that each property project has its own characteristics as residents who are in different living places, of different ages and from different social groups have distinct hobbies and habits, which creates unique cultural features in various projects. Therefore, in respect of the Company's development and taking into account our existing resources and property projects under progress in different regions, we, on one hand, will continue to participate in the property development market, and on the other hand, will integrate cultural features in our property development projects. Our projects are expected to cover all hobbies and living styles of different residents and hence, we will develop our projects with a principle of new city lifestyle in new days, so as to highlight our concept of "New Day•New Life•New City".

Chairman's Statement

We hope our cultural projects, such as providing children's creativity trainings and providing venues for microfilms-shooting, will gear towards the core values of our business, in different aspects from education, health to various life facilities as well as products, which enable us not only to provide commercial or residential zones as a traditional developer, but also to enhance the brand value of the Company.

The Group has currently engaged in the modified renovation plan (the "Modified Renovation Plan") with 中科建設開發總公司天津分公司 (literally translated as Zhongke Construction Development Corporation Tianjin Branch) ("Zhongke Construction"). We will allocate resource in development of a cultural property project which combines cultural industry and sales of cultural products. We will undertake detailed planning and implement the expansion plan by phases, so as to maintain a stable cash flow of the Group. In addition, in order to improve the cultural value of the Modified Renovation Plan, the Group carry out the design work of our plan in advance and, on the other hand, the Group also allocates resource in the design of cultural products for future sales so as to provide a new source of income and reduce our reliance on the rental income from Changliu.

We expect that the rental income from major cities in China will rise steadily in the coming year and we are optimistic about the company's prospects. The management will continue to strive for higher returns for the Group.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the management team and staff for their dedication and contribution to the Group.

Han Junran
Chairman

Management Discussion and Analysis

FINANCIAL REVIEW

Result

For the year under review, the Group reported a turnover which represented the rental income and management fee income of approximately HK$34,982,000 (2015: HK$39,064,000). The Group's net profit for the year was approximately HK$1,219,000 (2015: HK$3,715,000). The basic earnings per share for the year was approximately 0.04 HK cents (2015: 0.13 HK cents). Administrative expenses was approximately HK$24,973,000 (2015: HK$25,194,000). Finance cost was approximately HK$12,721,000 (2015: HK$15,998,000).

Liquidity, Financial Resources and Funding Requirements

As at 31 December 2016, the Group had obligations under hire purchase contracts of approximately HK$101,000 (2015: HK$266,000).

As at 31 December 2016, the Group's total assets was approximately HK$980,331,000 (2015: HK$1,114,443,000) and total liabilities were of approximately HK$376,638,000 (2015 HK$485,011,000). As at 31 December 2016, the cash and bank balances was approximately HK$40,045,000 (2015: HK$164,278,000) and the current ratio (current assets/current liabilities) was 3.65 as at 31 December 2016 (2015: 2.25).

Pledge of Assets

As at 31 December 2016, the Group's investment properties located in Guangzhou (note 14) were pledged to secure bank borrowings, details of which are set out in note 22 to the consolidated financial statement. And the finance lease payable was secured by the leased motor vehicle with a carrying amount of approximately 92,000 (2015: HK$275,000).

Litigation

Details of the litigation are set out in note 32 to the consolidated financial statement.

Gearing Ratio

The gearing ratio (net debt/capital and net debt) was 24% as at 31 December 2016 (2015: 20%).

Capital Structure

There is no change in the capital structure of the Company.

Exchange Risks

The majority of the Group's operations are located in the People's Republic of China (the "PRC") and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assessing exchange risks.

Management Discussion and Analysis

Use of proceeds

On 8 September 2015, the Company issued and alloted 636,196,999 shares by way of open offer at the price of HK$0.28 per offer share. The net proceeds received are approximately HK$174 million, in which, (i) as to HK$68 million has been paid as a consideration for acquiring a property development-related project in Luoyang City, the PRC; (ii) as to approximately HK$37 million has been paid for a listed equity investment in Taiwan during the year ended 31 December 2015; (iii) as to approximately HK$55.5 million deposit and the escrow amount has been prepaid to Vision Products Limited and (iv) the remaining net proceeds of approximately HK$13.5 million was applied as current year general working capital of the Group.

Dividends

The directors did not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

Prospect

The management of the Company continues to allocate resources mainly in city development and to identify business opportunities which are in line with its long established development strategy. Looking forward, the Group will adhere to its cultural industry development plan implemented in the current year and actively develop the real estate development business and explore profitable projects in the design culture field, so as to enhance the Company's financial performance and generate optimal returns for its shareholders.

Employees

As at 31 December 2016, the Group has employed about 51 (2015: 55) employees in Hong Kong and PRC. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

Management Discussion and Analysis

Significant Investments and Material Acquisitions

The Group did not have any significant investments or acquisitions during the year ended 31 December 2016.

Contingent Liabilities

Details of the contingent liabilities are set out in note 30 to the consolidated financial statements.

Commitments

Details of the commitments are set out in notes 28 and 29 to the consolidated financial statements.

ENVIRONMENTAL PERFORMANCE

Details of environmental performance are set out in the Environmental, Social and Governance Report on pages 19 to 22.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to complying with the requirements of the Personal Data (Privacy) Ordinance, and ordinance relating to disability, sex, and family status, as well as the Employment Ordinance, the Minimum Wage Ordinance and well-being of its employees. The Group is also committed to safeguarding the security of personal data. When collecting and processing such data, the Group complies with the Personal Data (Privacy) Ordinance and guidelines issued by the Office of the Privacy Commissioner for Personal Data, with a view to protecting the privacy of its employees and customers, etc. The Group has also complied with the Stamp Duty Ordinance, Rating Ordinance and Inland Revenue Ordinance in respect of renting of premises during the year ended 31 December 2016. During the year ended 31 December 2016, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

Corporate Governance Report

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and believes that good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the transparency of the Company; (iii) enhance risk management and internal control of the Company and (iv) safeguard the interests of the Shareholders and the Company as a whole.

The Company has complied with all the code provisions ("Code Provisions") as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), save for the deviations listed below:

The Chairman of the Company is also the Chief Executive Officer of the Company, which deviates from Code Provision A.2.1 which provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. As the current nature of the Group's business is not complicated, the Board considers that the current structure is sufficient for monitoring and controlling the operation of the Group. The Company will review the structure from time to time and will make necessary arrangements to observe the provisions of the Listing Rules whenever necessary.

According to the Articles of Association of the Company, the Non-Executive Directors of the Company are not appointed for specific terms. Thus, they are deviated from Code Provision A.4.1 which stipulates that Non-Executive Directors should be appointed for a specific term, subject to re-election and Code Provision A.4.2 which stipulates that all Directors appointed to fill a casual vacancy shall hold office only until the next following general meeting and every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, in view of the fact that Non-Executive Directors are subject to retirement by rotation as stipulated in the Company's Articles of Association, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code Provisions. In respect of Code Provision A.6.7 of the CG Code, five Independent Non-Executive Directors did not attend the annual general meeting of the Company held on 3 June 2016. The Company will review its Articles of Association from time to time and will make necessary amendments to ensure observance of the provisions of the Listing Rules whenever necessary.

According to Article 87(1) of the Articles of Association, since the Chairman of the Board, whilst holding such office, is not subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year, Code Provision A.4.2 is deviated. The Chairman plays an essential role in the growth and development of the Group. At presence, the Chairman's continuing presence in the Board is important to assure sustainable development of the Group. Given the importance of the Chairman's role, the Board considers that the relevant article in the Articles of Association has no material impact on the operation of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of the Directors, the Directors have complied with the Model Code throughout the year ended 31 December 2016.

Corporate Governance Report

PUBLICATION OF THE ANNUAL REPORT

This Annual Report will be published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkex.com. hk) and the Company (www.newcitygroup.com.hk). The 2016 Annual Report will be despatched to our Shareholders on or before 30 April 2017 and will be available at the websites of the Stock Exchange and the Company.

THE BOARD OF DIRECTORS

Composition and role of the Board

The Board is responsible for the overall strategic development and business operation of the Group and also monitors the financial performance and control on business operation. The Board will from time to time review the Company's governance practices and will provide complete and sufficient information to its members so as to ensure effective performance of their responsibilities. Currently, the Board is comprised of four Executive Directors and five Independent Non-Executive Directors, which includes:

Executive Directors	:	Mr. Han Junran (Chairman) Mr. Fu Yiu Kwong Mr. Luo Min Mr. Seto Man Fai (re-designated as an Executive Director on 3 June 2016)
Independent Non-Executive Directors	:	Mr. Chan Yiu Tung, Anthony Mr. Zheng Qing Dr. Ouyang Qingru Mr. Zhang Jing (appointed on 3 June 2016) Mr. Leung Kwai Wah Alex (appointed on 3 June 2016)

Biographical details (including age, gender and length of service) of the Board members are set out on pages 23 to 24 of this annual report.

Corporate Governance Report

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three Independent Non-Executive Directors, together with the requirements of Rule 3.10(2) of the Listing Rules stipulating that at least one of the Independent Non-Executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. The Board considers that each Independent Non-Executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules.

The Company has received from each Independent Non-Executive Director an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's business to the Executive Directors, senior management and certain specific responsibilities to the Board Committees.

DIRECTORS' TRAINING

According to Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a Director of a listed company.

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2016 to the Company.

The Company has also continuously updated the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

The individual training record of each Director received for the year ended 31 December 2016 is summarised below:–

Names of Directors	Attending or participating in seminars/conferences/ corporate events or visits/ reading relevant to the business/Directors' duties
Executive Directors:	
Mr. Han Junran *(Chairman)*	✓
Mr. Fu Yiu Kwong	✓
Mr. Luo Min	✓
Mr. Seto Man Fai (re-designated as an Executive Director on 3 June 2016)	✓
Independent Non-Executive Directors:	
Mr. Chan Yiu Tung, Anthony	✓
Mr. Zheng Qing	✓
Dr. Ouyang Qingru	✓
Mr. Zhang Jing (appointed on 3 June 2016)	✓
Mr. Leung Kwai Wah Alex (appointed on 3 June 2016)	✓

Corporate Governance Report

During the year ended 31 December 2016, 8 full Board meetings were held by the Company and complies with the Code Provision A.1.1. The 2016 annual general meeting was held by the Company on 3 June 2016. The Company has already established a profound regime to ensure effective communication among the Directors.

The attendance record of each Director at the Board meetings and the 2016 annual general meeting is as follows:

Names of Directors	Attendance/Number of Board meetings	Attendance of 2016 annual general meeting
Mr. Han Junran	8/8	✓
Mr. Fu Yiu Kwong	2/8	✓
Mr. Luo Min	8/8	
Mr. Seto Man Fai (re-designated as an Executive Director on 3 June 2016)	8/8	
Mr. Chan Yiu Tung, Anthony	1/8	
Mr. Zheng Qing	0/8	
Dr. Ouyang Qingru	0/8	
Mr. Zhang Jing (appointed on 3 June 2016)	1/7	N/A
Mr. Leung Kwai Wah Alex (appointed on 3 June 2016)	1/7	N/A

Chairman and Chief Executive Officer

According to Code Provision A.2.1, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. During the year ended 31 December 2016, the roles of the Chairman and the Chief Executive Officer of the Company are performed by Mr. Han Junran. As the current nature of the Group's business is not complicated, the Board believes the current management structure is sufficient for monitoring and controlling the operation of the Group. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals with diversity of perspectives in accordance with Code Provision A.3. The Board currently comprises four Executive Directors and five Independent Non-Executive Directors and therefore has a strong independence element in its composition. The Company will review its structure from time to time and make relevant arrangements to observe the provisions of the Listing Rules whenever necessary.

Appointment, re-election and removal of the Directors

The Non-Executive Directors of the Company are not appointed for specific terms, thus deviates from Code Provision A.4.1. In addition, the Chairman of the Board and/or the managing Directors of the Company are not subject to retirement by rotation, which also deviates from Code Provision A.4.2. However, in view of the fact that Non-Executive Directors are subject to retirement by rotation in accordance with the Articles of Association of the Company, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code Provisions. Nevertheless, the Company will review its relevant Articles of Association and will propose any amendments to ensure observance of the provisions of the Listing Rules whenever necessary.

Corporate Governance Report

In respect of an independent Non-Executive Director who has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders under the Revised CG Code. Mr. Zheng Qing has served on the Board for more than nine years. In compliance with Code Provision A.4.3, Mr. Zheng Qing was re-elected to be the independent Non-Executive Director in the annual general meeting of the Company held on 3 June 2016. The Board considered that he had in-depth understanding of the business and operations of the Company and its subsidiaries and provided independent guidance to the Company throughout the years. Mr. Zheng Qing also expressed objective and valuable views to the business development of the Company and he had been demonstrating a strong commitment to his role. The Board further considered that the long service of Mr. Zheng Qing would not affect his exercise of independent judgment and he still remained independent in character. The Board was satisfied that Mr. Zheng Qing acquired experience, character and integrity to continue fulfilling the role of an independent Non-Executive Director. His continuing service is in the best interest of the Company and its Shareholders as a whole.

During the year, the Nomination Committee recommended and the Board approved the appointment of Mr. Leung Kwai Wah Alex and Mr. Zhang Jing as new independent Non-Executive Directors with effect from 3 June 2016, who are subject to retirement and re-election at the forthcoming Annual General Meeting.

BOARD COMMITTEES

The Board has established various committees under the Board, namely Audit Committee, Remuneration Committee and Nomination Committee (collectively, "Board Committees"), to oversee different aspects of the Group's affairs and to assist in the execution of the Board's responsibilities.

AUDIT COMMITTEE

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Stock Exchange. The Audit Committee shall consist members of Non-Executive Directors of the Company. The Audit Committee currently comprises three Independent Non-Executive Directors, namely Mr. Leung Kwai Wah Alex (as Chairman), Mr. Chan Yiu Tung, Anthony and Mr. Zheng Qing. The quorum of meetings of the Audit Committee shall be any two members. The terms of reference of the Audit Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Audit Committee are aligned with the Code Provisions set out in the CG Code.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal of such auditor; reviewing the interim and annual reports and financial statements of the Group; and overseeing the Company's financial reporting system including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget, and internal control procedures.

Corporate Governance Report

The Audit Committee meets the external auditor regularly to discuss any area of concern during the audit. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with reporting and accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report.

During the year ended 31 December 2016, the Audit Committee held 2 meetings. Each committee meeting has been supplied with the necessary financial information of the Group for members to consider, review and access significant issues arising from the work conducted.

