CITY E-SOLUTIONS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(STOCK CODE: 557)

Annual Report 2016

Contents

Mission Statement

To invest in businesses with high growth potential so as to increase shareholder value.

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the Group's results for the financial year ended 31 December 2016 ("FY2016"). The Group recorded a net loss attributable to the equity shareholders of the Company of HK$57.6 million for FY2016 as compared with a net loss attributable to the equity shareholders of the Company of HK$55.1 million in the previous corresponding year. The higher loss was due mainly to the impairment loss on available-for-sale financial assets and higher net realised and unrealized foreign exchange loss which was partially offset by a lower valuation loss on trading securities recognised in the current year and the Group's share of net gain arising from the disposal of a hotel by a jointly-controlled entity.

The Group's Investment Holding segment recorded impairment loss on available-for-sale financial assets of HK$14.8 million and net realised and unrealised valuation loss of HK$1.2 million from the Group's trading securities holding as at 31 December 2016. Net realised and unrealised foreign exchange loss of HK$14.7 million was also recorded, which mainly arose from the conversion of Sterling Pound denominated security holdings and Renminbi denominated cash deposits into the functional currency of the Company. Overall, the total other net loss of HK$30.7 million was recorded for FY2016 as compared with the total other net loss of HK$25.3 million in the previous corresponding year. During the previous corresponding period, one-off foreign exchange gain of HK$2.8 million was realised as a result of striking off a Group's dormant subsidiary. Consequently, the Group's Investment Holding segment reported a loss before tax of HK$54.2 million for FY2016 as compared with a loss before tax of HK$31.2 million in the previous corresponding year.

On the Group's Hospitality segment, the Group's U.S. hotel management arm, Richfield Hospitality, Inc, recorded lower management fee income of HK$9.0 million for FY2016, down by HK$1.3 million or 12.6% from HK$10.3 million in the previous corresponding year. The decrease in revenue was offset by lower administrative expenses and resulted in a loss before tax of HK$12.2 million for FY2016 as compared with a loss before tax of HK$15.3 million in the previous corresponding year.

The Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of HK$24.4 million as compared with HK$24.9 million from the previous corresponding year. The decrease in revenue with higher administrative expenses and resulted in a lower profit contribution of HK$2.0 million as compared to HK$2.3 million in the previous corresponding year.

The Group's 51% equity interest in Sceptre Hospitality Resources, LLC ("SHR"), the hospitality industry's leading expert for reservations connectivity, online channel marketing and revenue/channel-management services, recorded higher revenue of HK$61.8 million, up by HK$12.2 million or 24.6% from HK$49.6 million in the previous corresponding year. However, SHR incurred higher administrative expenses during FY2016 to support the revenue growth, resulting in an operating loss of HK$6.4 million as compared with an operating loss of HK$5.3 million in the previous corresponding year.

The Group's jointly-controlled entity, Richfield Syracuse Hotel Partners, LLC, which owns the Crowne Plaza Syracuse Hotel, reported a share of operating loss of HK$0.1 million for FY 2016 as compared with a share of profit of HK$1.0 million in the previous corresponding year. Following the successful completion of the disposal of the Crown Plaza Syracuse Hotel on 16 May 2016, Richfield Syracuse Hotel Partners, LLC contributed an additional share of profit net of tax arising from the disposal amounting to HK$19.6 million for the year.

The Group recognised share of profit from its associates, S-R Burlington Partners, LLC. and Cosmic Hospitality China Limited, of HK$0.5 million for FY2016, as compared to a share of profit of HK$0.2 million in the previous corresponding year.

Consequently, the Group's Hospitality segment reported a profit before tax of HK$3.5 million for FY2016 as compared with a loss before tax of HK$17.2 million in the previous corresponding year.

As at 31 December 2016, the Group assessed the availability of future taxable profit against which the tax losses can be utilised and recognised a reduction of the deferred tax assets by HK$10.2 million. This resulted in an income tax expense of HK$10.6 million in FY2016, as compared to an income tax expense of HK$13.6 million in the previous corresponding year.

Basic losses per share for FY2016 was HK15.05 cents, calculated on the weighted average number of ordinary shares of the Company in issue during the year of 382,449,524. The Group's net tangible assets per share decreased to HK$1.10 as at 31 December 2016, down from HK$1.24 as at 31 December 2015. The board did not propose a final dividend for FY2016.

Chairman's Statement

PROSPECTS

The Group remains cautious in the midst of the global uncertainty, though in the U.S. real estate and hospitality markets have remained active. The Group is in consultation with its joint venture partners to respond to market interests in our investments.

The Group will continue to grow the hospitality reservation business and to adopt a prudent approach in managing the hospitality related businesses by ensuring costs are kept in line with the level of business activities.

Moreover, the Group is finding different opportunities to diversify its business in addition to the hospitality segment. On 15 December 2016, the Company entered into a non-legally binding memorandum of understanding with an independent third party in relation to the possible acquisition of a company which is engaged in the business of assisting human reproduction.

The Group will continue to hold some trading securities and will monitor and make appropriate changes on the investment profolio time to time to cope with the economic environment. In addition, the Group will explore different short-term investment plans to improve its investment return by using the cash reserves on hand in different currencies. From time to time, there could be continued adjustments attributable to unrealised gains or losses arising from the fair value readjustments of the Group's trading securities and unrealised gains or losses on the revaluation of foreign currency cash deposits.

On behalf of the Board of Directors, I would like to thank all customers, business partners, shareholders, management and staff for their continued support of the Group.

Jiang Yulin
Chairman
29 March 2017

Financial Statistics Summary

Consolidated Statement of Profit or Loss

	The Group				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Continuing operations					
Revenue	**100,654**	92,207	100,130	102,838	97,448
(Loss)/Profit before taxation	**(50,743)**	(48,336)	(23,478)	16,304	236
Income tax (expense)/credit	**(10,556)**	(13,638)	4,964	(442)	2,528
(Loss)/Profit for the year	**(61,299)**	(61,974)	(18,514)	15,862	2,764
Attributable to:					
Equity shareholders of the Company	**(57,550)**	(55,067)	(18,978)	17,169	7,064
Non-controlling interests	**(3,749)**	(6,907)	464	(1,307)	(4,300)
(Loss)/Profit for the year	**(61,299)**	(61,974)	(18,514)	15,862	2,764
Earnings per share					
Basic (losses)/earnings per share (HK cents)	**(15.05)**	(14.40)	(4.96)	4.49	1.85
Continuing operations					
Basic (losses)/earnings per share (HK cents)	**(15.05)**	(14.40)	(4.96)	4.49	1.85