Names of members	**Attendance/Number of meetings**
Mr. Leung Kwai Wah Alex *(Chairman, appointed on 3 June 2016)*	1/1
Mr. Chan Yiu Tung, Anthony	2/2
Mr. Zheng Qing	0/2
Mr. Seto Man Fai *(Chairman, ceased on 3 June 2016)*	1/1

During the year under review, the Audit Committee had performed the following work:

– reviewed the annual results for the year ended 31 December 2015 and the interim results for the six months ended 30 June 2016;

– discussed with the management of the Company over the completeness, fairness and adequacy of reporting and accounting standards and policies of the Group in the preparation of the 2016 interim and annual financial statements;

– reviewed and discussed with the external auditor over the financial reporting of the Company;

– recommended to the Board, for the approval by Shareholders, of the re-appointment of the auditor; and

– reviewed the internal control procedures of the Group.

The Board also delegated certain corporate governance functions to the Audit Committee, including the review and monitoring of (a) the Group's policies and practices on corporate governance and make recommendations to the Board; (b) the training and continuous professional development of Directors and senior management; (c) the Group's policies and practices on compliance with legal and regulatory requirements; (d) the code of conduct of the Group applicable to employees and Directors; and (e) the Group's compliance with the Code and disclosure in the Corporate Governance Report.

REMUNERATION COMMITTEE

The Company formulated written terms of reference for the Remuneration Committee in accordance with requirements of the Stock Exchange. The Remuneration Committee shall comprise at least three members with majority of Independent Non-Executive Directors, and an Independent Non-Executive Director should take up the role of Chairman of the Remuneration Committee. The Remuneration Committee currently comprises two Independent Non-Executive Directors, namely, Mr. Chan Yiu Tung, Anthony (as Chairman), and Mr. Leung Kwai Wah Alex and one Executive Director, Mr. Han Junran. The quorum of meetings of Remuneration Committee shall be any two members. The terms of reference of the Remuneration Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Remuneration Committee are aligned with the Code Provisions set out in the CG Code.

Corporate Governance Report

The functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure on the remuneration packages for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing a remuneration policy, to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives, to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, and to make recommendations to the Board on the remuneration of Independent Non-Executive Directors.

During the year ended 31 December 2016, the Remuneration Committee held 2 meetings for reviewing the remuneration package of the Directors of the Company and approving the proposed remuneration of a senior management.

Names of members	**Attendance/Number of meetings**
Mr. Chan Yiu Tung, Anthony *(Chairman)*	0/2
Mr. Seto Man Fai	1/1
Mr. Han Junran	2/2
Mr. Leung Kwai Wah Alex	1/1

The emolument payable to Directors and senior management will depend on their respective contractual terms under the employment agreements, if any, and is fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions. Details of the remuneration of the Directors and senior management are set out in note 8 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established on 1 April 2012. Prior to the establishment of the Nomination Committee, its role and functions were performed by the Board. The Chairman from time to time reviewed the composition of the Board with particular regard to the number and the independence of the Independent Non-Executive Directors. The Board also reviewed and determined the suitability and terms for re-appointment of Directors.

The Company formulated written terms of reference for the Nomination Committee in accordance with requirements of the Stock Exchange and amended the same on 23 August 2013. The Nomination Committee shall comprise at least three members with a majority of Independent Non-Executive Directors, and the Chairman of the Board or an Independent Non-Executive Director should take up the role of Chairman of the Nomination Committee. The Nomination Committee currently consists of one Executive Director, Mr. Han Junran (as Chairman), and three Independent Non-Executive Directors, namely, Mr. Leung Kwai Wah Alex and Mr. Chan Yiu Tung, Anthony and Mr. Zheng Qing. The quorum of meetings of the Nomination Committee shall be any two members. The terms of reference of the Nomination Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Nomination Committee are aligned with the Code Provisions set out in the CG Code.

The functions of the Nomination Committee are to review and monitor the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Group's strategy; to identify qualified individuals to become members of the Board; to assess the independence of Independent Non-Executive Directors; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive.

Corporate Governance Report

The Company adopted a board diversity policy in August 2013 to enhance the quality of its performance in accordance with Code Provision A.5.6. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All board appointments will be based on meritocracy, and candidates will be selected based on a range of diversity perspectives, including gender, age, cultural background and ethnicity, educational background, professional experience, skills, knowledge and length of service.

The Nomination Committee will review the policy as appropriate to ensure its effectiveness and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

During the year ended 31 December 2016, the Nomination Committee reviewed the composition of the Board and the retirement and re-election of Directors. The Committee held 2 meetings during the year and the attendance records of the members at the meetings are set out below:

Names of members	**Attendance/Number of meetings**
Mr. Han Junran *(Chairman)*	2/2
Mr. Chan Yiu Tung, Anthony	0/2
Mr. Seto Man Fai	1/1
Mr. Leung Kwai Wah Alex	1/1
Mr. Zheng Qing	0/2

SECURITIES TRANSACTIONS BY DIRECTOR

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors of the Company. All the members of the Board have confirmed, following the specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2016. The Model Code also applies to other specified senior management of the Group.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company on their reporting responsibilities for the Group's consolidated financial statements for the year ended 31 December 2016 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Company's external auditors in respect of audit and non-audit services for the year ended 31 December 2016 are as follows:

Nature of services	**Amount (HK$'000)**
Audit services	500
Other assurance services	65
Non-assurance services	108

Corporate Governance Report

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results of operations and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2016, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis.

The Directors acknowledge their responsibility to prepare the consolidated financial statements as set out on pages 39 to 111 of this annual report. The statement of the external auditors about their reporting responsibilities on the consolidated financial statements is set out in the paragraph headed "Independent Auditors' Report" on pages 32 to 38 of this annual report.

INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective internal control system to safeguard the Group' assets against unauthorised use or disposition, and to protect the interests of Shareholders of the Company.

During the year ended 31 December 2016, the Board conducted an annual review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance as well as risk management.

COMPANY SECRETARY

During the year ended 31 December 2016, the Company Secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

COMMUNICATION WITH THE SHAREHOLDERS

Communication between the Company and its Shareholders are achieved through various means including the convening of general meetings, the dispatch of annual reports, interim reports and circulars. The Chairman of the Board also proposes separate resolution for each substantive issue including re-election of Directors.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Articles 58 of the Articles of Association, an extraordinary general meeting ("EGM") may be convened by the Board on a written requisition of any one or more Shareholders of the Company holding not less than 10% of the paid up capital of the Company carrying the right of voting at general meeting of the Company. The EGM shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene the EGM, the requisitionist(s) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) of the Company.

Enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong for the attention of the Company Secretary.

Articles of Association

There was no change to the Articles of Association to the Company during the year ended 31 December 2016.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of interim and annual reports, the publishing and posting of notices, announcements and circulars on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.newcitygroup.com.hk) in a timely manner in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

Environmental, Social and Governance Report

New City Development Group Limited and its subsidiaries ("the Group") is committed to ethical corporate citizenship and to promoting sustainability in all of its activities. We demonstrate these commitments through transparent and responsible management of our environment and social values. These values respect and are informed by those of all of our stakeholders, including the communities with which we interact. The requirements listed below apply to the Group's operations, every subsidiary, each manager and employee, as well as any member performing work on behalf of the Group.

STAKEHOLDER ENGAGEMENT

The Group understands the importance of developing long-term relationships and constant dialogues with various stakeholders. We seek to balance the views and interests of these various constituencies through constructive conversation.

Shareholders/Investors

In order to further strengthen communication with our shareholders, during each shareholders' meeting, the Group would communicate with its shareholders about the issues that should be communicated and ensure timely dissemination of relevant information to Shareholders at all times. Shareholders are also encouraged to raise any question freely to the Company during each meeting.

Customers

Customer feedback is invaluable as the Group operates in extremely competitive markets. There are a number of channels to solicit customer comments and recommendations such as through our website and email communications.

Government

Along with different government laws, rules and regulations between Hong Kong and the PRC, the Group makes tremendous effort to ensure that it is complied with the relevant laws and regulations.

Environmental, Social and Governance Report

ENVIRONMENTAL

Emissions

We recognise the importance of good environmental stewardship and a healthy environment. Therefore, we are dedicated to maintaining our energy consumption and emission at low level in every single step. We strived to enhance operational efficiency and carried out measures to reduce the impact on the environment in order to protect the earth's resources.

The Group does not involve in production of related air, water, land pollutions and hazardous waste. Nonetheless, we have actively implemented eco-friendly measures to reduce carbon footprint in our business operations. For instance, board meetings/management meetings through telephone conference have significantly been adopted to minimize the cost of transportation and to reduce carbon emission.

Use of Resources

The Group is committed to protecting the environment by enhancing our operational efficiency and energy efficiency to reduce energy, paper and waste by following initiatives:

Paper

- Using E-mail for internal communication to minimize the printing needs
- Using recycled paper and double-sided printing
- Using E-flyer to allow printing on demand basis

Electricity

- Encouraging staff members to turn off lights and air-conditioners when not needed, especially after office hours

Computer

- Regular maintenance is undertaken to ensure of efficient operation and to extend the life-cycle of the computers

Stationery and Furniture

- Reusing stationery, furniture and equipment among offices instead of buying new one or disposing of such materials

Environmental, Social and Governance Report

Waste

- Encouraging recycling plastic and paper

The Environmental and Natural Resources

The Group believes that corporate development should not come at the expense of the environment. Therefore, we adopted environmental friendly practices in various aspects and company events. For example, we use air conditioning arrangements in the office to reduce unnecessary energy wastage; use recycled paper and double-sided printing. The Company estimates that around 20% of the paper consumption was saved by double-sided printing in the principal place of business in the PRC and in Hong Kong.

SOCIAL

Employment

The Group adopts fair and open recruitment mechanism with all positions being recruited regardless of age, gender, race, nationality, religion, marital status or disability.

Health and Safety

The Group strives to promote safety awareness, improve occupational environment and reduce occupational risks. We continuously promote safety awareness among employees and committed to providing a healthy and safe working environment for our employees. The Group has dedicated adequate resources and effort to uphold and improve the Group's safety management measures in order to reduce the risks relating to labour safety, such as: ensuring a healthy and safe workplace and compliance with all relevant workplace health and safety laws, and maintaining various insurance policies for employees' compensation and liability.

Work Related Injury

There was no work related injury in 2016.

Environmental, Social and Governance Report

Compensation Package

Along with a competitive salary package, we offer discretionary bonus system to recognise performance. This measure aims at establishing a fair and reasonable mechanism for managing remuneration and providing performance incentives to boost employee loyalty and cohesiveness.

Labour Standards

The Group believes in nurturing and developing top talents regardless of race, gender, age, religious belief, pregnancy, marital status, family status or disability. This measure ensures all employees and job applicants enjoy equal opportunities and fair treatment.

Anti-corruption

During the year, the management of the Group did not find any cases of bribery or fraud. Through the controlled environment developed by all staff throughout the years, the Group believes that the risk of the occurrence of fraud behavior has been minimised. The Group will continue to monitor the related risks so as to maximise the values for the shareholders and other related parties.

There was no non-compliance case noted in relation to corruption related laws and regulations as of 31 December 2016.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. Han Junran, aged 60, obtained a professional law diploma from China Politics and Laws University in 1988. In 2001, Mr. Han also obtained a master's degree in enterprise management from Capital University of Economics and Business. Mr. Han has worked for Beijing Urban Construction Group Company Limited, the office of The Standing Committee of the National People's Congress of Beijing City and the office of the Beijing Municipal Government since 1983. Mr. Han joined the Group in December 1999 as the Group's general manager. Mr. Han is currently responsible for the Group's overall strategic development and management. Mr. Han was appointed as an Executive Director of the Company in December 1999 and the Chairman of the Company in December 2002.

Mr. Fu Yiu Kwong, PhD, aged 59, has over 30 years of experience in the accounting profession. Mr. Fu has worked for various local listed companies. He has extensive experience in auditing, merger and acquisition, business re-engineering and company re-structuring. Mr. Fu joined the Group in March 2003 as an Executive Director of the Group.

Mr. Luo Min, aged 50, is an engineer and has extensive experience in property development, investments and management. Mr. Luo was appointed as a Non-Executive Director of the Company in May 2008. On 1 March 2012, Mr. Luo has been re-designated from a Non-Executive Director to an Executive Director.

Mr. Seto Man Fai, aged 49, graduated from the Chinese University of Hong Kong with a bachelor's degree in accounting. He is a member of the American Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Institute of Chartered Accountants in England and Wales. Mr. Seto has extensive experiences in accounting, auditing and corporate finance. Mr. Seto is currently the partner of two accounting firms in Hong Kong. Mr. Seto was appointed as an Independent Non- Executive Director of the Company in October 2009. On 3 June 2016, Mr. Seto has been re-designated from a Independent Non-Executive Director to an Executive Director.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yiu Tung, Anthony, aged 58, graduated from University of Toronto in 1982. Mr. Chan has over 20 years experience in the construction and property investment field and is currently the managing Director of Chan Shum Kee Sam Lee Construction Company Limited. Mr. Chan is currently the member of various organisations including Lions Club of Hong Kong West (President during the years 1996/97 and 2001/02), Hong Kong Registered Contractors Association (President), The Hong Kong Construction Association Ltd (Council Member), H.K. General Building Contractors Association Ltd (President for 2011-2013), Kwong Yuet Tong Hong Kong (Council Member), Association of Hong Kong Nanjing Fellows Ltd (Director), The Chinese General Chamber of Commerce (Shamshuipo) (Council Member), Commercial & Industrial Committee of DAB (Council Member), Guangzhou Overseas Friendship-Liaison Association (Council Member), Yan Oi Tong (Directors for the years 2006 to 2009 and 2011 to 2014), Mr. Chan was appointed as an Independent Non-Executive Director of the Company in August 2002.

Directors' Profile

Mr. Zheng Qing, aged 51, has extensive experience in property development and management. Mr. Zheng is a Director of various companies in the fields of property development management and securities investment in PRC. Mr. Zheng was appointed as an Independent Non-Executive Director of the Company in September 2004.

Dr. Ouyang Qingru, aged 50, graduated from the Shanghai Second Medical University, is the engineer of the Anesthesiology division of a leading hospital. Working in the Hospital, Dr. Ouyang is familiar with clinical anesthesia and medical equipment application and has immersed experience in the hospital management. Dr. Ouyang was appointed as an Independent Non-Executive Director of the Company in December 2014.

Mr. Leung Kwai Wah Alex, aged 63, is currently a mentor of mentorship program of two universities in Hong Kong. Mr. Leung has 30 years of experiences in banking and financing field. Mr. Leung is a fellow member of Governance Institute of Australia, Hong Kong Institute of Directors, Institute of Chartered Secretaries and Administrators and Hong Kong Securities and Investment Institute. Mr. Leung is also a member of Hong Kong Treasury Markets Association. Mr. Leung graduated from Hong Kong Baptist College with a business administration major in 1979 and obtained a master's degree in business administration from Illinois State University in USA in 1981. Mr. Leung was appointed as an Independent Non-Executive Director of the Company in June 2016.

Mr. Zhang Jing, aged 60, is currently a director of private equity investment of Oriental Patron Financial Group Limited in Hong Kong. Mr. Zhang has over 22 years of experiences in corporate management. Mr. Zhang served as the general manager of China Security Limited (中國中安保有限公司). Prior to this, Mr. Zhang was the deputy general manager of Sichuan Jinguang Group (四川金廣集團). He also served as the director and deputy general manager of collective economic management department of China Yituo Group (中國一拖集團) and the chief financial officer of First Tractor Company Limited. Mr. Zhang obtained a bachelor's degree in industrial accounting from Henan Radio & Television University and a master's degree in management engineering from Jiangsu University. Mr. Zhang was appointed as an Independent Non-Executive Director of the Company in June 2016.

Report of the Directors

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in property development and investment in the PRC which has not been changed during the year. Details of the principal activities of its subsidiaries are set out in note 1 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 and the Group's financial position at that date are set out in the consolidated financial statements on pages 39 to 111.

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

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 26 to the consolidated financial statements and the consolidated statement of changes in equity respectively.

BUSINESS REVIEW

The Group recorded a turnover of approximately HK$34,982,000 and recorded a profit after tax of approximately HK$1,219,000 for the year. Details of which, are set out in the paragraph headed "Management Discussion and Analysis" on pages 6 to 8.

SHARE CAPITAL

Details of the movement of share capital of the Company are set out in note 25 to the consolidated financial statement.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of special reserve and share premium less accumulated losses. Under the Companies Law of the Cayman Islands, the special reserve and share premium of the Company is available for paying distributions or dividends to Shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2016, the Company's reserves available for distribution are as follows: (2015: HK$288,903,000)

	HK$'000
Share premium account	457,758
Special reserve	306,450
Accumulated losses	(487,225)
	276,983

Report of the Directors

DIRECTORS

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

Executive Directors

Mr. Han Junran *(Chairman)*
Mr. Fu Yiu Kwong
Mr. Luo Min
Mr. Seto Man Fai (re-designated as an Executive Director on 3 June 2016)

Independent Non-Executive Directors

Mr. Chan Yiu Tung, Anthony
Mr. Zheng Qing
Dr. Ouyang Qingru
Mr. Zhang Jing (appointed on 3 June 2016)
Mr. Leung Kwai Wah Alex (appointed on 3 June 2016)

In accordance with the Articles of Association, Mr. Fu Yiu Kwong, Mr. Seto Man Fai, Mr. Leung Kwai Wah Alex and Mr. Zhang Jing shall retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Company has received annual confirmations of independence from each of the Independent Non-Executive Directors of the Company and as at the date of this report still considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

Mr. Han Junrun, the Chairman and Executive Director, has entered into a service agreement with the Company commencing 16 December 2002 for a period of three years and continuing thereafter until his Directorship is terminated.

Mr. Fu Yiu Kwong, the Executive Director, has entered into a service agreement with the Company for a period of two years commencing 13 March 2003 and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

Mr. Luo Min, the Executive Director has entered into a service agreement with the Company for a period of one year commencing 1 March 2012 and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

Mr. Seto Man Fai, the Executive Director has entered into a service agreement with the Company for a period of one year commencing 3 June 2016 and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

The term of Independent Non-Executive Directors is from the date they were last elected to the date of their retirement by rotation in accordance with the Company's Articles of Association.

Report of the Directors

Apart from the above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity	Nature of interests	Number of underlying shares held	Approximate % of shareholding
Han Junran	Interests of controlled corporation	–	1,886,662,752 (1)	56.88

Note:

(1) Junyi Investments Limited (a company wholly-owned by Mr. Han Junran) held 1,886,662,752 Shares, representing 56.88% of the issued share capital. For the purposes of the SFO, both Junyi Investments Limited and Mr. Han Junran were deemed to be interested in 1,886,662,752 Shares.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as the related party transactions and connected transaction disclosed in note 31 to the consolidated financial statements, there were no contract of significance to which the Company, its holding companies and any of its subsidiaries, was a party and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

SHARE OPTION SCHEME

The Company adopted a share option scheme on 14 June 2002 which will remain in force for a period of 10 years from the date of adoption. The share option scheme expired on 14 June 2012.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of it subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor any of their spouse or children under the age of 18, had any rights to subscribe for the securities of the Company, or exercised any such rights.

MANAGEMENT CONTRACTS

Save as disclosed above, no contract of significance had been entered into between the Company or any of the subsidiaries and the controlling Shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or Chief Executive of the Company, as at 31 December 2016, other than the interests and short positions of the Directors or Chief Executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Report of the Directors

Long position in the shares of the Company

Name	Capacity	Number of Shares held	Approximate % of shareholding
Mr. Han Junran	Interest of controlled corporation	1,886,662,752(1)	56.88
Junyi Investments Limited	Beneficial owner	1,886,662,752(1)	56.88
Haitong International New Energy VIII Limited	Person having a security interest	400,000,000(2)	12.06
Haitong International Securities Group Limited	Interest of controlled corporation	400,000,000(2)	12.06
Haitong Securities Co., Ltd.	Interest of controlled corporation	400,000,000(2)	12.06

Notes:

(1) Junyi Investments Limited, a company incorporated with limited liability in the British Virgin Islands, is wholly-owned by Mr. Han Junran who is an Executive Director of the Company.

(2) The security interest of the 400,000,000 Shares is held by Haitong International New Energy VIII Limited, which is an indirect wholly-owned subsidiary of Haitong International Securities Group Limited, which is an indirect subsidiary of Haitong Securities Co., Ltd.

Save as disclosed above, as at 31 December 2016, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Report of the Directors

CONTINUING CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

For the year ended 31 December 2016, the Group has the following continuing connected transactions which are exempt from the independent Shareholders' approval requirement under Rule 14A.34 of the Listing Rules:

On 30 May 2016, new tenancy agreements (the "New Tenancy Agreements") were respectively entered into (i) between New Rank Services Limited (a wholly-owned subsidiary of the Company) as tenant and Winrich Investments Limited as landlord; (ii) between New Rank Services Limited as tenant and Goldrich Investments Limited as landlord for leasing of the office premises; and (iii) between New Rank Services Limited as tenant and Jiacheng Jiaxin International Property Management (Hong Kong) Limited as landlord for leasing of the staff quarter and car parking space. The New Tenancy Agreements are for a term of two years commencing from 1 June 2016. All of Winrich Investments Limited, Goldrich Investments Limited and Jiacheng Jiaxin International Property Management (Hong Kong) Limited are companies indirectly wholly-owned by an associate of a connected person of the Company, and therefore the transactions contemplated under the New Tenancy Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As announced by the Company on 30 May 2014, the aggregate Annual Caps for the New Tenancy Agreements, the consideration for the Tenancy Agreements on an annual basis falls within the threshold prescribed in Rule 14A.34 of the Listing Rules. The entering into of the New Tenancy Agreements is therefore subject to the reporting and announcement requirements and annual review requirements under Chapter 14A of the Listing Rules and is exempt from the requirement to obtain independent Shareholders' approval.

The Independent Non-Executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

1. in the normal and usual course of the Group's business;

2. on normal commercial terms; and

3. have been carried out in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The auditors of the Company have reviewed the above continuing connected transactions and provided a letter to the Company confirming that the above continuing connected transactions:

1. have received the approval of the Board;

2. have been entered into in accordance with the relevant agreements governing the transactions; and

3. have not exceeded the annual caps as disclosed in the Company's announcements dated 30 May 2014.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

MAJOR SUPPLIERS

There is no property development project during the year and therefore no purchase payment was paid or payable to suppliers by the Group during the year ended 31 December 2016.

MAJOR CUSTOMER

The Group has no major customers during the year under review.

ENVIRONMENTAL PERFORMANCE AND COMPLIANCE WITH LAWS AND REGULATIONS

Details of which, are set out in the paragraph headed "Management Discussion and Analysis" on page 8.

AUDITORS

The consolidated financial statements for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 have been audited by Ascenda Cachet CPA Limited, who retire and a resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Ascenda Cachet CPA Limited.

On behalf of the Board

Han Junran
Chairman

31 March 2017, Hong Kong

Independent Auditor's Report

Ascenda CACHET
天健德揚

13F Neich Tower
128 Gloucester Road
Wanchai Hong Kong

To the members of New City Development Group Limited
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of New City Development Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 39 to 111, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of 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 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 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matter. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Fair value of the investment properties – Guangzhou Properties	
Reference is made to notes 2.4 and 3 to the consolidated financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 14(a) to the consolidated financial statements for further information. Included in the carrying amount of the Group's investment properties were properties in Guangzhou (the "Guangzhou Properties") of approximately HK$667,892,000 which were stated at fair value as at 31 December 2016. For the purpose of assessing the fair value of the Guangzhou Properties, the management determined the fair value of the Guangzhou Properties based on value-in-use calculations using cash flow projections. In carrying out the fair value assessments, significant management judgement and estimation was used to determine the key assumptions, as detailed in note 14(a) to the consolidated financial statements, underlying the value-in-use calculations. The management also engaged an independent professional valuer to review their value-in-use calculations and key assumptions adopted.	Our procedures in relation to management's assessment of the fair value of the Guangzhou Properties included: – Assessing the design and implementation of key controls which impact the valuation of the Guangzhou Properties; – Assessing the methodology and assumptions used in the value-in-use calculations for determining the fair value of the Guangzhou Properties; and recalculating the amount of fair value gain on the Guangzhou Properties; – Checking with the comparable data either internal or external sources, on sample basis; and – Directly communicating and discussing with the independent professional valuer for the Guangzhou Properties' valuation on the methodology and assumptions used and assessing on their competence, independence and integrity by considering the professional qualifications and market standing as valuer of investment properties.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of the investment properties – Luoyang Properties	
Reference is made to notes 2.4 and 3 to the consolidated financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 14(b) to the consolidated financial statements for further information. Included in the carrying amount of the Group's investment properties were properties under development in Luoyang (the "Luoyang Properties") of approximately HK$68,659,000 which were stated at cost less impairment, if any, as at 31 December 2016. As detailed in note 14(b) to the consolidated financial statements, the construction of the Luoyang Properties have not been complied (the "Non-Compliance") with a condition of the land use right agreement to commence and complete the construction on or before 1 September 2013 and 1 September 2016, respectively. On 17 November 2016, the Group received a notice from 洛陽市城鄉一體化示範區管理委員會國土環保局, pursuant to which, the Group is required to commence the construction of the Luoyang Properties within 15 days after the date of the notice unless the Group has a reasonable excuse. The Group replied and expected to have the construction work commenced in June 2017. The Directors have sought a legal advice from a PRC lawyer and are of the opinion that the risk for the penalty or the loss on the forfeiture of the land use right is not material. For the purpose of assessing the recoverable amount of the Luoyang Properties, the management determined the recoverable amount of the Luoyang Properties based on the direct comparison method based on market observable transactions of similar properties without any significant adjustments. The management also engaged an independent professional valuer to review their valuation and was of the opinion that the recoverable amount of the Luoyang Properties was higher than its carrying amount as at 31 December 2016.	Our procedures in relation to management's assessment of the recoverable amount of the Luoyang Properties included: – Reviewing the correspondence between the government and the Group for the Non-Compliance; – Discussing with the management on matters leading to the Non-compliance and their future development plan; – Reviewing a legal advice regarding the legal and financial consequence arising from the Non-Compliance of the Luoyang Properties; – Assessing the methodology and assumptions used in the valuation of the Luoyang Properties; and recalculating their recoverable amount; – Checking with comparable data either internal or external sources; and – Directly communicating and discussing with the independent professional valuer for the Luoyang Properties' valuation on the methodology and assumptions used and assessing of their competence, independence and integrity by considering the professional qualifications and market standing as valuer of investment properties.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability assessment for the prepayments, deposits and other receivables	
Reference is made to note 2.4 to the consolidated financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 18(b) and note 18(c) to the consolidated financial statements for further information. Included in the carrying amount of the Group's prepayments, deposits and other receivables of approximately HK$164,122,000 as at 31 December 2016 was (i) approximately HK$67,345,000 being prepayment for renovation and improvement costs for the Guangzhou Properties; and (ii) approximately HK$55,500,000 being deposit and escrow amount held by a consultant for its assistance in development of a cultural business project and contribution to the conceptual design and approaching of potential constructor for the renovation and impairment of the Guangzhou Properties. The recoverability of both of the prepayment of HK$67,345,000 and deposit and escrow amount of HK$55,500,000 were guaranteed by Mr. Han Junran, the director and substantial shareholder of the Company. The recoverability of prepayments, deposits and other receivables is estimated by the management through the application of judgment and estimation. The Group's policy for recognition of impairment on prepayments, deposits and other receivables is based on the evaluation of recoverability, ageing analysis and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation and recoverability of these prepayment and deposits, including the current creditworthiness and the past collection history of each debtor and the guarantor.	Our procedures in relation to management's assessment of the recoverability of the prepayments, deposits and other receivables included: – Obtaining an understanding of how management estimated the recoverability of the prepayments, deposits and other receivables and evaluating the historical accuracy of the impairment estimation by management (including revision of the agreements, and assessment of the collectability of the debtors and the guarantor); – Reviewing management's assessment of whether indicators of impairment exist and evaluating this assessment, including a challenge of the validity and completeness of the indicators identified with reference to our knowledge of the business obtained elsewhere in our audit (e.g. ultimate realisation of the prepayment and deposits, the feasibility of the properties improvement, the current creditworthiness and the past collection history of the debtor and the guarantor); – Assessing the basis of management's assessment of recoverability of prepayments, deposits and other receivables with reference to the management's evaluation of debtors' creditworthiness, debtors' credit history including default or delay in payments, debtors' settlement records, subsequent settlements from debtors and ageing analysis of each individual debtor; and – Recalculating the amount of the impairment on prepayments, deposits and other receivables and assessing the sufficiency of the impairment as at 31 December 2016.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company (the "Directors") are responsible for the other information. The other information comprises the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by 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 Company or to cease operations or have no realistic alternative but to do so.

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

AUDITOR'S 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

Independent Auditor's Report

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

Independent Auditor's Report

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Yuk Tong.