Financial Statistics Summary

Consolidated Statement of financial position

	The Group				
	2016	**2015**	**2014**	**2013**	**2012**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Property, plant and equipment	**42,647**	43,351	41,904	41,903	43,602
Intangible assets	**5,475**	8,167	10,873	13,588	16,289
Goodwill	**8,941**	8,934	8,942	8,937	8,938
Available-for-sale financial assets	**18,179**	32,985	33,016	32,996	–
Long term bank deposits	**–**	3,797	9,780	9,495	–
Interest in a joint venture	**–**	–	–	9,340	10,404
Interest in associates	**8,491**	8,322	8,880	8,673	1,550
Deferred tax assets	**–**	10,183	24,632	20,804	23,270
Current assets	**446,436**	494,141	536,026	535,295	529,506
Total assets	**530,169**	609,880	674,053	681,031	633,559
Current liabilities	**(28,827)**	(30,382)	(30,893)	(34,334)	(32,799)
Total assets less current liabilities	**501,342**	579,498	643,160	646,697	600,760
Employee benefits	**–**	–	–	(1,632)	(1,971)
Dividends received in excess of earnings from equity-method accounted joint venture	**(209)**	(19,487)	(17,256)	–	–
Interest-bearing borrowings	**(28,982)**	(29,591)	(30,394)	(31,229)	(88)
Loan from non-controlling interests	**(2,908)**	–	–	–	–
Net assets	**469,243**	530,420	595,510	613,836	598,701
Capital and reserves					
Share capital	**382,450**	382,450	382,450	382,450	382,450
Reserves	**52,205**	109,653	167,784	186,586	170,138
Total equity attributable to equity shareholders of the Company	**434,655**	492,103	550,234	569,036	552,588
Non-controlling interests	**34,588**	38,317	45,276	44,800	46,113
Total Equity	**469,243**	530,420	595,510	613,836	598,701

Financial Statistics Summary
Major Properties

Hotels		Tenure	Approximate Site Area (sq. Metres)	Number of Rooms	Effective Group Interest (%)
Sheraton Chapel Hill Hotel 1 Europa Drive Chapel Hill, North Carolina, U.S.		Fee Simple	20,072	168	43
Crown Plaza Syracuse Hotel 701 East Genessee Street Syracuse, New York, U.S. (Held by a joint venture of the Group)	Note	Fee Simple	4,925	279	43

Note: Crowne Plaza Syracuse Hotel was disposed on 16 May 2016.

Products and Services

SWAN Holdings Limited Group ("SWAN")

SWAN, a subsidiary of the Company, provides integrated solutions to the hospitality industry. SWAN can help hoteliers manage their properties in a more effective, competitive and cost efficient manner. The SWAN team offers a host of value-added services and expertise in all facets of hotel operation through its four business divisions: Richfield, Sceptre, Shield and Source.

Richfield Hospitality Services (Hotel Management)

Richfield is an established and highly reputable hotel management company. With strong industry relations and global experience, Richfield is authorized to operate hotels under leading brand affiliations as well as to provide hotel operations and marketing for independently branded properties. For over three decades, Richfield has successfully managed and skillfully developed hotel assets across all markets, categories and consumer segments while specializing in operating premier resorts, full service hotels and limited service properties. As at 31 December 2016, Richfield managed around 2,300 rooms in the form of operational management contracts, asset management, ownership and/or shared investment, with franchise licenses from leading hotel companies including Hilton, Starwood, Marriott, and Choice International. Richfield also operates several independent (non-brand affiliated) properties.

Every client's property benefits from the vast experience and industry expertise of Richfield's senior management. Each assignment begins by determining the needs of the owner. Richfield reviews the property's prior performance, identifies opportunities and assesses challenges. Richfield then tailors the appropriate solution to deliver immediate and visible improvement in the performance of the property.

With Richfield resources, processes, systems, and technologies, the results typically generate increased profitability to the owner and an upgraded and enhanced experience for each guest. For the past 31 years, Richfield has revitalized over 250 properties, ranging from independent and boutique hotels to large, city centre properties and under virtually every industry brand. Richfield achieves superior operating results through intense focus on ensuring a return on investment for all stakeholders. This is accomplished through its strong commitment to guests, employees and owners.

Services offered by Richfield cover all aspects of hotel management including:

– Annual Business Planning
– Operations Improvement
– Sales & Marketing Consultancy
– Revenue and Channel Management
– Management of Franchise Affiliation
– Human Resources Management
– Accounting and Budgeting
– Asset Management Services

Consistent efforts to grow client relationships and to maximize the profitability of the hotels have culminated in the successful positioning of Richfield as a respected industry player.


Comfort Inn Near Vail Beaver Creek, Colorado, U.S.A

Sceptre Hospitality Resources (Reservation Distribution)

Screptre Hospitality Resources (SHR) is a premiere provider of advanced tools and services that help hotels execute their best distribution strategy while delighting guests and optimizing profitability. For technology driven distribution, operational efficiencies and client management, the technical maturity of SHR is second to none. In addition to serving thousands of properties around the globe with Windsurfer® CRS as well as the Internet Booking Engine, TopSail™, the company also provides Revenue Management for Hire to brands, chains, and management companies. SHR brings hoteliers nimble technology, intelligently supported by tested industry experts-keeping hotels competitive.

Products and Services

DoubleTree by Hilton Hotel Burlington, Vermont, U.S.A

Windsurfer® CRS

SHR believes that the Central Reservations System should be a complete hotel distribution platform. That's why Windsurfer offers advanced features that allow clients to easily manage their rates and inventory across all distribution channels, providing not only one of the best booking engine's on the market, but also the strongest integrations and connections, from the leading OTAs to the top meta-search sites, to GDS and IDS. SHR continues to enhance Windsurfer with regular system updates, including room class availability, configurable add-ons, and blended rates. The Windsurfer channel manager is also offered to connect to hundreds of niche OTAs around the globe. This is why Windsurfer continues to be a preferred distribution platform for a wide variety of hotel properties, including Wynn Las Vegas, Red Lion Hotels, Millennium & Copthorne, and Tune Hotels.

TopSail™ IBE

As one of the hotel industry's most responsive and flexible Internet Booking Engines, TopSail lets clients easily merchandise and sell rooms, packages, and add-ons in virtually any way they choose. Offering a responsive design, shopping cart-style booking process, persuasive messaging, and other unique features, TopSail is fully optimized for single property independents, multi-property groups, and large hotel chains, allowing cross-selling features and suggestive selling prompts.

Since TopSail was designed responsively, it can automatically adjust to any device or screen size, meaning there is no longer a need to maintain a separate "mobile" booking engine. Today's tech-savvy guests will get the same, seamless experience no matter where or how they book. And with the creation of the Call to Continue™ and Save for Later features, guests can book across multiple devices with ease. A guest may begin researching hotels on a desktop computer at work, continue booking on a tablet at home, and finish the reservation later via a mobile phone.

Revenue Management for Hire

In addition to its innovative technology, SHR also provides an outsourced revenue management service for properties of any size and brand affiliation. Dedicated to finding revenue solutions that work for specific situations, SHR's experienced revenue managers provide unique insight to help build and maintain a winning revenue management strategy for today's hoteliers.

The SHR team has over 90 collective years of experience in hotel revenue management, and has worked with almost every type of hotel, including major brands, chains, independent hotels, and resorts, carefully guiding hoteliers through renovations, re-brandings, and grand openings, no matter the economic climate. The team brings with it industry certifications, including HSMAI's Certified Revenue Management Executive, Hotel Revenue Management Certified from eCornell.

In addition, SHR has created best-in-class revenue reporting tailored to give clients a clearer picture of every aspect of hotel's revenue strategy. Through the company's relationship with Smith Travel Research, SHR can also offer discounted STR reports, which provide current performance metrics for multiple competitive sets.

Business Review

Sheraton Chapel Hill Hotel, North Carolina, U.S.A

Group Performance

The Group recorded revenue of HK$100.7 million in the financial year ended 31 December 2016 ("FY2016"), an increase of HK$8.5 million or 9.2% from HK$92.2 million in the previous corresponding year ("FY2015") due mainly to the higher revenue generated from Sceptre Hospitality Resources, LLC.

The Group reported a net loss attributable to the equity shareholders of the Company of HK$57.6 million for FY2016 as compared with a net loss attributable to equity shareholders of the Company of HK$55.1 million in FY2015, due mainly to the impairment loss on available-for-sale financial assets and higher net realised and unrealised foreign exchange loss which was partially offset by a lower valuation loss on trading securities recognised in the current year and the Group's share of net gain arising from the disposal of a hotel by a jointly-controlled entity.

The analysis of the Group's revenue and profit and loss from operations by business segments are set out in the notes to the financial statements.

Investment Holding

The Group's Investment Holding segment reported lower dividend and interest income of HK$3.9 million in FY2016, as compared to HK$5.0 million in FY2015.

The result of this segment was negatively impacted by the impairment loss on available-for-sale financial assets of HK$14.8 million and net realised and unrealised valuation loss of HK$1.2 million from the Group's trading securities holding as at 31 December 2016. The major component in the Group's trading securities holding is the shares held in Millennium & Copthorne Hotels plc ("M&C") of HK$50.3 million, which is a hospitality and real estate company listed on the London Stock Exchange, M&C contributed unrealised valuation loss of HK$0.5 million in FY2016.

Net realised and unrealised foreign exchange loss of HK$14.7 million was also recorded, which mainly arose from the conversion of Sterling Pound denominated securities holdings M&C of HK$10.6 million and Renminbi denominated cash deposits of HK$3.6 million, into the functional currency of the company. Overall, the total other net loss of HK$30.7 million was recorded for FY2016 as compared with total other net loss of HK$25.3 million in FY2015.

During the previous corresponding period, one-off foreign exchange gain of HK$2.8 million was realised as a result of striking off a Group's dormant subsidiary.

Overall, the Investment Holding segment recorded a loss before tax of HK$54.2 million for FY2016 as compared with loss before tax of HK$31.2 million in FY2015.

Hospitality

The Group's Hospitality segment contributed total revenue of HK$96.7 million in FY2016, a increase of HK$9.7 million or 11.1% from HK$87.0 million in FY2015.

Richfield Hospitality, Inc ("RHI"), the Group's hotel management arm, recorded lower management fee income of HK$9.0 million for FY2016, down by HK$1.3 million or 12.6% from HK$10.3 million in FY2015. Management has prudently operated this business by ensuring that expenses were under control throughout FY2016 in order to mitigate the lower level of revenue. Consequently, a lower loss before tax of HK$12.2 million was recorded for FY2016 as compared with a loss before tax of HK$15.3 million in FY2015.

Business Review

The Group's 51% equity interest in Sceptre Hospitality Resources, LLC ("SHR"), the hospitality industry's leading expert for reservations connectivity, online channel marketing and revenue/channel-management services, recorded higher revenue of HK$61.8 million, up by HK$12.2 million or 24.6% from HK$49.6 million in FY2015. However, SHR incurred higher administrative expenses during FY2016 to support the revenue growth, resulting in a higher operating loss of HK$6.4 million as compared with an operating loss of HK$5.3 million in FY2015.

The Group's jointly-operated Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of HK$24.4 million, down by HK$0.5 million or 2% from HK$24.9 million in FY2015. The decrease in revenue resulted in a lower profit contribution of HK$2.0 million as compared to HK$2.3 million in FY2015.

The Group's jointly-controlled entity, Richfield Syracuse Hotel Partners, LLC ("Syracuse"), which owns the Crowne Plaza Syracuse Hotel ("Hotel"), reporting a share of operating loss of HK$0.1 million for FY2016 as compared with a share of profit of HK$1.0 million in FY2015. Following the successful completion of the disposal of the Hotel on 16 May 2016, Syracuse contributed an additional share of profit net of tax arising from the disposal of the Hotel amounting to HK$19.6 million during FY2016.

The Group also recognised share of profit from its associates, S-R Burlington Partners, LLC. and Cosmic Hospitality China Limited, of HK$0.5 million for FY2016, as compared to a share of profit of HK$0.2 million in FY2016.

Overall, the Hospitality segment reported a profit before tax of HK$3.5 million in FY2016 as compared with a loss before tax of HK$17.2 million in FY2015, due mainly to the disposal of the Hotel.

DoubleTree by Hilton Hotel El Paso Downtown, Texas, U.S.A

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Venture
The Group had no material acquisitions and disposals of subsidiaries, associates and joint venture during the year.

Financial Position
As at 31 December 2016, the Group's total assets stood at HK$530.2 million, decreased from HK$609.9 million as at 31 December 2015. The Group's net tangible asset per share decreased to HK$1.10 as at 31 December 2016, down from HK$1.24 as at 31 December 2015.

As at 31 December 2016, the Group's working capital ratio was 15.5 (2015: 16.3).

The Group reports its results in Hong Kong Dollar and it is the objective of the Group to preserve its value in terms of Hong Kong Dollar. It is the Group's policy to continue to pursue strategies that would enhance the Group's long-term value and bring reasonable returns to the shareholders with a cautious attitude.