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate Number P03723
Hong Kong

31 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	*5*	**34,982**	39,064
Cost of services provided		**(3,116)**	(3,358)
Gross profit		**31,866**	35,706
Other income and gains	*5*	**8,757**	14,280
Administrative and other operating expenses		**(24,973)**	(25,194)
Finance costs	*7*	**(12,721)**	(15,998)
PROFIT BEFORE TAX	*6*	**2,929**	8,794
Income tax expense	*10*	**(1,710)**	(5,079)
PROFIT FOR THE YEAR		**1,219**	3,715
Attributable to:			
Owners of the Company		**1,294**	3,715
Non-controlling interests		**(75)**	–
		1,219	3,715
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*11*		
Basic		**0.04 cents**	0.13 cents
Diluted		**0.04 cents**	0.13 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
PROFIT FOR THE YEAR	**1,219**	3,715
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(26,958)**	(24,786)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(26,958)**	(24,786)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(25,739)**	(21,071)
Attributable to:		
Owners of the Company	**(25,621)**	(21,071)
Non-controlling interests	**(118)**	–
	(25,739)	(21,071)

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,968**	2,358
Investment properties	14	**736,551**	778,322
Investment in an associate	15	**–**	–
Available-for-sales investment	16	**–**	–
Prepayments	18	**124,377**	69,931
Total non-current assets		**862,896**	850,611
CURRENT ASSETS			
Equity investment at fair value through profit or loss	17	**37,628**	36,976
Prepayments, deposits and other receivables	18	**39,745**	62,562
Due from an associate	15	**9**	8
Due from a related company	16	**8**	8
Cash and bank balances	19	**40,045**	164,278
Total current assets		**117,435**	263,832
CURRENT LIABILITIES			
Other payables and accruals	20	**12,872**	99,830
Deposits received		**7,738**	8,283
Finance lease payable	21	**101**	165
Interest-bearing bank borrowings, secured	22	**3,334**	–
Due to a non-controlling shareholder	23	**4,710**	2,119
Due to related parties	23	**609**	2,799
Due to directors	23	**1,440**	1,320
Tax payable		**1,371**	2,611
Total current liabilities		**32,175**	117,127
NET CURRENT ASSETS		**85,260**	146,705
TOTAL ASSETS LESS CURRENT LIABILITIES		**948,156**	997,316
NON-CURRENT LIABILITIES			
Finance lease payable	21	**–**	101
Interest-bearing bank borrowings, secured	22	**196,700**	211,698
Deferred tax liabilities	24	**147,763**	156,085
Total non-current liabilities		**344,463**	367,884
Net assets		**603,693**	629,432
EQUITY			
Equity attributable to owners of the Company			
Issued capital	25	**13,268**	13,268
Reserves	26	**589,990**	615,611
		603,258	628,879
Non-controlling interests		**435**	553
Total equity		**603,693**	629,432

Director **Han Junran**

Director **Seto Man Fai**

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the Company							
	Issued capital HK$'000	Share premium account* HK$'000	Contributed surplus* HK$'000	Translation reserve* HK$'000	Retained profits* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2015	10,179	253,344	4,755	2,293	171,876	442,447	–	442,447
Profit for the year	–	–	–	–	3,715	3,715	–	3,715
Exchange differences on translation of foreign operations	–	–	–	(24,786)	–	(24,786)	–	(24,786)
Total comprehensive income for the year	–	–	–	(24,786)	3,715	(21,071)	–	(21,071)
Acquisition of subsidiaries *(note 27)*	–	–	–	–	–	–	553	553
Issue of shares upon the open offer *(note 25(a))*	2,545	175,590	–	–	–	178,135	–	178,135
Share issue expenses	–	(4,239)	–	–	–	(4,239)	–	(4,239)
Issue of shares as settlement of the Judgement Debt *(note 32)*	544	33,063	–	–	–	33,607	–	33,607
At 31 December 2015 and at 1 January 2016	13,268	457,758	4,755	(22,493)	175,591	628,879	553	629,432
Profit for the year	**–**	**–**	**–**	**–**	**1,294**	**1,294**	**(75)**	**1,219**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**(26,915)**	**–**	**(26,915)**	**(43)**	**(26,958)**
Total comprehensive income for the year	**–**	**–**	**–**	**(26,915)**	**1,294**	**(25,621)**	**(118)**	**(25,739)**
At 31 December 2016	**13,268**	**457,758**	**4,755**	**(49,408)**	**176,885**	**603,258**	**435**	**603,693**

* These reserve accounts comprise the consolidated reserve of HK$589,990,000 (2015: HK$615,611,000) in consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,929**	8,794
Adjustments for:			
Finance costs	7	**12,721**	15,998
Interest income	5	**(7,447)**	(967)
Depreciation of property, plant and equipment	13		
– owed assets		**465**	357
– leased assets		**184**	184
Fair value gain on investment properties	14	**(1,211)**	(10,585)
Fair value gain on equity investment at fair value through profit or loss	17	**(99)**	(2,726)
		7,542	11,055
Increase in prepayments, deposits and other receivables		**(28,411)**	(94,766)
Increase in equity investment at fair value through profit or loss		**(553)**	(34,250)
(Decrease)/Increase in other payables and accruals		**(86,348)**	78,847
(Decrease)/Increase in deposits received		**(93)**	770
Increase in amounts due to directors		**120**	115
Cash used in operations		**(107,743)**	(38,229)
Overseas taxes paid		**(2,667)**	(3,350)
Net cash flows used in operating activities		**(110,410)**	(41,579)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in amount due from an associate		**(1)**	(2)
Increase in amount due from a related company		**–**	(3)
Acquisition of subsidiaries	27	**–**	(67,902)
Purchases of items of property, plant and equipment	13	**(360)**	(78)
Interest received		**276**	967
Net cash flows used in investing activities		**(85)**	(67,018)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(12,721)**	(15,998)
Proceeds from issue of shares	25(a), 33	**–**	177,424
Increase/(Decrease) in amount due to a non-controlling shareholder		**2,603**	(2,199)
(Decrease)/Increase in amount due to related parties		**(1,939)**	1,025
Capital element of finance lease rental payments		**(165)**	(154)
New bank loans		**–**	211,698
Repayment of bank loans		**–**	(122,944)
Net cash flows (used in)/from financing activities		**(12,222)**	248,852

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(122,717)**	140,255
Cash and cash equivalents at beginning of year		**164,278**	25,199
Effect of foreign exchange rate changes, net		**(1,516)**	(1,176)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**40,045**	164,278
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**40,045**	164,278

Notes to Consolidated Financial Statements

31 December 2016

1. CORPORATE AND GROUP INFORMATION

New City Development Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 10 August 1998. The registered office of the Company is located at P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands and its principal place of business in Hong Kong is situated at Flat D, 17/F., MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in property development and investment in the People's Republic of China (the "PRC") which have not been changed during the year.

The shares of the Company have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 24 May 2000.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Class of shares held	Place of incorporation/ establishment	Place of operation	Nominal value of issued ordinary/ paid-up share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
NR (BVI) Holdings Limited*	Ordinary	British Virgin Islands ("BVI")	Hong Kong	US$47,001	100	–	Investment holding
Polywell Finance Corporation*	Ordinary	BVI	Hong Kong	US$1	100	–	Investment holding
Easy Frontier Holdings Limited*	Ordinary	BVI	Hong Kong	US$1	100	–	Investment holding
New City Education Investment Holdings Limited*	Ordinary	BVI	Hong Kong	US$1	100	–	Investment holding
New City Medicare Investment Holdings Limited*	Ordinary	Samoa	Hong Kong	US$1	100	–	Investment holding
New City Aviation Investment Holdings Limited	Ordinary	Hong Kong	Hong Kong	HK$100	100	–	Investment holding
New City Cultural Investment Holdings Limited	Ordinary	Hong Kong	Hong Kong	HK$100	100	–	Investment holding
Perfection King Limited ∮	Ordinary	Hong Kong	Hong Kong	HK$1	100	–	Investment holding

Notes to Consolidated Financial Statements

31 December 2016

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Name	Class of shares held	Place of incorporation/ establishment	Place of operation	Nominal value of issued ordinary/ paid-up share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
New City Development Services Holdings Limited* ∮	Ordinary	Samoa	Hong Kong	US$1	100	–	Investment holding
Ultimate Perfect Limited* ∮	Ordinary	Samoa	Hong Kong	US$1	100	–	Investment holding
New Rank (BVI 2) Limited*	Ordinary	BVI	Hong Kong	US$36,000	–	100	Investment holding
Precise Assets Limited*	Ordinary	BVI	Hong Kong	US$1	–	100	Investment holding
Team Success Management Limited*	Ordinary	BVI	Hong Kong	US$1	–	100	Inactive
New Rank Services Limited	Ordinary	Hong Kong	Hong Kong	HK$2	–	100	General management
Very Best Investments Limited*	Ordinary	BVI	Hong Kong	US$1	–	100	Inactive
Brilliant Centre Limited	Ordinary	Hong Kong	Hong Kong	HK$1	–	100	Inactive
French Land Limited*	Ordinary	Marshall Islands	Hong Kong	US$50,000	–	100	Investment holding
Fudi International Holding Co., Limited	Ordinary	Hong Kong	Hong Kong	HK$10,000	–	100	Investment holding
Guangdong Changliu Investment Company Limited*^	Contributed capital	PRC	PRC	RMB 40,000,000	–	100	Property development and investment in Guangzhou
Kayuan Enterprise Investment Co., Limited*	Ordinary	Marshall Islands	Hong Kong	US$50,000	–	100	Inactive
Novel Apex Investments Limited	Ordinary	Hong Kong	Hong Kong	HK$1	–	100	Investment holding

Notes to Consolidated Financial Statements

31 December 2016

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Name	Class of shares held	Place of incorporation/ establishment	Place of operation	Nominal value of issued ordinary/ paid-up share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
New City Car Parking Development Operation Limited ∮	Ordinary	Hong Kong	Hong Kong	HK$100	–	70	Inactive
Faith Onward (Hong Kong) Investments Limited@	Ordinary	Hong Kong	Hong Kong	HK$1	–	100	Investment holding
信誠(洛陽)酒店物業管理有限公司@*Δ	Capital contribution	PRC	PRC	RMB 2,000,000	–	90	Investment holding
洛陽萬亨置業有限公司@*†	Capital contribution	PRC	PRC	RMB 8,000,000	–	90	Property development and investment in Luoyang
廣東暢揚投資股份有限公司#*†	Capital contribution	PRC	PRC	RMB 10,000,000	–	70	Inactive

* Not audited by Ascenda Cachet CPA Limited.

\# Newly incorporated during the year.

∮ Newly incorporated during the year ended 31 December 2015.

@ Acquired on 31 December 2015, details of which are set out in note 27 to the consolidated financial statements.

^ Registered as a wholly-foreign-owned enterprise under the PRC Law.

† Registered as a limited liability company under the PRC Law.

Δ Registered as a foreign investment enterprise under the PRC Law.

Notes to Consolidated Financial Statements

31 December 2016

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investment at fair value through profit or loss, which have been measured at fair value. These consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Notes to Consolidated Financial Statements

31 December 2016

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs and for the first time for the current year's consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), and certain amendments included in the Annual Improvements 2012-2014 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statement of financial position and the consolidated statement of profit or loss. The amendments have had no significant impact on the Group's consolidated financial statements.

Notes to Consolidated Financial Statements

31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
HKFRS 9	Financial Instruments[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

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 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of HKFRS 9 are summarised as follows:

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables (add any other debt instruments as applicable). The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables (add any other debt instruments as applicable) upon the adoption of HKFRS 9.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implement issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties and equity investment at fair value through profit and loss, at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, investment properties and equity investment at fair value through profit or loss), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of impaired asset.

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31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or joint controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(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 parent of the Group.

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost (or valuation) less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold building	Over the lease term
Leasehold improvements	Over the lease term
Furniture, fixtures and equipment	18%-35%
Motor vehicles	15%-25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at lease at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of the profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Notes to Consolidated Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties (Continued)

Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the year of the retirement or disposal.

Construction in progress represents a building under construction for future use as an investment property, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is stated at fair value at the end of the reporting period when completed and ready for use.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance lease, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under operating leases are credited to the consolidated statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets 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 as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the consolidated statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the consolidated statement of profit or loss. The loss arising from impairment is recognised in the consolidated statement of profit or loss in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investment and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the consolidated statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the consolidated statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss, is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss – is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgment. In making this judgment the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the consolidated statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include other payables and accruals, deposits received, finance lease payable, interest-bearing bank and other borrowings, and amounts due to a non-controlling shareholder, related parties and directors.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes 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 repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. 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 the consolidated statement of profit or loss. The net fair value gain or loss recognised in the consolidated statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated of profit or loss statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial positions, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

Provision for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (Continued)

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) rental income and related management service income, on a time proportion basis over the lease terms; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or shorter period, when appropriate, to the net carrying amount of the financial asset.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a year represents the movement in the cumulative expense recognised as at the beginning and end of that year.

For awards that do not ultimately vest because not-market performance and/or service conditions have not been meet, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Operating lease commitments – Group as a lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (Continued)

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provision are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Financial implication of regulations of idle land

Under the PRC laws and regulations, if a property developer fails to commence the development of land within the timeframe designated in the land grant contract, the PRC government may regard the land as idle land and issue a warning or impose a penalty on the developer or reclaim the land.

The directors of the Company (the "Directors") have sought a legal advice from a PRC lawyer and are of the opinion that the delay of the construction of the Luoyang Properties was due to the changing of land policy by the Luoyang government in the previous year and the risk for the penalty or the loss on the forfeiture is minimal. Accordingly, no provision in respect of the penalty, if any, has been included in the consolidated financial statements as at 31 December 2016 and 2015.

Estimation uncertainty

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

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including these current creditworthiness and the past collection history of each customer.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimated fair value of investment properties in Guangzhou

As detailed in note 14(a) to the consolidated financial statements, the valuation method of the investment properties in Guangzhou was estimated the future market value expected to be recovered from leasing out of the investment properties by reference to the terms of the existing tenancy agreements and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and a suitable discount rate in order to calculate the present value. A considerable amount of judgement and estimation is required in assessing the fair value of the properties.

Impairment of amount due from subsidiaries

The policy for the provision for impairment of amounts due from subsidiaries is based on the evaluation of recoverables of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of the amount.

Impairment of investments in subsidiaries

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the financial statements of the investee's net assets including goodwill.

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4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's primary operating segment is property development and investment in the PRC. Since this is the only operating segment of the Group, no further analysis thereof is presented.

Geographical information

The Group operates principally in the PRC. Over 90% of the Group's assets are located in the PRC and over 90% of the revenue are generated in the PRC. Accordingly, no further geographical information of total assets and revenue was disclosed.

Information about a major customer

Rental income and related management service income

There are no significant concentrations of credit risk within the Group because there is a large number of diversified tenants.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the value of property management services rendered and gross rental income received and receivable from the investment properties.

An analysis of revenue, other income and gains is as follows:

	2016 HK$'000	2015 HK$'000
Revenue		
Rental income and related management service income	**34,982**	39,064
Other income and gains		
Interest income	**7,447**	967
Fair value gain on equity investment at fair value through profit or loss *(note 17)*	**99**	2,726
Fair value gain on investment properties *(note 14)*	**1,211**	10,585
Others	**–**	2
	8,757	14,280
Total revenue, other income and gains	**43,739**	53,344

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2016 HK$'000	2015 HK$'000
Auditors' remuneration	**500**	400
Cost of services provided	**3,116**	3,358
Depreciation		
– owned assets	**465**	357
– leased assets	**184**	184
	649	541
Employee benefits expenses (including directors' remuneration *(note 8)*):		
Wages, salaries and allowance	**10,344**	9,849
Pension scheme contributions	**586**	544
	10,930	10,393
Minimum lease payments under operating leases on land and buildings*	**1,572**	1,554
Direct operating expenses arising from rental income and related management service income	**664**	2,079
Exchange loss, net	**1,551**	691
Interest income	**(7,447)**	(967)
Fair value gain on equity investment at fair value through profit or loss *(note 17)*	**(99)**	(2,726)
Fair value gain on investment properties *(note 14)*	**(1,211)**	(10,585)

* Minimum lease payments under operating leases on land and buildings included rental for director quarter of HK$624,000 (2015:HK$624,000).

7. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Amortisation of prepaid administrative fee for bank borrowings	**–**	4,238
Interest on:		
Bank and other borrowings, secured and wholly repayable within five years	**12,709**	11,738
Finance lease	**12**	22
	12,721	15,998

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, Section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 HK$'000	2015 HK$'000
Fees	**549**	530
Other emoluments:		
Salaries, allowances and benefits in kind	**4,319**	3,760
Pension scheme contributions	**65**	54
	4,384	3,814
	4,933	4,344

	Fees HK$'000	**Salaries, allowances and benefits in kind HK$'000**	**Pension scheme contributions HK$'000**	**Total remuneration HK$'000**
2016				
Executive directors				
Mr. Han Junran	**–**	**1,924**	**18**	**1,942**
Mr. Fu Yiu Kwong	**–**	**1,040**	**18**	**1,058**
Mr. Luo Min	**–**	**754**	**18**	**772**
Mr. Seto Man Fai *(Note 1)*	**–**	**601**	**11**	**612**
	–	**4,319**	**65**	**4,384**
Independent non-executive directors				
Mr. Chan Yiu Tung, Anthony	**120**	**–**	**–**	**120**
Mr. Zheng Qing	**120**	**–**	**–**	**120**
Mr. Seto Man Fai *(Note 1)*	**51**	**–**	**–**	**51**
Dr. Ouyang Qingru	**120**	**–**	**–**	**120**
Mr. Leung Kwai Wah Alex *(Note 2)*	**69**	**–**	**–**	**69**
Mr. Zhang Jing *(Note 2)*	**69**	**–**	**–**	**69**
	549	**–**	**–**	**549**
	549	**4,319**	**65**	**4,933**

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2015				
Executive directors				
Mr. Han Junran	–	1,924	18	1,942
Mr. Fu Yiu Kwong	–	1,040	18	1,058
Mr. Luo Min	–	796	18	814
	–	3,760	54	3,814
Independent non-executive directors				
Mr. Chan Yiu Tung, Anthony	120	–	–	120
Mr. Zheng Qing	120	–	–	120
Mr. Seto Man Fai *(Note 1)*	170	–	–	170
Dr. Ouyang Qingru	120	–	–	120
	530	–	–	530
	530	3,760	54	4,344

Note 1: Mr. Seto Man Fai was re-designated as executive director from independent non-executive director with effect from 3 June 2016.

Note 2: Mr. Leung Kwai Wah Alex and Mr. Zhang Jing were newly appointed as independent non-executive directors of the Company with effect from 3 June 2016.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil).

During the year, no emoluments have been paid to the directors as an inducement to join or upon joining the Group; or as compensation for loss of office (2015: Nil).

The number of directors, whose remuneration fell within the following bands, is as follows:

	Number of directors 2016	2015
Nil to HK$1,000,000	**7**	5
HK$1,000,001 to HK$2,000,000	**2**	2
	9	7

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2015: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2015: two) non-director, highest paid employee for the year are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	**780**	976
Pension scheme contributions	**18**	29
	798	1,005

The number of non-directors, highest paid employees, whose remuneration fell within the following bands, is as follows:

	Number of employees	
	2016	2015
Nil to HK$1,000,000	**1**	2

10. INCOME TAX EXPENSES

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2015: Nil).

Under the Enterprise Income Tax Law, the enterprise income tax ("EIT") is calculated at a rate of 25% (2015: 25%) on the Group's estimated assessable profits arising in the PRC during the year.

	2016 HK$'000	2015 HK$'000
Current tax:		
Hong Kong	**–**	–
PRC	**1,384**	3,042
Under-provision/(over-provision) in previous year	**23**	(150)
	1,407	2,892
Deferred tax *(note 24)*	**303**	2,187
Total tax charge for the year	**1,710**	5,079

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10. INCOME TAX EXPENSES (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to effective tax rates, is as follows:

	2016		2015	
	HK$'000	**%**	HK$'000	%
Profit before tax	**2,929**		8,794	
Tax at the statutory tax rates	**1,210**	**41.3**	3,229	36.7
Income not subject to tax	**(1,222)**	**(41.7)**	(31)	(0.4)
Expenses not deductible for tax	**1,686**	**57.6**	2,032	23.1
Tax benefit not recognised/(utilised)	**13**	**0.4**	(1)	(0.1)
Under-provision/(over-provision) in previous year	**23**	**0.8**	(150)	(1.7)
Tax charge at effective rate	**1,710**	**58.4**	5,079	57.6

As at 31 December 2016 and 2015, the Group has not provided deferred tax assets in respect of tax losses available and decelerated depreciation for offsetting future assessable profits calculated at the rate of 16.5% (2015: 16.5%) as follows:

	2016	2015
	HK$'000	HK$'000
Tax losses	**255**	255
Decelerated depreciation	**168**	155
	423	410

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11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the years ended 31 December 2016 and 2015.

The calculation of basic earnings per share is based on:

	2016 **HK$'000**	2015 HK$'000
Profit for the year attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**1,294**	3,715

	Number of shares	
	2016	2015
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**3,317,045,040**	2,784,325,283

No adjustment has been made to the basic earnings per share for the years ended 31 December 2016 and 2015 in respect of a dilution as there were no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

12. DIVIDENDS

The directors did not recommend any dividend for the year ended 31 December 2016 (2015: Nil).

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13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold building HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2016					
At 1 January 2016:					
Cost	1,043	1,800	1,938	1,770	6,551
Accumulated depreciation	(195)	(1,479)	(1,166)	(1,353)	(4,193)
Net carrying amount	848	321	772	417	2,358
At 1 January 2016, net of accumulated depreciation	848	321	772	417	2,358
Additions	–	–	43	317	360
Depreciation provided during the year	(22)	(117)	(140)	(370)	(649)
Exchange realignment	(45)	(12)	(32)	(12)	(101)
At 31 December 2016, net of accumulated depreciation	781	192	643	352	1,968
At 31 December 2016:					
Cost	986	1,767	1,897	2,073	6,723
Accumulated depreciation	(205)	(1,575)	(1,254)	(1,721)	(4,755)
Net carrying amount	781	192	643	352	1,968

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13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold building HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2015					
At 1 January 2015:					
Cost	1,107	1,435	1,603	1,770	5,915
Accumulated depreciation	(185)	(1,435)	(805)	(956)	(3,381)
Net carrying amount	922	–	798	814	2,534
At 1 January 2015, net of accumulated depreciation	922	–	798	814	2,534
Acquisition of subsidiaries *(note 27)*	–	321	52	–	373
Additions	–	–	78	–	78
Depreciation provided during the year	(22)	–	(122)	(397)	(541)
Exchange realignment	(52)	–	(34)	–	(86)
At 31 December 2015, net of accumulated depreciation	848	321	772	417	2,358
At 31 December 2015:					
Cost	1,043	1,800	1,938	1,770	6,551
Accumulated depreciation	(195)	(1,479)	(1,166)	(1,353)	(4,193)
Net carrying amount	848	321	772	417	2,358

The carrying amount of the Group's motor vehicle held under finance lease (note 21) included in the total amount of motor vehicles at 31 December 2016 amounted to approximately HK$92,000 (2015: HK$275,000).

Notes to Consolidated Financial Statements

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14. INVESTMENT PROPERTIES

	The Guangzhou Properties at fair value		The Luoyang Properties at cost		Total	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Completed project						
Investment properties in Guangzhou *(note (a))*						
Carrying amount at 1 January	**705,660**	737,508	**–**	–	**705,660**	737,508
Change in fair value of investment properties *(note 5)*	**1,211**	10,585	**–**	–	**1,211**	10,585
Exchange realignment	**(38,979)**	(42,433)	**–**	–	**(38,979)**	(42,433)
Carrying amount at 31 December	**667,892**	705,660	**–**	–	**667,892**	705,660
Incomplete project						
Investment properties in Luoyang *(note (b))*						
Carrying amount at 1 January	**–**	–	**72,662**	–	**72,662**	–
Acquisition of subsidiaries *(note 27)*						
– Construction in progress, at cost	**–**	–	**–**	72,662	**–**	72,662
Exchange realignment	**–**	–	**(4,003)**	–	**(4,003)**	–
Carrying amount at 31 December	**–**	–	**68,659**	72,662	**68,659**	72,662
Aggregate carrying amount at 31 December	**667,892**	705,660	**68,659**	72,662	**736,551**	778,322

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14. INVESTMENT PROPERTIES (CONTINUED)

Notes:

(a) Investment properties in Guangzhou (the "Guangzhou Properties") are situated at Nos. 20-22 Chigang West Road, Haizhu District, Guangzhou City, Guangdong Province, the PRC and are held under medium term leases.

The Guangzhou Properties were leased to tenants under operating leases for rental income and management service income (note 5), further summary details of which are included in note 28 to the consolidated financial statements. The Guangzhou Properties were stated at fair value at the end of the reporting period.

At 31 December 2016, the Guangzhou Properties with carrying amount of approximately HK$667,892,000 (2015: HK$705,660,000) were pledged to secure bank borrowings, details of which are set out in note 22 to the consolidated financial statements.

The fair value of the Guangzhou Properties has been assessed by Access Partner Consultancy & Appraisals Limited ("Access Partner") (2015: Savills Valuation and Professional Services Limited), the independent valuers (the "Valuers"), by using the income approach to be RMB601,000,000 (equivalent to approximately HK$667,892,000) (2015: RMB600,000,000 (equivalent to approximately HK$705,660,000)) as at 31 December 2016.

A change in fair value of the Guangzhou Properties of HK$1,211,000 (note 5) (2015: HK$10,585,000) was recognised under "other income and gains" in the consolidated statement of profit or loss. The directors of the Company (the "Directors") have reviewed the valuation performed by the Valuers for financial reporting purpose as follows:

– Hold discussions with the Valuers in respect of the methodology, assumptions and key factors used in the valuation;

– Verify all major inputs to the independent valuation report; and

– Assess property valuation movements when compared to the prior year valuation report.

Fair value hierarchy

Details of the Guangzhou Properties and information about the fair value hierarchy as at 31 December 2015 and 2016 are as follows:

	Fair value measurement using			
	Quoted prices in active markets (level 1) HK$'000	**Significant observable inputs (level 2) HK$'000**	**Significant unobservable inputs (level 3) HK$'000**	**Total HK$'000**
As at 31 December 2016				
Guangzhou Properties	–	–	667,892	667,892
As at 31 December 2015				
Guangzhou Properties	–	–	705,660	705,660

During the year, there were no transfers in the fair value hierarchy between Level 1 and Level 2, or transfers into or out of Level 3 (2015: Nil).

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14. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(a) (Continued)

Fair value measurement

The Guangzhou Properties are held for the purpose of generating rental income and/or for capital appreciation. The Directors considered that the adoption of the income approach is appropriate in accessing the fair value of the Guangzhou Properties as at 31 December 2015 and 2016. Accordingly, the fair value of the Guangzhou Properties was determined based on the income approach.

Information about the Level 3 fair value measurements is as follows:

Description	Fair value at 31 December 2016	Valuation technique	Unobservable inputs	Relationship of unobservable Inputs to fair value
Industrial properties	HK$667,892,000 (2015: HK$705,660,000)	Income approach	Estimated rental income (per square metre and per month) with a range from RMB83 to RMB180 (2015: RMB83 to RMB180)	The higher the rental income, the higher the fair value
			Discount rate at 4.75% (2015: 4.75%)	The higher the discount rate the lower the fair value
			Occupancy rate in respect of existing tenancy agreement 78% (2015: 83%)	The higher the occupancy rate in respect to existing tenancy agreement the higher the fair value

14. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(b) Investment properties in Luoyang (the "Luoyang Properties") represented the construction in progress of a parcel of land which are situated at 洛陽新區伊濱區環湖路以東、白塔路以南、開拓大道以西、用地界以北, Luoyang, the PRC. The Luoyang Properties were acquired through the acquisition of the subsidiaries (note 27) during the year ended 31 December 2015. The Luoyang Properties comprise a parcel of land held under medium term leases with a site area of 69,942.185 square metres which can be developed into a total gross floor area of 173,724.12 square metres. Its carrying amount comprised the land use right and directly attributable costs and was stated at acquisition cost of RMB61,782,000 (equivalent to HK$68,659,000 (2015: HK$72,662,000)), and less impairment, if any. The Directors are of opinion that the construction planning of the Luoyang Properties has yet been determined as at 31 December 2016 and accordingly, its fair value cannot be measured reliably.

Pursuant to a land use right agreement (國有建設用地使用權出讓合同) (the "Land Use Right Agreement") of the Luoyang Properties, which was entered into between 洛陽萬亨置業有限公司 ("洛陽萬亨"), a subsidiary of the Company upon completion of the Faith Onward Acquisition (note 27), and 洛陽國土資源局 ("國土局") on 1 February 2013, 洛陽萬亨 is required to commerce and complete the construction of the Luoyang Properties on or before 1 September 2013 and 1 September 2016 (the "Construction Period"), respectively. A penalty (the "Penalty") calculated at 0.1% per day on the original consideration paid by 洛陽萬亨 for the land use right, which was approximately RMB 31,270,000, will be imposed by 國土局 if the construction was not commenced on time or the completion of the construction falls beyond the Construction Period. The land use right may also be forfeited (the "Forfeiture") by 國土局 if the construction has not been completed beyond 60 days of the Construction Period. On 17 November 2016, the Group received a notice from 洛陽市城鄉一體化示範區管理委員會國土環保局, pursuant to which, the Group is required to commence the construction of the Luoyang Properties within 15 days after the date of the notice unless the Group has a reasonable excuse. The Group replied and expected to have the construction work commenced in June 2017. The Directors have sought a legal advice from a PRC lawyer and are of the opinion that the delay of the construction of the Luoyang Properties was due to the changing of land policy by the Luoyang government in the prior year and the risk for the Penalty or the loss on the Forfeiture is not material. Accordingly, no provision in respect of the Penalty and/or the Forfeiture, if any, has been included in the consolidated financial statements as at 31 December 2016 and 2015.

Impairment assessment of the Luoyang Properties

The recoverable amount of the Luoyang Properties has been assessed by an independent valuer, Access Partner, as at 31 December 2016. No impairment in respect of the Luoyang Properties has been provided as the recoverable amount of the Luoyang Properties was higher than its carrying amount as at 31 December 2016 (2015: Nil).