Cash Flow and Borrowings
During FY2016, cash used in operations amounted to HK$34.3 million. The Group received cash dividend from trading securities of HK$1.7 million and interest income of HK$2.1 million during the year. After payment for overseas tax of HK$0.2 million, net cash used in operating activities amounted to HK$30.7 million.

In FY2016, the Group received dividends of HK$0.2 million from the Group's jointly controlled entity, Richfield Syracuse Hotel Partners, LLC. There was a decrease of HK$9.8 million in bank deposits in FY2016. The total interest paid in FY2016 amounted to HK$1.3 million.

Overall, HK$22.4 million net cash was used which, together with exchange translation loss of HK$4.1 million, resulted in a total Group's cash and cash equivalents of HK$337.8 million as at 31 December 2016, down from HK$364.3 million as at 31 December 2015.

Business Review

Taking into account of the Group's bank borrowings of HK$29.7 million as at 31 December 2016, the Group was in a net cash position amounting to HK$308.1 million as at 31 December 2016. Hence, the Group's gearing is zero, which is expressed as a percentage of current and non-current loans and borrowings less cash and cash equivalents over total equity attributable to equity shareholders of the Company.

As at 31 December 2016, the Group's bank borrowings, denominated in U.S. Dollars and fixed at 4.21% per annum, amounted to HK$29.7 million (2015: HK$30.5 million), of which HK$0.7 million was current, as included in the portion of interest-bearing borrowing repayable within a period of one year, and HK$29.0 million was non-current and repayable between 1 and 7 years. The bank loans of the Group are secured over the freehold land and building with a carrying amount of HK$36.6 million, pledge of monies held in specific accounts of HK$2.2 million and a non-recourse carveout guarantee by RHI. In addition, as at 31 December 2016, the Group had fully complied with financial covenants agreed with the financial institutions.

Treasury Activities

Majority of the Group's cash is held in Chinese Renminbi and United States Dollar cash deposits. We will closely monitor the Group's exposure to currency movement and take the appropriate action when necessary.

Directors and Employees

As at 31 December 2016, the Group had a total of 83 employees, including directors but excluding employees from the Hotel, up from 65 as at 31 December 2015. There were 57 (2015: 53) full-time employees from the Hotel as at 31 December 2016.

The total Group's staff costs comprising salaries, wages and other benefits was HK$71.6 million as compared with HK$63.0 million in FY2015. The increase in payroll costs can be attributed mainly to the Investment Holding segment.

The Group has a competitive wage and benefits package which are critical to maintaining a level of consistent and quality services.

The Group has conducted a range of training programmes to strengthen employees' all round skills and knowledge, aiming to well-equip them to cope with its development in the ever-changing economy.

Principal Risks and Uncertainties

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including business risks, operational risks and financial management risks.

A Group's subsidiary which operates primarily to supply hotels with electronic distribution technology is susceptible to information technology risk. The Group strives to maintain safe data hosting environments that are compliant with the Payment Card Industry ("PCI") data security standards and guidelines and constantly monitors the environment in which its software applications are hosted.

The financial risk management policies and practices of the Group are shown in note 31 to the financial statements.

There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

Compliance with the Relevant Laws and Regulations

As far as the Board of Directors and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Relationship with Suppliers, Customers and other Stakeholders

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The hotel management arm has implemented corporate citizenship programs to enhance relationships with customers. It enjoys good relationships with suppliers and customers and strives to take an active part in the communities where they operate. Staff are encouraged to devote time to help non-profit organisations like Food Banks or to participate in local fund raising activities. During FY2016, there were no material and significant dispute between the Group and its suppliers and/or customers.

Business Review

Environmental Policies and Performance

The Group is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Green initiatives and measures have been adopted in the Group's own hotels and Group's managed hotels. Such initiatives include recycling of used papers, energy saving measures and water saving practices. A report containing the prescribed information of environmental, social and governance matters will be available on the website of The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") and the Company's third party hosted website at http://www.merrillifn.com/ir/ces/ no later than three months after publication of this report.

Prospects

The Group remains cautious in the midst of the global uncertainty, though in the U.S. real estate and hospitality markets have remained active. The Group is in consultation with its joint venture partners to respond to market interests in our investments.

The Group will continue to grow the hospitality reservation business and to adopt a prudent approach in managing the hospitality related businesses by ensuring costs are kept in line with the level of business activities.

Moreover, the Group is finding different opportunities to diversify its business in addition to the hospitality segment. On 15 December 2016, the Company entered into a non-legally binding memorandum of understanding with an independent third party in relation to the possible acquisition of a company which is engaged in the business of assisting human reproduction.

The Group will continue to hold some trading securities and will monitor and make appropriate changes on the investment profolio time to time to cope with the economic environment. In addition, the Group will explore different short-term investment plans to improve its investment return by using the cash reserves on hand in different currencies. From time to time, there could be continued adjustments attributable to unrealised gains or losses arising from the fair value readjustments of the Group's trading securities and unrealised gains or losses on the revaluation of foreign currency cash deposits.


Crowne Plaza Syracuse, New York, U.S.A

Events After the Reporting Period

As at date of this report, the Group did not have any significant events since the end of the financial year.

Corporate Governance Report

for the year ended 31 December 2016

(a) Corporate governance practices

The Directors of the Company ("Directors") and management ("Management") are committed to maintaining high standards of corporate governance, in line with the principles stated in the Corporate Governance Code ("CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules").

A ***"Continuous Disclosure Obligation Procedures"*** (the "Procedures") dealing with the Company's obligations for continuous disclosure under the Listing Rules was adopted by the Company and an executive Director, Mr. Lawrence Yip Wai Lam, had been appointed as the Designated Director to be responsible for the Procedures. In his role as Designated Director, Mr. Lawrence Yip Wai Lam will consult with the Chairman of the Board, the Chief Executive Officer ("CEO") and members of the executive management team, including the Company's legal advisors, regarding the Company's discharge of its continuous disclosure obligations.

In the opinion of the Directors, save as disclosed below, the Company has complied with CG Code throughout the year under review.

Under the CG Code provision E.1.2, the chairman of the board should attend the annual general meeting and invite the chairmen of audit, remuneration, nomination and any other committees (as appropriate) to attend. However, in the annual general meeting held on 18 April 2016 ("2016 AGM"), Mr. Kwek Leng Beng, our former Chairman was unable to attend the meeting as he had to attend to other commitments. Mr. Gau Khai Choon, our former executive Director, chaired the 2016 AGM. Further Mr. Chan Bernard Charnwut, a former non-executive Director and former members of the Audit Committee and Nomination Committee; and Mr. Lawrence Yip Wai Lam, an executive Director, attended the 2016 AGM to answer question from the shareholders.

Under the CG Code provision D.1.4, the Company should have formal letters of appointment for Directors setting out the key terms and conditions of their appointment. There is no formal letter of appointment to Mr. Lawrence Yip Wai Lam, an executive Director as it was the practice of the Company not to issue formal letters of appointment to Directors as the Company considers that Mr. Yip fully understands his responsibilities and delegation arrangement in place. The Company has entered into formal letters of appointment with newly appointed Directors since August 2016.

The Company reviews its corporate governance practices from time to time to ensure compliance with the CG Code.

(b) Directors' securities transactions

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules ("Model Code") as the code of conduct regarding Directors' securities transactions. All Directors have confirmed that they have complied with the Model Code throughout the year under review.

Corporate Governance Report

for the year ended 31 December 2016

(c) Board of Directors

As at the date of this annual report, the Board comprises 6 Directors, of which 3 are executive Directors and 3 are independent non-executive Directors. The members of the Board are as follows:

Executive Directors
Mr. Jiang Yulin (Chairman)
Ms. Zhang Xian
Mr. Lawrence Yip Wai Lam

Independent Non-executive Directors
Mr. Hu Baihe
Mr. Yuen Kwok Kuen
Mr. Guo Jingbin

The biographical details of the Directors and Senior Management ("Senior Management") as at the date of this annual report are set out in the Profile on Directors and Senior Management section of the Directors' Report.

There is no relationship (including financial, business, family or other material/relevant relationship) between the Board members and in particular, between the Chairman of the Board members and in particular, between the Chairman of the Board and the chief executive officer of the Company.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

The Board's primary functions are to set corporate policy and overall strategy for the Group and to provide effective oversight of the management of the Group's business and affairs. Apart from its statutory responsibilities, the Board also approves the strategic plans, key operational issues, investments and loans, reviews the financial performance of the Group and evaluates the performance and compensation of Senior Management. These functions are either carried out directly by the Board or through committees established by the Board. The Management is responsible for the day-to-day management and operations of the Company's business including the implementation of internal control, business strategies and plans approved by the Board. The Directors, individually or as a group, are entitled to take independent professional advice, at the expense of the Company, in furtherance of their duties and in the event that circumstances warrant it.

Corporate Governance Report
for the year ended 31 December 2016

The Company conducts regular scheduled Board meetings on a quarterly basis. Additional meetings are convened as and when circumstances warrant. The attendance of individual Directors at Board, Audit Committee, Remuneration Committee, Nomination Committee and general meetings in 2016, as well as the frequency of such meetings, is set out below:

(c) Board of Directors (cont'd)

	Attendance/Number of Meetings				
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Attended 2016 AGM**
Executive Directors					
Mr. Jiang Yulin[2]	0/0	N/A	N/A	0/0	
Ms. Zhang Xian[2]	0/0	N/A	0/0	N/A	
Mr. Kwek Leng Beng[1]	4/4	N/A	N/A	N/A	
Mr. Gan Khai Choon[1]	4/4	N/A	1/1	1/1	√
Mr. Lawrence Yip Wai Lam	4/4	N/A	N/A	N/A	√
Non-executive Directors					
Mr. Chan Bernard Charnwut[1]	3/4	2/3	N/A	1/1	√
Mr. Ronald Nathaniel Issen[1]	3/4	N/A	N/A	N/A	
Independent Non-executive Directors					
Mr. Hu Baihe[2]	0/0	1/1	0/0	0/0	
Mr. Yuen Kwok Kuen[2]	0/0	1/1	0/0	0/0	
Mr. Guo Jingbin[2]	0/0	1/1	0/0	0/0	
Dr. Lo Ka Shui[1]	4/4	N/A	N/A	1/1	
Mr. Lee Jackson @ Li Chik Sin[1]	4/4	3/3	1/1	1/1	
Mr. Teoh Teik Kee[1]	4/4	3/3	1/1	0/1	

[1] resigned on 9 September 2016
[2] appointed on 19 August 2016
N/A – Not Applicable

(d) Directors' Training and Professional Development

All Directors should keep abreast of the responsibilities as a director, and of the conduct and business activities of the Company. The Company is responsible for arranging and funding suitable training for its Directors. The Directors' training records for the year had been provided to the Company.

On appointment to the Board, the newly appointed Director would be provided a comprehensive induction package covering business operations and obligations of being a director to ensure that the Director would be sufficiently aware of the responsibilities under the Listing Rules and other relevant regulatory requirements.

From time to time, the Company updates and provides written materials to the Directors on the latest development of the Listing Rules, applicable laws, rules and regulations relating to directors' duties and responsibilities. The Directors confirmed that they have complied with the CG code provision A.6.5.

Corporate Governance Report

for the year ended 31 December 2016

(e) Chairman and Chief Executive

Currently, Mr. Jiang Yulin is the Chairman of the Board. Mr. Wong Hong Ren is the CEO. There is a clear division of responsibilities between the Chairman and the CEO. The Chairman bears primary responsibility for the workings of the Board, by ensuring its effective function, while the CEO bears executive responsibility for the Company's business, including management of the Company's day-to-day operations and implementation of key policies, procedures and business strategies approved by the Board.

(f) Independent Non-executive Directors

The independent non-executive Directors were appointed for a specific term of 2 years, subject to retirement by rotation at annual general meeting and being eligible, to offer themselves for re-election.

(g) Remuneration Committee ("RC")

The RC was established in May 2005 and comprises 3 independent non-executive Directors and 1 executive Director as at the date of this annual report. The members of the RC as at the date of this annual report are as follows:

Mr. Guo Jingbin	Chairman (Independent non-executive Director)
Mr. Yuen Kwok Kuen	Member (Independent non-executive Director)
Mr. Hu Baihe	Member (Independent non-executive Director)
Ms. Zhang Xian	Member (Executive Director)

The primary objective of the RC is to consider management recommendation, and determine the framework or broad policy for remuneration for the Directors and the senior key executives, including the CEO. No Director or any of his associates may be involved in any decisions as to his own remuneration.

The duties of the RC also include:

(a) To review and approve Management's remuneration proposal and the criteria for assessing employee performance, which should reflect the Company's business objectives and targets; and

(b) To consider Management's recommendation on the payment of annual and/or variable performance bonus to employees of the Company, and review and approve the annual and/or variable performance bonus payable to the executive Directors and Senior Management, having regard to their achievements against the performance criteria and by reference to market norms.

The Group's remuneration policy for the staffs, including Directors, comprises primarily a fixed component (in the form of a base salary) and a variable component (which includes bonus and share award grants), taking into account other factors such as the individual performance, the performance of the Company and industry practices.