Pursuant to Access Partner's valuation report dated 31 March 2017, the recoverable amount of the Luoyang Properties was approximately of RMB68,000,000 (equivalent to approximately HK$75,568,000) (2015: RMB66,000,000 equivalent to approximately HK$77,623,000) which measured using the direct comparison method based on market observable transactions of similar properties without any significant adjustments.

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15. INVESTMENT IN AN ASSOCIATE

	2016 **HK$'000**	2015 HK$'000
Unlisted shares, at cost*	**–**	–
Share of net assets	**–**	–
Due from an associate	**9**	8
	9	8

Particulars of the principal associate are as follows:

Name	**Particulars of issued shares held**	**Place of incorporation registration and business**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
New City Fortune Medicare Group Limited*	Ordinary shares	Hong Kong	34	Investment holding

* New City Fortune Medicare Group Limited was incorporated in Hong Kong on 26 September 2014, with investment cost of HK$34. The investment cost has been presented as "nil" as a result of rounding. The financial statements of the associate were not audited by Ascenda Cachet CPA Limited. Except for the capital commitment as mentioned in note 29(b) to the consolidated financial statements, the associate did not have any material assets and liabilities as at 31 December 2016 and 2015 and therefore, the Group did not share its net assets during the years ended 31 December 2016 and 2015.

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment. It was classified as amount due from an associate in the consolidated statement of financial position.

16. AVAILABLE-FOR-SALE INVESTMENT

	2016 **HK$'000**	2015 HK$'000
Unlisted equity investments, at cost*	**–**	–
Due from a related company	**8**	8
	8	8

* Available-for-sale investment represented 8% equity interest in New City (China) Vocational Education Investments Group Limited, with investment cost of HK$8. The available-for-sale investment has been presented as "nil" as a result of rounding.

The amount due from a related company is unsecured, interest-free and has no fixed terms of repayment. It was classified as amount due from a related company in the consolidated statement of financial position.

17. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 HK$'000	2015 HK$'000
Listed equity investment in Taiwan, at market value	**37,628**	36,976

The fair value of the equity investment as at 31 December 2016 was determined based on the quoted market bid prices available on The Taiwan Stock Exchange resulting with a gain on equity investment at fair value through profit or loss and an exchange gain of approximately HK$99,000 (note 5) and HK$553,000, respectively (2015: HK$2,726,000 and HK$ Nil, respectively). The above equity as at 31 December 2015 and 2016 was classified as held for trading and was, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Prepayments		
– Prepaid professional fee for the Luoyang Properties *(note (a))*	**1,532**	1,482
– Prepaid renovation and improvement costs (the "Prepaid Renovation Costs") of the Guangzhou Properties *(notes (b) and 31)*	**67,345**	68,449
– Others	**1,059**	926
Deposits		
– Vision Deposit and the Escrow Amount *(note (c))*	**55,500**	–
– Others	**274**	274
Other receivables		
– Due from the Subscriber *(note (d))*	**–**	29,003
– Due from Beijing Zhongzheng *(note (e))*	**36,858**	31,755
– Others	**1,554**	604
	164,122	132,493
Less: Non-current portion		
Prepaid professional fee and the Prepaid Renovation Costs classified as non-current assets	**(124,377)**	(69,931)
Current portion	**39,745**	62,562

Notes:

(a) The prepaid professional fee represented design fee and environmental assessment paid to independent construction consultants for the Luoyang Properties with a total contract sum of RMB11,119,000 (equivalent to approximately HK$12,356,000) (2015: RMB11,000,000 (equivalent to approximately HK$12,937,000)). As at 31 December 2016, an aggregate amount of RMB1,379,000 (equivalent to approximately HK$1,532,000) (2015: RMB$1,260,000 (equivalent to approximately HK$1,482,000)) has been prepaid by the Group to the consultants for preparation of the work.

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18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(b) On 28 August 2015, the Group entered into a properties renovation, improvement and upgrading contract (裝修及設備改造項目工程施工合同) (the "Renovation Contract") with 北京吉彩裝飾工程有限公司 ("北京吉彩", a related company of the Company, of which Mr. Han Junran ("Mr. Han"), a director and substantial shareholder of the Company and his close family members are the ultimate shareholders), for the renovation, improvement and upgrading of the Guangzhou Properties (the "Properties Improvement") with a total contract sum (the "Contract Sum") of RMB133,500,000 (equivalent to approximately HK$148,359,000). Pursuant to the Renovation Contract, the Group is required to prepay (the "北京吉彩 Prepaid Renovation Cost") RMB80,100,000, being 60% of the Contract Sum, to 北京吉彩 with the remaining 35% and 5% of the Contract Sum payable upon completion and user acceptance of the Properties Improvement and 10 days after the 2 years' maintenance period, respectively. The renovation period (the "Renovation Period") is from 15 September 2015 to 15 September 2017. As at 31 December 2016, an aggregate amount of RMB60,600,000 (equivalent to approximately HK$67,345,000 (2015: RMB58,200,000 (equivalent to approximately HK$68,449,000)) has been prepaid by the Group to 北京吉彩 which is guaranteed by 北京貝盟國際建築裝飾工程有限公司 (the "Guarantor"), an independent third party, pursuant to an agreement (the "Three Parties Agreement") entered into between the Group, 北京吉彩 and the Guarantor on 28 August 2015 whereby the Guarantor irrevocably guarantees and undertakes to procure 北京吉彩 to execute and fulfill its duties and responsibilities (the "Duties") under the Renovation Contract. Upon 北京吉彩's failure to perform its Duties, the Guarantor shall (i) repay to the Group the 北京吉彩 Prepaid Renovation Cost; and (ii) perform the Duties on behalf of 北京吉彩 at the Group's request. On 15 March 2016, the Group further entered into an agreement with Mr. Han, pursuant to which, Mr. Han further guarantees the responsibilities and duties of the Guarantor under the Three Parties Agreement.

However, the original renovation, improvement and upgrading plan has been modified (the "Modified Renovation Plan") by the Directors during the year ended 31 December 2016. Therefore, the Group further entered into two memorandum of understanding (the "中科建設 MOU") with 中科建設開發總公司天津分公司 ("中科建設") on 26 August 2016 and 6 September 2016, respectively, for engaging 中科建設 as the main contractor for the Properties Improvement while retaining 北京吉彩 as the sub-contractor. Pursuant to the 中科建設 MOU, the total contract sum of the Properties Improvement is revised to RMB180,000,000 (equivalent to approximately HK$200,034,000). Due to the modification, the Directors expect the commencement of the Properties Improvement in the second half of 2017.

(c) The Group entered into a memorandum of understanding (the "Vision Products MOU") with Vision Products Limited ("Vision Products") on 20 June 2016, pursuant to which, the Group engaged Vision Products as a consultant to lead a project on the development of cultural business in different brands and icons that the Group believes which would further contribute to the value of the Group. Vision Products has the experience and track records of building up cultural products and design of branded products and icons for various multinationals which are very popular in Europe and other markets worldwide. Pursuant to the Vision Products MOU, the Group has made deposit of approximately HK$5,980,000 (the "Vision Deposit") to Vision Products for its exclusive development for themed business so as to achieve their objective and target, (i) the attraction of family-based target consumer group with exclusive procurement of cultural products; (ii) promotion of different themes to the Group; and (iii) the nurture for people and family-based audience to become aware of our brands, products and the Group.

The Group has further taken this opportunity to leverage the expertise of Vision Products to contribute to the Modified Renovation Plan of renovating the Guangzhou Properties for upgrading it with new edge concept and value enhancement in collaboration with 廣州市青年設計師協會 ("GZYDA") in contributing to the design conceptualisation into the Properties Improvement. To ensure the technical, engineering and construction requirement can be performed to express the design conceptualisation created by Vision Products and GZYDA, Vision Products would have to seek qualified engineering company to lead the Modified Renovation Plan for the Group's final decision and appointment. However, in order to ensure the Group is having the financial strength and have specifically reserved the funding for such appointment of a well-qualified engineering company for the project, Vision Products has requested for a refundable deposit of approximately HK$49,520,000 (the "Escrow Amount") be escrowed for the specific purpose of construction cost involved in the renovation project so these contractors being approached by Vision Products would be comfortable and the necessary funding can be swiftly transferred to the selected contractor to fix the cost of the renovation upon the completion of the formal appointment with the selected contractor. The Group would then have a direct contractual relationship with the selected contractor being appointed.

On 31 December 2016, the Group further entered into an agreement with Mr. Han, pursuant to which, Mr. Han further guarantees the recoverability of the Vision Deposit and the Escrow Amount.

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18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(d) During the year ended 31 December 2015, the Company agreed the issuance of 136,060,042 shares at a subscription price of HK$0.247 per share to the Subscriber for his undertaking of the settlement for the Company of the Judgement Debt which was estimated to be RMB27,660,000 (equivalent to approximately HK$33,607,000) in respect of the Litigation filed by Shanghai Fudan. An amount of RMB3,000,000 has been settled by the Subscriber for the Company to Shanghai Fudan, leaving a remaining balance of RMB24,660,000 (equivalent to approximately HK$29,003,000) as at 31 December 2015. The remaining balance of RMB660,000 (equivalent to approximately HK$733,000) has been charged as the compensation for the services provided by the Subscriber and its associates in relation to the Litigation in the consolidated financial statement of profit and loss during the year ended 31 December 2016.

As detailed in note 20(c) and note 32 to the consolidated financial statements, the Judgement Debt was finally agreed to be RMB27,000,000, which has been settled by the Subscriber to Shanghai Fudan as at 31 December 2016.

Terms in Capital Letters are defined in note 32 to the consolidated financial statements.

(e) The amount represented the Judgement Debt recoverable from Beijing Zhongzheng in respect of the Litigation filed by Shanghai Fudan.

As detailed in note 32 to the consolidated financial statements, in March 2016, Beijing Zhongzheng agreed to fully pay back the Judgement Debt to the Company together with (i) an interest at 15% per annum; and (ii) a fixed sum of RMB5,000,000 (equivalent to approximately HK$5,881,000) as compensation which shall be settled on or before 7 March 2018 and is guaranteed by北京桑普新源技術有限公司, an independent third party. Accordingly, the Directors are of the opinion that the Judgement Debt will be fully recovered from Beijing Zhongzheng and no further provision of the Litigation was recognised in the consolidated statement of profit or loss during the years ended 31 December 2015 and 2016.

Terms in Capital Letters are defined in note 32 to the consolidated financial statements.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

19. CASH AND CASH EQUIVALENTS

	2016 **HK$'000**	2015 HK$'000
Cash and bank balances	**40,045**	125,346
Time deposits	**–**	38,932
	40,045	164,278

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$27,001,259 (2015: HK$32,655,967). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day to three months depending on the immediate cash requirements of the Group and earn interest at the respective short term time deposits rates. The bank balances and pledged are deposited with creditworthy banks with no recent history of default. The carrying amounts of the bank balances and cash approximate their fair values.

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20. OTHER PAYABLES AND ACCRUALS

	2016 HK$'000	2015 HK$'000
Accrued expenses	**1,692**	2,482
Other payables	**1,454**	1,884
Due to 誠達 *(note (a))*	**9,726**	8,737
Due to Faith Grand Investments Limited ("Faith Grand") *(note (b))*	**–**	58,500
Due to Shanghai Fudan *(notes (c) and 32)*	**–**	28,227
	12,872	99,830
Less: Non current portion	**–**	–
Current portion	**12,872**	99,830

Notes:

(a) The amount due to 誠達 is unsecured, interest-free and has no fixed terms of repayment.

(b) The amount as at 31 December 2015 represented the balance of the consideration on acquisition of Faith Onward (Hong Kong) Investment Limited (note 27) which has been settled during the year ended 31 December 2016.

(c) The amount represented the balance of the Judgement Debt payable to Shanghai Fudan in respect of the Litigation filed by Shanghai Fudan.

As detailed in note 32 to the consolidated financial statements, the Group was liable to pay for the Judgement Debt of RMB27,000,000 (equivalent to approximately HK$31,755,000) payable to Shanghai Fudan. During the year ended 31 December 2015, RMB3,000,000 of the Judgement Debt had been settled by the Subscriber for the Company and the outstanding balance of RMB24,000,000 (equivalent to approximately HK$28,227,000) was further settled by the Subscriber during the year ended 31 December 2016.

Despite the Judgment Debt has been undertaken by the Subscriber (note 18(d)), the amount payable to Shanghai Fudan was not offset against the amount due from the Subscriber as at 31 December 2015 as the Directors considered that the obligation of the Judgement Debt was retained in the Group until it was settled by the Subscriber to Shanghai Fudan and, therefore, the amount due from the Subscriber was recognised as "other receivables" (note 18(d)) in the consolidated statement of financial position as at 31 December 2015.

Terms in Capital Letters are as defined in note 32 to the consolidated financial statements.

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21. FINANCE LEASE PAYABLE

The Group leases a motor vehicle (note 13) for its business operation. The lease is classified as a finance lease and has remaining lease terms of 7 (2015: 19) months as at 31 December 2016.

At 31 December 2016, the total future minimum lease payment under finance lease and their present values were as follows:

Group	**Minimum lease payments 2016 HK$'000**	Minimum lease payments 2015 HK$'000	**Present value of minimum lease payments 2016 HK$'000**	Present value of minimum lease 2015 HK$'000
Amounts payable:				
Within one year	**103**	176	**101**	165
In the second year	**–**	103	**–**	101
Total minimum finance lease payments	**103**	279	**101**	266
Future finance charges	**(2)**	(13)		
Total net finance lease payable	**101**	266		
Portion classified as current liabilities	**(101)**	(165)		
Non-current portion	**–**	101		

The finance lease payable bears an effective interest rate of 3.5% (2015: 3.5%) per annum and is secured by the leased motor vehicle with a carrying value of approximately HK$92,000 (2015: HK$275,000) (note 13) as at 31 December 2016. The Directors consider that the carrying amount of the finance lease payable approximates to its fair value as at the end of the reporting period.

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22. INTEREST-BEARING BANK BORROWINGS, SECURED

	Effective interest rate (%)	Maturity	2016 HK$'000 *(Note)*	2015 HK$'000
Bank loan – Guangzhou Loan (note a)	5.94%	2020	**200,034**	211,698
			200,034	211,698
Analysed into:				
Repayable:				
Within one year or on demand			**3,334**	–
In the second to fifth years, inclusive			**196,700**	211,698
Total			**200,034**	211,698
Current portion			**(3,334)**	–
Non current portion			**196,700**	211,698

Note:

(a) On 3 August 2015, Guangdong Changliu Investment Company Limited ("Changliu"), an indirect wholly-owned subsidiary of the Company entered into a loan agreement (the "BOGZ Loan Agreement") with Bank of Guangzhou ("BOGZ"), pursuant to which, BOGZ agreed to grant a loan (the "BOGZ Loan") in the amount of RMB180,000,000 (equivalent to HK$200,034,000) (2015: RMB180,000,000 (equivalent to HK$211,698,000)) to Changliu for a term of 5 years, which is secured by legal charges over the Guangzhou Properties and has been fully drawn down by Changliu. The BOGZ Loan bears interest at 125% of the benchmark annual lending and deposit rate of the People's Bank of China, which is repayable on a quarterly basis. The principal amount of the BOGZ Loan is repayable as follows: (i) four instalments of RMB1,500,000 (equivalent to approximately HK$1,667,000) each on or before February 2017, August 2017, February 2018 and August 2018, respectively; (ii) four instalments of RMB10,000,000 (equivalent to approximately HK$11,113,000) each on or before February 2019, August 2019, February 2020 and August 2020, respectively; and (iii) the remaining balance of RMB134,000,000 (equivalent to approximately HK$148,914,000) on or before August 2020.

23. DUE TO A NON-CONTROLLING SHAREHOLDER, RELATED PARTIES AND DIRECTORS

The amounts due to a non-controlling shareholder, related parties and directors are unsecured, interest-free and have no fixed terms of repayment.

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24. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities are as follows:

	Fair value changes on the investment properties HK$'000	Prepaid administrative fee HK$'000	Total HK$'000
At 1 January 2015	162,804	489	163,293
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 10)*	2,646	(459)	2,187
Exchange realignment	(9,365)	(30)	(9,395)
At 31 December 2015 and 1 January 2016	**156,085**	**–**	**156,085**
Deferred tax charged to the consolidated statement of profit or loss during the year *(note 10)*	**303**	**–**	**303**
Exchange realignment	**(8,625)**	**–**	**(8,625)**
At 31 December 2016	**147,763**	**–**	**147,763**

The above deferred tax liabilities represented taxable temporary differences arising from the fair value changes on the investment properties calculated at the rate of 25% during the year ended 31 December 2016. (2015: 25%)

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25. SHARE CAPITAL

	2016 HK$'000	2015 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.004 each	**40,000**	40,000
Issued and fully paid:		
3,317,045,040 ordinary shares of HK$0.004 each	**13,268**	13,268

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2015	2,544,787,999	10,179	253,344	263,523
Open offer of shares *(note (a))*	636,196,999	2,545	175,590	178,135
Issuing cost for the open offer	–	–	(4,239)	(4,239)
Issue of shares in respect of the Judgement Debt *(note (b))*	136,060,042	544	33,063	33,607
At 31 December 2015 and 2016	3,317,045,040	13,268	457,758	471,026

Notes:

(a) On 17 August 2015, the Company completed an open offer of 636,196,999 offer shares at a price of HK$0.28 per offer share on the basis of one offer share for every four shares held. The net proceeds from the open offer amounted to approximately HK$173,896,000 after deduction of direct attributable costs of HK$4,239,000 and was applied as general working capital of the Group and acquisition of possible investment.

(b) As detailed in note 32 to the consolidated financial statements, the Company entered into a subscription agreement (the "Subscription Agreement") with Mr. Zhu Ya Yong (朱亞勇) (the "Subscriber") on 30 November 2015, pursuant to which, a total of 136,060,042 subscription shares of the Company were issued at a subscription price of HK$0.247 per share to the Subscriber for his undertaking for settlement of the Judgement Debt for the Company in respect of the litigation filed by Shanghai Fudan on 30 December 2015.

26. RESERVES

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity on page 42 of the consolidated financial statements.

27. ACQUISITION OF SUBSIDIARIES

31 December 2015

On 30 October 2015, the Group entered into a sale and purchase agreement (the "Faith Onward Acquisition Agreement") with Faith Grand Investments Limited ("Faith Grand", a related company of the Company, of which Mr. Han Kairan, a director and substantial shareholder of Faith Grand, is a close family member of Mr. Han Junran, a director and substantial shareholder of the Company). Pursuant to the Faith Onward Acquisition Agreement, the Group acquired (the "Faith Onward Acquisition") (i) 100% equity interest of Faith Onward (Hong Kong) Investments Limited ("Faith Onward"), and 90% equity interest of 信誠(洛陽)酒店物業管理有限公司 and its subsidiary, 洛陽萬亨置業有限公司 (collectively, the "Faith Onward Group"); and (ii) the amount due to the Company's subsidiary of HK$41,058,000 by the Faith Onward Group (the "Sales Loan"), at a total consideration of HK$68,000,000. The Faith Onward Group is principally engaged in the property development and investment in Luoyang, the PRC. The Faith Onward Acquisition was completed on 31 December 2015 (the "Acquisition Date").

The Directors are the opinion that the principal asset of the Faith Onward Group are the Luoyang Properties (note 14) which represent a parcel of land in Luoyang and is classified as construction in progress under investment properties in the consolidated statement of the financial position of the Faith Onward Group. As the Faith Onward Group did not have any operation as at the Acquisition Date and therefore, the Faith Onward Acquisition is not accounted for as a business combination but an acquisition of assets. Accordingly, the difference between of the consideration over the carrying value of the individual identifiable assets and liabilities other than the construction in progress of the Faith Onward Group as at the Acquisition Date has been recognised as the deemed cost of the construction in progress.

Details of the identifiable assets and liabilities of the Faith Onward Group at the Acquisition Date are as follows:

	HK$'000
Property, plant and equipment *(note 13)*	373
Construction in progress *(note 14(b))*	72,662
Prepayments	1,565
Cash and bank balance	98
Other payables	(53)
Due to a related party	(1,774)
Due to a non-controlling shareholder	(4,318)
Due to a subsidiary of the Company by the Faith Onward Group (the Sales Loan)	(41,058)
Net assets of the Faith Onward Group	27,495
Non-controlling interests	(553)
Less: The Sales Loan	41,058
Cash consideration	68,000

Notes to Consolidated Financial Statements

31 December 2016

27. ACQUISITION OF SUBSIDIARIES (CONTINUED)

31 December 2015 (Continued)

An analysis of the cash flows in respect of the Faith Onward Acquisition is as follows:

	HK$'000
Cash consideration	68,000
Cash and bank balances acquired	(98)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	67,902

Since the completion of the Faith Onward Acquisition, the Faith Onward Group did not contribute to the Group's revenue and consolidated profit for the year ended 31 December 2015.

Had the Faith Onward Acquisition taken place at the beginning of the year ended 31 December 2015, the Group's revenue and consolidated profit for the year would have been approximately HK$39,064,000 and HK$2,260,000, respectively.

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28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases the Guangzhou Properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years (2015: for a term of 1 to 5 years).

At 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**18,479**	14,627
In the second to fifth years, inclusive	**19,541**	14,074
	38,020	28,701

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years (2015: 1 to 2 years).

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**1,563**	665
In the second to fifth years, inclusive	**702**	85
	2,265	750

Notes to Consolidated Financial Statements

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29. OTHER COMMITMENTS

In addition to the operating lease commitments detailed in note 28 to the consolidated financial statements, the Group had the following commitments at the end of the reporting period:

(a) Proposed acquisition

On 8 November 2013, the Group entered into a co-operation agreement (the "Agreement") with an independent third party (the "Vendor") and Qingdao Chengtai Real Estate Development Company Limited 青島成泰房地產開發有限公司 ("Qingdao Chengtai", a company wholly-owned by the Vendor), pursuant to which, the Group will acquire (the "Qingdao Acquisition") the entire equity interest in Qingdao Chengtai in 2 phases at a consideration (the "Consideration") of RMB 200,000,000 (equivalent to HK$222,260,000), subject to the upward adjustment.

The principal asset of Qingdao Chengtai is a leasehold land (the "Land") located in Qingdao City, Shangdong Province, the PRC which is intended for the development of real estates (the "Project").

For the first phase (the "1st Phase") of the Qingdao Acquisition, the Group shall acquire 65% equity interest in Qingdao Chengtai when, among other things, the planning approval of the Project is obtained from the relevant government authorities, which should be completed on or before 8 July 2014 and subsequently further extended to 30 June 2016. For the second phase (the "2nd Phase") of the Qingdao Acquisition, the Group shall acquire the remaining 35% equity interest in Qingdao Chengtai when the Project has been completed.

The Consideration shall be satisfied by (i) as to RMB80,000,000 (equivalent to approximately HK$88,904,000) by cash payable upon the completion of the 1st Phase; and (ii) as to RMB120,000,000 (equivalent to approximately HK$133,356,000), subject to an upward adjustment, by transferring the corresponding parts of the real estate of the Project which worth RMB120,000,000 (equivalent to approximately HK$133,356,000) upon the completion of the 2nd Phase.

However, the Qingdao Acquisition has been expired since 30 June 2016.

(b) Capital injection

On 12 July 2014, the Company entered into a letter of intent for co-operation with an independent third party (the "Partner"), pursuant to which, a Hong Kong company, New City Fortune Medicare Group Limited ("NC Fortune Medicare") was incorporated, of which, 34% equity interest in NC Fortune Medicare was held by the Group. NC Fortune Medicare will then set up a wholly-owned subsidiary in Shanghai (the "Shanghai Subsidiary") for the development of medicare business in various cities in the PRC. The registered capital of the Shanghai Subsidiary will be RMB1,000,000, which shall be financed by all the shareholders of NC Fortune Medicare in proportion to their respective shareholdings therein. The Shanghai Subsidiary has not been established as at the date of approving these consolidated financial statements. As at 31 December 2016, none of the RMB340,000 (equivalent to approximately HK$378,000), being the contribution by the Group, has been injected by the Company to the Shanghai Subsidiary through NC Fortune Medicare.

Notes to Consolidated Financial Statements

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29. OTHER COMMITMENTS (CONTINUED)

(c) Capital commitments

	2016 HK$'000	2015 HK$'000
Construction design contracts for the Luoyang Properties *(note 18 (a))*	**10,824**	11,536
Renovation and improvement costs for the Guangzhou Properties *(note 18 (b))*	**192,689**	88,560
Capital contribution payable to a subsidiary	**7,779**	–
	211,292	100,096

30. CONTINGENT LIABILITIES

Save as those disclosed in note 14(b) to the consolidated financial statements, the Group did not have any material contingent liabilities as at 31 December 2016 and 2015.

31. RELATED PARTIES TRANSACTIONS

(i) Save as those disclosed elsewhere in these consolidation financial statements, the Group had the following material transactions with related parties during the year:

	2016 HK$'000	2015 HK$'000
Rental expenses paid to related companies	**1,542**	1,542
Acquisition of the Faith Onward Group *(note 27)*	**–**	68,000
Granting of the Renovation Contract to a related company *(note (a))*	**–**	157,009

Note:

(a) As detailed in note 18(b) to the consolidated financial statements, the Group entered into the Renovation Contract with 北京吉彩, a related company of the Company, of which Mr. Han, a director and substantial shareholder of the Company and his close family members are the ultimate shareholders, for the renovation, improvement and upgrading of the Guangzhou Properties with a total contract sum of RMB133,500,000 (equivalent to approximately HK$148,359,000). As at 31 December 2016, an aggregate amount of RMB60,600,000 (equivalent to approximately HK$ 67,345,000) (2015: RMB58,200,000 (equivalent to approximately HK$68,449,000) has been prepaid to 北京吉彩 in respect of the Renovation Contract. 北京吉彩's duties and responsibilities as well as the prepayment is guaranteed by 北京貝盟國際建築裝飾工程有限公司, an independent third party, and Mr. Han to the Company.

The Directors are of the opinion that the related party transactions were conducted on terms negotiated between the Group and the related parties on normal commercial terms.

Notes to Consolidated Financial Statements

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31. RELATED PARTIES TRANSACTIONS

(ii) Compensation of key management personnel of the Group:

	2016 HK$'000	2015 HK$'000
Short term employee benefits	5,731	5,456
Post-employment benefits	–	–
Equity-settled share option expenses	–	–
Total compensation paid to key management personnel	5,731	5,456

Further details of directors' and the chief executive's emoluments are included in note 8 to the consolidated financial statements.

The number of directors, chief executive and key management personnel of the Group, whose remuneration/compensation fell within the following bands is as follows:

	Number of directors, chief executive and key management personnel	
	2016	2015
Nil to HK$1,000,000	8	7
HK$1,000,001 to HK$2,000,000	2	2
HK$2,000,001 to HK$5,000,000	–	–
HK$5,000,001 to HK$10,000,000	–	–
Over HK$10,000,000	–	–
	10	9

Notes to Consolidated Financial Statements

31 December 2016

32. LITIGATION

The Company and 北京中証房地產開發有限公司 (literally translated as Beijing Zhong Zheng Real Estate Development Company Limited) ("Beijing Zhongzheng", an ex-subsidiary of the Company which was disposed of in 2010) received a civil summons dated 15 May 2014 from the Higher People's Court of Beijing City (the "Higher Court"), pursuant to which, an application for retrial of a civil court case (the "Litigation") had been filed by 上海復旦光華信息科技股份有限公司 (literally translated as Shanghai Fudan Guanghua Information Technology Company Limited) ("Shanghai Fudan"). The Litigation was stemmed from a series of civil court proceedings commenced by Shanghai Fudan in Beijing No. 1 Intermediate People's Court and the other courts in the PRC since 2003 which alleged that Beijing Zhongzheng had failed to perform its obligation under a sale contract dated 27 June 2002 entered into between Beijing Zhongzheng and Shanghai Fudan for selling certain real properties (the "Properties Transactions") in the PRC to Shanghai Fudan at a consideration of US$1,755,432 (equivalent to approximately HK$13,605,000) (the "Allegation"). The Company became one of defendants as Shanghai Fudan claimed that Mr. Leung Kwo (梁戈) ("Mr. Leung"), the ex-director and former chairman of the Company, entered into a guarantee agreement (the "Guarantee Agreement") with Shanghai Fudan on 28 June 2002 for and on behalf of the Company, pursuant to which, the Company acted as a guarantor to guarantee Shanghai Fudan that Beijing Zhougzheng should perform its obligation under the Properties Transactions.

In view of the Litigation, the directors of the Company (the "Directors") have conducted extensive investigations, in which the Directors have (i) inspected all the minutes of the meetings of its board of directors from the date of its incorporation to the end of year 2013 to see if the Allegation has ever been brought to the attention of the Directors, (ii) contacted the key management personnel of Beijing Zhongzheng for ascertaining the merits of the Allegation, (iii) discussed in their meeting to determine the financial impact of the Litigation and the Allegation, and (iv) sought for legal advices from the lawyers in the Cayman Islands and the PRC (collectively, the "Lawyers") in respect of the Litigation. From such investigations, the Company found that (i) there was no record showing that the Allegation has ever been brought to the attention of the Directors and they did not approve and sign the Guarantee Agreement, (ii) Beijing Zhongzheng was aware of the Allegation and Litigation, but it has no records in respect of the sales of the Properties Transactions or the receipt of the sales proceeds as alleged in the Litigation.