The RC met once during the year under review to discuss remuneration related matters (including the remuneration of Directors and Senior Management) and review the remuneration policy of the Group. It has been decided that RC would determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management.

Corporate Governance Report
for the year ended 31 December 2016

(g) Remuneration Committee ("RC") (cont'd)

The remuneration payable during the year to members of Senior Management, including the CEO, is within the following band:

	Number of Individuals
HK$Nil – HK$1,000,000	–
HK$1,000,001 – HK$1,500,000	1
HK$1,500,001 – HK$2,000,000	–
HK$2,000,001 – HK$2,500,000	–
HK$2,500,001 – HK$3,000,000	1
HK$7,500,001 – HK$8,000,000	–

Further details of Directors' and CEO's emoluments and the 5 top-paid employees are set out in notes 6 and 7 to the Financial Statements.

On 9 December 2016, the Company adopted a share award scheme (the "Share Award Scheme"), pursuant to which the Board may propose or determine the grant of the Company's shares to any Directors, employees or third party service providers of the Group as their incentives and rewards so as (i) to provide them with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain such individuals to work with the Company; and (iii) to provide additional incentive for them to achieve performance goals, subject to such conditions as the Board may deem appropriate at its discretion. Further details of the Share Award Scheme are set out in note 27 to the Financial Statements.

(h) Nomination Committee ("NC")

The NC was established in August 2005 and comprises 3 independent non-executive Directors and 1 executive Director as at the date of this annual report. The members of the NC as at the date of this annual report are as follows:

Mr. Hu Baihe	Chairman (Independent non-executive Director)
Mr. Yuen Kwok Kuen	Member (Independent non-executive Director)
Mr. Guo Jingbin	Member (Independent non-executive Director)
Mr. Jiang Yulin	Member (Executive director)

The principal responsibilities of NC are to review regularly the Board composition, to identify and nominate suitable candidates as Board members, to assess the independence of the 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 of the Board and the CEO.

The Company has adopted a "**Board Diversity Policy**" on 1 September 2013 which sets out the Company's approach and the basic principles to be followed in order to achieve diversity on the Board. The Company believes diversity is important to enhance board effectiveness by encouraging a diversity of perspectives and to maintain high standards of corporate governance. The range of diversity perspectives may include a consideration of various factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and other factors based on the specific needs of the Company. The Company agrees with the general philosophy of diversity for the Board, and will pursue this philosophy whenever the opportunity arises, and when it is appropriate.

During the year under review, the NC met once to assess the independence of independent non-executive Directors and the balance and composition of the Board and Board committee. The NC also reviewed and recommended the re-election of the retiring Directors at the 2016 AGM.

Corporate Governance Report
for the year ended 31 December 2016

(i) Audit Committee ("AC")

The AC was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls. The AC comprises 3 independent non-executive Directors as at the date of this annual report. The members of the AC as at the date of this annual report are as follows:

Mr. Yuen Kwok Kuen	Chairman (Independent non-executive Director)
Mr. Hu Baihe	Member (Independent non-executive Director)
Mr. Guo Jingbin	Member (Independent non-executive Director)

The principal responsibility of the AC is to assist the Board in maintaining a high standard of corporate governance, particularly by providing an independent review of the effectiveness of the Company's financial reporting process and material internal controls, including financial, operational, compliance and risk management controls. Other duties within its written terms of reference include:

(a) To monitor the integrity of the half-year, quarterly or other periodic and annual financial statements and review them before submission to the Board for approval for publication;

(b) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(c) To review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness; and

(d) To review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

During the year under review, the AC held 4 meetings in February, May, August and November. In the meeting held in February 2016, the Annual Report and Audited Financial Statements for the year ended 31 December 2015 were reviewed together with the external auditors. In the May 2016 meeting, the Unaudited Financial Results for the 3 months ended 31 March 2016 were reviewed. In the August 2016 meeting, the Interim Financial Report for the 6 months ended 30 June 2016 was reviewed. In the November 2016 meeting, the Unaudited Financial Results for the 9 months ended 30 September 2016 were reviewed. Other financial, internal control, corporate governance and risk management matters of the Group were also discussed in these meetings.

The AC has reviewed the independence of the external auditors, KPMG LLP ("KPMG") as well as objectivity and effectiveness of the audit process. The AC also made recommendations to the Board on the appointment and retention of the external auditors. The AC meets with the external auditors separately without the presence of management, annually.

(j) Corporate governance functions

The Board is responsible for the corporate governance functions, which include the following duties:

(a) To develop and review the Company's policies and practices on corporate governance;
(b) To review and monitor the training and continuous professional development of Directors and Senior Management;
(c) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
(d) To develop, review and monitor the code of conduct applicable to employees and Directors; and
(e) To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Corporate Governance Report

for the year ended 31 December 2016

The Board has discharged the above functions during the year.

(k) Auditors' remuneration

During the year under review, the Group has engaged KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) to provide the following services and their respective fees charged are set out as below:

	Fees charged	
	Year 2016	**Year 2015**
Type of services	**HK$'000**	**HK$'000**
Audit fee for the Group	2,984	3,798
Taxation services	27	61
Non-audit services:		
– review of continuing connected transactions	15	55
– review of half-year financial statements	616	590
– review of the compilation of pro forma financial information	217	155
– review of composite document	804	–
Total	**4,663**	**4,659**

(l) Accountability

The Directors acknowledge that they are primarily responsible for the preparation of the financial statements which give a true and fair view and that appropriate accounting policies are selected and applied consistently.

To the best knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

(m) Risk management and Internal control system

The Board is responsible for the Group's risk management and internal control system and for reviewing its effectiveness. The Board believes that the risk management and internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. During the year under review, the Board has through the AC reviewed the effectiveness of the Group's risk management and internal control system, including financial, operational and compliance controls and risk management functions. The review also included the consideration of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Company recognises that the release of inside information to place anyone in a privileged dealing position is strictly prohibited. Prior to the announcement of any inside information, all Directors and Senior Management are requested to take all reasonable steps to maintain strict confidentiality and where it is reasonably likely that confidentiality may have been lost in respect of the inside information, the Company shall as soon as reasonably practicable, apply to the Hong Kong Stock Exchange for a trading suspension of its shares.

The Group has established a robust risk management framework, which consists of the Board, the AC and Senior Management. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the overall effectiveness of risk management. The Group identifies key risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans are then established by the risk owners to manage the risks to acceptable level.

Internal audit function was carried out on a systematic rotational basis based on the risk assessments of the operation and controls, and reports were presented to the AC every year on significant findings on internal control system. The audit procedures include the internal audit team assessing the relevant systems and operational management ensuring the maintenance of an effective risk management and internal control systems.

Corporate Governance Report
for the year ended 31 December 2016

(n) Company Secretary

Ms. Leung Wing Han Sharon ("Ms. Leung") is the Company Secretary of the Company, who is a vice president of SW Corporate Services Group Limited, and her primary contact person at the Company is Mr. Lawrence Yip Wai Lam, an executive Director.

Ms. Leung confirmed that she has taken no less than 15 hours of relevant professional training during the year under review.

(o) Shareholders' rights

The Company encourages two-way communications with both institutional and private investors. Extensive information about the Company's activities is provided in its annual reports and interim reports, which are sent to Shareholders of the Company. Shareholders should direct their questions about their shareholdings to the Company's Registrar and may at any time make enquiry to the Board or make request for the Company's information to the extent such information is publicly available at the Company's principal office and/or branch office in Hong Kong.

(i) Procedures for Shareholders to Convene an Extraordinary General Meeting

In accordance with Article 72 of the Company's Articles of Association, general meetings may be convened on the written requisition of any two members of the Company deposited at the registered office specifying the objects of the meeting and signed by the requisitionists and such meeting shall be held two (2) months after the deposit of such requisition, and if the Directors do not within twenty-one days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionists themselves may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Directors shall be reimbursed to them by the Company.

(ii) Procedures for shareholders to put forward proposals at shareholders' meetings

There are no provisions in the Company's Articles of Association or the Companies Law of the Cayman Islands for shareholders to put forward new resolutions at general meetings. Shareholders who wish to put forward a new resolution may request the Company to convene a general meeting in accordance with the procedures set out in the above paragraph heading "Procedures for Shareholders to Convene an Extraordinary General Meeting".

(iii) Procedures for shareholders to nominate a person to stand for election as a Director

If a shareholder wishes to nominate a person to stand for election as a Director at a general meeting, the relevant documents must be validly served on the principal office of the Company within the requisite period of time. The full details of the procedures for shareholders to propose a person for election as a director were posted on 30 March 2012 on the website of the Hong Kong Stock Exchange and the Company's third-party hosted website at http://www.merrillifn.com/ir/ces/.

(p) Investor relations

There is no change to the Company's constitutional documents during the year under review.

Directors' Report
for the year ended 31 December 2016

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

City e-Solutions Limited (the "Company") is a company incorporated in the Cayman Islands and domiciled in Hong Kong. Its registered office is at P.O. Box 309, Grand Cayman, Cayman Islands, British West Indies and principal place of business in Hong Kong is at Room Nos. 1120-1126, 11/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company comprise those of investment holding.

The principal activities and other particulars of the subsidiaries are set out in note 29 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries (the "Group") during the financial year are set out in note 11 to the financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Business Review section set out on pages 9 to 12 of the Annual Report. This discussion forms part of this Directors' report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	12%	
Five largest customers in aggregate	35%	
The largest supplier		13%
Five largest suppliers in aggregate		47%

Saved as disclosed herein, at no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the number of issued shares of the Company) had any interest in these major customers and suppliers.

The Group's largest customer is made up of indirect wholly-owned subsidiaries of Millennium & Copthorne Hotels plc, which is a subsidiary of City Developments Limited, the previous controlling shareholder of the Company.

RECOMMENDED DIVIDEND

The Directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2016 (2015: nil). No interim dividend was paid for the year ended 31 December 2016 (2015: nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to nil (2015: nil).

SHARE CAPITAL

The Company did not issue any shares during the year.

Directors' Report
for the year ended 31 December 2016

DEBENTURE

The Company did not issue any debenture during the year.

RESERVES

Details of the movements in the reserves of the Group during the year are shown in the consolidated statement of changes in equity on pages 40 to 41.

DISTRIBUTABLE RESERVES

Details of the movements in the distributable reserves of the Group during the year are shown in the consolidated statement of changes in equity on pages 40 to 41.

SHARE AWARD SCHEME

On 9 December 2016, the Company adopted the share award scheme (the "Share Award Scheme"), pursuant to which the Board may propose or determine the grant of the Company's shares to any Directors, employees or third party service providers of the Group as incentives and rewards so as (i) to provide them with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain such individuals to work with the Company; and (iii) to provide additional incentive for them to achieve performance goals, subject to such conditions as the Board may deem appropriate at its discretion.

The Board has resolved to award an aggregate of 37,862,500 shares to Mr. Jiang Yulin, the Chairman of the Board and an Executive Director, on 9 December 2016. The issue and allotment of new shares to Mr. Jiang Yulin is subjected to approval at an extraordinary general meeting to be convened by the Company.

DIRECTORS

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

Executive Directors	
Mr. Jiang Yulin, Chairman	(appointed on 19 August 2016)
Ms. Zhang Xian	(appointed on 19 August 2016)
Mr. Kwek Leng Beng, Chairman and Managing Director*	(resigned on 9 September 2016)
Mr. Gan Khai Choon*	(resigned on 9 September 2016)
Mr. Lawrence Yip Wai Lam	
Non-executive Directors	
Mr. Chan Bernard Charnwut*	(resigned on 9 September 2016)
Mr. Ronald Nathaniel Issen, Deputy Chairman*	(resigned on 9 September 2016)
Independent non-executive Directors	
Mr. Hu Baihe	(appointed on 19 August 2016)
Mr. Yuen Kwok Kuen	(appointed on 19 August 2016)
Mr. Guo Jingbin	(appointed on 19 August 2016)
Dr. Lo Ka Shui*	(resigned on 9 September 2016)
Mr. Lee Jackson @ Li Chik Sin*	(resigned on 9 September 2016)
Mr. Teoh Teik Kee*	(resigned on 9 September 2016)

* The resignation of directors are due to the change in the controlling shareholder of the Company.

In accordance with Article 116 of the Articles of Association of the Company, one third of the present Directors will retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Mr. Lawrence Yip Wai Lam shall retire from office at the forthcoming Annual General Meeting and did not offer himself for re-election. In addition, in accordance with Article 99(a) of the Articles of Association of the Company, Mr. Jiang Yulin, Ms. Zhang Xian, Mr. Hu Baihe, Mr. Yuen Kwok Kuen and Mr. Guo Jingbin shall hold office until the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

Directors' Report

for the year ended 31 December 2016

PROFILE ON DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr. Jiang Yulin, *aged 58*
Chairman and Executive Director

Mr. Jiang Yulin ("Mr. Jiang") was appointed as an executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Jiang was appointed as the Chairman and the member of the Nomination Committee of the Company.