On 29 July 2015, the Company received, through the Lawyer, the judgment dated 14 May 2015 (the "Judgment") granted by the Higher Court in respect of the Litigation, pursuant to which, the Higher Court overruled its own judgment dated 26 July 2013 and upheld the judgment dated 10 November 2010 granted by Beijing No.1 Intermediate People's Court. The Higher Court ruled that both the Properties Transactions and the Guarantee Agreement were legally effective. The Higher Court also ordered that both the Company and Beijing Zhongzheng shall be jointly liable to repay to Shanghai Fudan the sum of RMB14,529,886 together with interest accrued thereon from 1 July 2002 up to the date of payment (collectively, the "Judgment Debt") (which was preliminarily estimated by the Directors to be approximately RMB27,660,000 (equivalent to approximately HK$33,607,000) (note 18(d)).

On 30 November 2015, the Company entered into a subscription agreement (the "Subscription Agreement") with Mr. Zhu Ya Yong (朱亞勇) (the "Subscriber"), pursuant to which, the Subscriber agreed to negotiate with Shanghai Fudan for the entering into a debt settlement agreement between the Company, Shanghai Fudan and the Subscriber. It was intended that upon the completion of the debt settlement agreement, (i) the Company's obligation to repay the Judgment Debt will be assumed or satisfied by the Subscriber; and (ii) the Company will be indebted to the Subscriber for a sum of HK$33,606,830 which will be satisfied by way of the issuing of 136,060,042 shares of the Company at a subscription price of HK$0.247 per share.

Notes to Consolidated Financial Statements

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32. LITIGATION (CONTINUED)

Subsequently, 北京億隆悦泰投資有限公司 (literally translated as Beijing Yi Long Yuet Thai Investments Limited ("Beijing Yi Long"), a related company of the Subscriber) was nominated by the Subscriber for the negotiation with Shanghai Fudan and reached a settlement of the Judgment Debt at an aggregate amount of RMB27,000,000 (equivalent to approximately HK$31,755,000). Accordingly, the Company entered into a debt settlement agreement (執行和解協議) (the "Debt Settlement Agreement") with Shanghai Fudan and Beijing Yi Long on 9 December 2015, pursuant to which, the amount of the Judgment Debt was agreed at RMB27,000,000 (equivalent to approximately HK$31,755,000) which is interest-free, guaranteed and secured by a property of Beijing Yi Long (the "Yi Long Property") and (i) as to RMB3,000,000 (equivalent to approximately HK$3,528,000) payable at the date of signing of the Debt Settlement Agreement; and (ii) the remaining balance of RMB24,000,000 (equivalent to approximately HK$28,277,000) repayable by 4 quarterly installments on 31 March, 30 June, 30 September and 31 December 2016, respectively (note 20(c)).

On 30 December 2015, the Company further entered into an agreement (關於執行和解協議之四方協議) (the "Four Parties Agreement") with the Subscriber, Beijing Yi Long and 北京創意金典投資諮詢服務有限公司 ("北京創意"), a company controlled by the Subscriber, pursuant to which, (i) the Subscriber undertakes the settlement of the Judgment Debt for the Company; (ii) Beijing Yi Long pledges the Yi Long Property to Shanghai Fudan as security against the Judgment Debt; and (iii) 北京創意 pays on behalf of the Subscriber RMB3,000,000 of the Judgement Debt. The Directors are of the opinion that upon the entering of the Four Parties Agreement, the Company's obligation to repay the Judgment Debt has been assumed or satisfied by the Subscriber and therefore, the Company was indebted to the Subscriber in the sum of HK$33,606,830 which was satisfied by the issuing of 136,060,042 shares of the Company at a subscription price of HK$0.247 per share under the Subscription Agreement on 30 December 2015 (note 25(b)).

In view of the Litigation, the Directors have taken appropriate actions to negotiate with Beijing Zhongzheng for recovery of the Judgment Debt. On 7 March 2016, the Company entered into an agreement (關於支付承諾款項之三方協議) (the "Debt Recovery Agreement") with Beijing Zhongzheng, pursuant to which, Beijing Zhongzheng agreed to fully pay back the Judgment Debt to the Company together with (i) an interest at 15% per annum; and (ii) a fixed fee of RMB5,000,000 (equivalent to approximately HK$5,881,000) as compensation (collectively, the "Recoverable Debt"). The Recoverable Debt shall be settled on or before 7 March 2018 and is guaranteed by 北京桑普新源技術有限公司, an independent third party (note 18(e)). The Directors are of the opinion that the Judgment Debt will be fully recovered from Beijing Zhongzheng and no further provision of the Litigation was recognised in the consolidated statement of profit or loss during the years ended 31 December 2015 and 2016.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

31 December 2015

As detailed in notes 18(e) and 32 to the consolidated financial statements, the Company issued 136,060,042 shares at a subscription price of HK$0.247 per share to the Subscriber for his undertaking of the settlement for the Company of the Judgement Debt of RMB27,000,000, in respect of the Litigation filed by Shanghai Fudan, of which, as to RMB3,000,000 has been settled by the Subscriber to Shanghai Fudan as at 31 December 2015 and the remaining balance was treated as a deemed receivable from the Company and was included in the prepayments, deposits and other receivables.

Notes to Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2016

Financial assets

	Financial assets at fair value through profit or loss					
	Designated as such upon initial recognition HK$'000	Held for trading HK$'000	Held-to -maturity investments HK$'000	Loans and receivables HK$'000	Available -for-sale financial assets HK$'000	Total HK$'000
Available-for-sales investment	–	–	–	–	–	–
Equity investment at fair value through profit or loss	–	37,628	–	–	–	37,628
Financial assets included in prepayments, deposits and other receivables	–	–	–	94,186	–	94,186
Due from an associate	–	–	–	9	–	9
Due from a related company	–	–	–	8	–	8
Cash and bank balances	–	–	–	40,045	–	40,045
	–	37,628	–	134,248	–	171,876

Financial liabilities

	Financial liabilities at fair value through profit or loss			
	Designated as such upon initial recognition HK$'000	Held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	–	–	12,872	12,872
Due to a non-controlling shareholder	–	–	4,710	4,710
Due to related parties	–	–	609	609
Finance lease payable	–	–	101	101
Due to directors	–	–	1,440	1,440
Interest-bearing bank borrowings, secured	–	–	200,034	200,034
	–	–	219,766	219,766

Notes to Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

31 December 2015

Financial assets

	Financial assets at fair value through profit or loss					
	Designated as such upon initial recognition HK$'000	Held for trading HK$'000	Held-to -maturity investments HK$'000	Loans and receivables HK$'000	Available -for-sale financial assets HK$'000	Total HK$'000
Available-for-sales investment	–	–	–	–	–	–
Equity investment at fair value through profit or loss	–	36,976	–	–	–	36,976
Financial assets included in prepayments, deposits and other receivables	–	–	–	61,636	–	61,636
Due from an associate	–	–	–	8	–	8
Due from a related company	–	–	–	8	–	8
Cash and bank balances	–	–	–	164,278	–	164,278
	–	36,976	–	225,930	–	262,906

Financial liabilities

	Financial liabilities at fair value through profit or loss			
	Designated as such upon initial recognition HK$'000	Held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	–	–	99,830	99,830
Due to a non-controlling shareholder	–	–	2,119	2,119
Due to related parties	–	–	2,799	2,799
Finance lease payable	–	–	266	266
Due to directors	–	–	1,320	1,320
Interest-bearing bank borrowings, secured	–	–	211,698	211,698
	–	–	318,032	318,032

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, deposits and other receivables, the amount due from an associate and a related company, financial liabilities included in other payables and accruals, and amounts due a non-controlling shareholder, related parties and the directors approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

The fair values of finance lease payable, interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease payable, and interest-bearing bank and other borrowings as at 31 December 2015 and 2016 was assessed to be insignificant.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

	Fair value measurement using			
31 December 2016	**Quoted prices in active markets (level 1) HK$'000**	**Significant observable inputs (level 2) HK$'000**	**Significant unobservable inputs (level 3) HK$'000**	**Total HK$'000**
Equity investment at fair value through profit or loss	**37,628**	**–**	**–**	**37,628**
31 December 2015				
Equity investment at fair value through profit or loss	36,976	–	–	36,976

Notes to Consolidated Financial Statements

31 December 2016

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise other payables and accruals, finance lease payable and interest-bearing bank and other borrowings, secured. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the consolidated financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates related primarily to the Group's other payables and interest-bearing bank and other borrowings, secured with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variable held constant, of the Group's profit before tax and Group's equity.

	Increase/ (decrease) in basic points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
31 December 2016			
Hong Kong dollars	**1%**	**(2,000)**	**–**
	(1%)	**2,000**	**–**
31 December 2015			
Hong Kong dollars	1%	(2,117)	–
	(1%)	2,117	–

* Excluding retained profits.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Directors are of the opinion that almost all of the transactions of the Group and recognised financial assets and liabilities are denominated either in HK$ or Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy. However, the management will monitor the foreign exchange exposure should the need arises.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the fair value of monetary assets and liabilities and the Group's equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
31 December 2016			
If the Hong Kong weakens against RMB	**5**	**1,843**	**–**
If the Hong Kong dollar strengthens against the RMB	**(5)**	**(1,843)**	**–**
31 December 2015			
If the Hong Kong weakens against RMB	5	1,627	–
If the Hong Kong dollar strengthens against the RMB	(5)	(1,627)	–

* Excluding retained profits

Credit risk

The Group's credit risk is primarily attributable to prepayments, deposits and other receivables, amounts due from an associate and a related company and cash and bank balance. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The allowance for impairment has been made to reduce the exposure to the credit risk in relation to the receivables. Other than this there are no significant concentrations of credit risk within the Group in relation to other financial assets.

Notes to Consolidated Financial Statements

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Directors are of confident that the Group and the Company will have sufficient cash resources to satisfy its future working capital and other financial requirements and it is reasonable to expect the Group to remain a commercially viable concern.

The maturity profile of the financial liabilities of the Group at the end of each of the reporting period is as follows:

31 December 2016

	On demand or no fixed terms of repayment HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	10,835	2,037	–	–	–	12,872
Finance lease payable	–	43	58	–	–	101
Interest-bearing bank borrowings, secured	–	1,667	1,667	196,700	–	200,034
Due to a non-controlling shareholder	4,710	–	–	–	–	4,710
Due to related parties	609	–	–	–	–	609
Due to directors	1,440	–	–	–	–	1,440
	17,594	3,747	1,725	196,700	–	219,766

31 December 2015

	On demand or no fixed terms of repayment HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	68,795	9,866	21,169	–	–	99,830
Finance lease payable	–	40	125	101	–	266
Interest-bearing bank borrowings, secured	–	–	–	211,698	–	211,698
Due to a non-controlling shareholder	2,119	–	–	–	–	2,119
Due to related parties	2,799	–	–	–	–	2,799
Due to directors	1,320	–	–	–	–	1,320
	75,033	9,906	21,294	211,799	–	318,032

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. At the end of the reporting period, the Group has not significant equity price risk.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes other payables and accruals, deposits received, finance lease payable, interest-bearing bank borrowings, secured and amounts due to a non-controlling shareholder, related parties and directors, less cash and bank balances. Capital includes equity attributable to equity holders of the Company. The gearing ratios as at the end of reporting periods were as follows:

	2016 **HK$'000**	2015 HK$'000
Other payables and accruals	**12,872**	99,830
Deposits received	**7,738**	8,283
Finance lease payable	**101**	266
Interest-bearing bank borrowings, secured	**200,034**	211,698
Due to a non-controlling shareholder	**4,710**	2,119
Due to related parties	**609**	2,799
Due to directors	**1,440**	1,320
Less: Cash and bank balances	**(40,045)**	(164,278)
Net debt	**187,459**	162,037
Total capital:		
Equity attributable to equity holders	**603,258**	628,879
Capital and net debt	**790,717**	790,916
Gearing ratio	**24%**	20%

Notes to Consolidated Financial Statements

31 December 2016

37. COMPARATIVE AMOUNTS

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

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS		
Investment in subsidiaries	**33,481**	39,533
Prepayment	**55,500**	–
Total non-current assets	**89,981**	39,533
CURRENT ASSETS		
Equity investment at fair value through profit or loss	**37,628**	36,976
Prepayments, deposits and other receivables	**37,415**	61,168
Due from subsidiaries	**214,988**	224,341
Cash and bank balances	**63**	58,511
Total current assets	**290,094**	380,996
CURRENT LIABILITIES		
Other payables and accruals	**1,148**	29,802
Due to subsidiaries	**87,236**	87,236
Due to directors	**1,440**	1,320
Total current liabilities	**89,824**	118,358
NET CURRENT ASSETS	**200,270**	262,638
Net assets	**290,251**	302,171
EQUITY		
Issued capital	**13,268**	13,268
Reserves *(note)*	**276,983**	288,903
Total equity	**290,251**	302,171

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Director Director

Han Junran Seto Man Fai

Notes to Consolidated Financial Statements

31 December 2016

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	253,344	306,450	(463,236)	96,558
Issue of shares open offer *(note 25(a))*	175,590	–	–	175,590
Share issue expenses	(4,239)	–	–	(4,239)
Issue of shares for settlement of the Judgement Debt *(note 32)*	33,063	–	–	33,063
Loss for the year and total comprehensive income for the year	–	–	(12,069)	(12,069)
At 31 December 2015 and at 1 January 2016	**457,758**	**306,450**	**(475,305)**	**288,903**
Loss for the year and total comprehensive income for the year	**–**	**–**	**(11,920)**	**(11,920)**
At 31 December 2016	**457,758**	**306,450**	**(487,225)**	**276,983**

39. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 31 March 2017.

Five Year Financial Summary

31 December 2016

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK'000	2013 HK$'000	2012 HK$'000
REVENUE	**34,982**	39,064	43,808	51,504	45,575
Cost of sales	**(3,116)**	(3,358)	(3,943)	(3,656)	(2,887)
Gross profit	**31,866**	35,706	39,865	47,848	42,688
Other income and gains	**8,757**	14,280	41,900	150,321	208,373
Administrative and other operating expenses	**(24,973)**	(25,194)	(21,900)	(20,800)	(17,354)
Finance costs	**(12,721)**	(15,998)	(12,854)	(14,375)	(16,403)
PROFIT BEFORE TAX	**2,929**	8,794	47,011	162,994	217,304
Tax	**(1,710)**	(5,079)	(14,047)	(40,288)	(52,941)
PROFIT FOR THE YEAR	**1,219**	3,715	32,964	122,706	164,363
Attributable to:					
Owners of the Company	**1,294**	3,715	32,946	122,706	164,363
Non-controlling interests	**(75)**	–	–	–	–
	1,219	3,715	32,946	122,706	164,363

ASSETS AND LIABILITIES

	2016 HK$'000	2015 HK$'000	2014 HK'000	2013 HK$'000	2012 HK$'000
TOTAL ASSETS	**980,331**	1,114,443	774,665	763,858	614,920
TOTAL LIABILITIES	**(376,638)**	(485,011)	(332,218)	(344,607)	(326,805)
NON-CONTROLLING INTERESTS	**(435)**	(553)	–	–	–
	603,258	628,879	442,447	419,251	288,115