Mr. Jiang holds a doctorate degree in Economics from Wuhan University and is a senior economist and registered accountant. Mr. Jiang has published several journals and certain books in relation to the banking industry and risk prevention. Mr. Jiang has over 30 years of banking experience and has extensive experience in financing, investment and management.

Mr. Jiang had worked in Industrial and Commercial Bank of China (Asia) Limited ("ICBC") for more than 30 years. From 1985 to 1997, Mr. Jiang had been appointed as Deputy President of ICBC's bank branches of county-level cities and prefecture-level cities. In September 1997, Mr. Jiang had been appointed as President of ICBC's prefecture-level cities bank branch in Wuhu. In 2000, Mr. Jiang had been appointed as Deputy President of ICBC's provincial bank branch in Anhui. Since 2000, Mr. Jiang had been appointed as Deputy President of ICBC's provincial bank branches. At the same time, he also served as an independent supervisor of Maanshan Iron & Steel Company Limited, one of the largest iron and steel producers and marketers in the People's Republic of China which is listed on the Shanghai Stock Exchange (Stock Code: 600808) and Hong Kong Stock Exchange (Stock Code: 323), from 2002 until 2005. In 2006, Mr. Jiang was promoted to President of ICBC's provincial bank branch in Yunnan. Since 2011, Mr. Jiang had been an editorial committee member of ICBC's monthly financial magazine "China Urban Finance", he is responsible for the content review and publication, the magazine targeted to bankers, securities professionals, executives in commerce and industrial sectors as well as research team of financial institutions, content of which include China and overseas government policy report in economics and finance, economy and financial, progress of hot industries, latest moves of global banks and challenges they faced etc. In 2010, Mr. Jiang was appointed as the General Manager of the credit business department of ICBC and subsequently, assumed the role as General Manager of the information management department of the ICBC in 2014. Since 2015, Mr. Jiang had been the board chairman of ICBC Financial Leasing Co., Ltd.; a wholly-owned subsidiary of ICBC, and held concurrent posts as the board chairman of ICBC (Moscow) Limited; a wholly-owned subsidiary of ICBC, and a non-executive director, chairman of risk management committee and a member of the audit committee of ICBC. In 2016, Mr. Jiang resigned from ICBC and joined the Company.

Ms. Zhang Xian, *aged 32*
Executive Director

Ms. Zhang Xian ("Ms. Zhang") was appointed as an executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Ms. Zhang was appointed as the member of the Remuneration Committee of the Company.

Ms. Zhang holds a Master's degree in Economics from Beijing University. Ms. Zhang worked in the investment banking and private equity investment industries for 8 years with a wealth of experience in domestic and overseas transaction execution. She has worked for China International Capital Corporation for more than 4 years, mainly responsible for mergers and acquisitions.

Directors' Report

for the year ended 31 December 2016

PROFILE ON DIRECTORS AND SENIOR MANAGEMENT (cont'd)

Directors (cont'd)

Mr. Lawrence Yip Wai Lam, *aged 61*
Executive Director

Mr. Lawrence Yip was appointed an executive Director of the Company in December 1998. Apart from being an executive Director of the Company, Mr. Yip also holds a number of directorships in the subsidiaries of the Group. Mr. Yip is also a Director of eMpire Investments Limited. He was formerly the General Manager (Finance & Administration) of the Company. He has over 10 years of experience in the Treasury Division of several banks. Prior to joining the Group in April 1990, Mr. Yip held the position of Regional Treasurer with a bank in Singapore.

Mr. Hu Baihe, *aged 54*
Independent non-executive Director

Mr. Hu Baihe ("Mr. Hu") was appointed as an independent non-executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Hu was appointed as the Chairman of the Nomination Committee and members of the Audit Committee and Remuneration Committee of the Company.

Mr. Hu graduated from Jiangxi University of Finance and Economics. He is a senior accountant, certified public accountant, certified public valuer and certified tax agent in the PRC. He has extensive experience in the finance field. Mr. Hu is currently the general manager of Peking Certified Public Accountants. Before he joined Peking Certified Public Accountants in 1993, he had over 7 years of working experience with the Ministry of Finance of the PRC. Mr. Hu is an independent non-executive director of China Ocean Industry Group Limited which is listed on the Hong Kong Stock Exchange (Stock Code: 651).

Directors' Report
for the year ended 31 December 2016

PROFILE ON DIRECTORS AND SENIOR MANAGEMENT (cont'd)

Directors (cont'd)

Mr. Yuen Kwok Kuen, *aged 43*
Independent non-executive Director

Mr. Yuen Kwok Kuen ("Mr. Yuen") was appointed as an independent non-executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Yuen was appointed as the Chairman of the Audit Committee and members of the Nomination Committee and Remuneration Committee of the Company.

Mr. Yuen obtained the Bachelor of Business from Monash University (Australia) in 1998 and is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and the CPA Australia respectively. Mr. Yuen has 17 years of experience in audit, tax, initial public offering, mergers and acquisitions and corporate services. Mr. Yuen is the company secretary of China Household Holdings Limited, which is listed on the Hong Kong Stock Exchange (Stock Code: 692).

Mr. Guo Jingbin, *aged 59*
Independent non-executive Director

Mr. Guo Jiangbin ("Mr. Guo") was appointed as an independent non-executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Guo was appointed as the Chairman of the Remuneration Committee and members of the Nomination Committee and Audit Committee of the Company.

Mr. Guo graduated from Shanghai Construction Materials College in 1980. In 1998, Mr. Guo received a Master of Business Administration degree from the Post-graduate College of the Social Science Institute of China.

Mr. Guo is a director of Anhui Conch Group Company Limited. Mr. Guo has been an executive director of Anhui Conch Cement Company Limited, which is listed on the Shanghai Stock Exchange (Stock Code: 600585) and the Hong Kong Stock Exchange (Stock Code: 914) from September 1997 to June 2014 and was re-designated as a non-executive director of Anhui Conch Cement Company Limited until May 2016. Mr. Guo has been a non-executive director and chairman of China Conch Venture Holdings Limited, which is listed on the Hong Kong Stock Exchange (Stock Code: 586), from June 2013 to June 2014. Since then, Mr. Guo has been the executive director and the chairman of China Conch Venture Holdings Limited. He is primarily responsible for overall strategic development of China Conch Venture Holdings Limited. Mr. Guo is also an independent non-executive director of China Logistics Property Holdings Co., Ltd., which is listed on the Hong Kong Stock Exchange (Stock Code: 1589). Mr. Guo has over 30 years' experience in the building materials industry and in capital markets, particularly specializing in corporate strategic planning, marketing planning and general and administration management.

Directors' Report

for the year ended 31 December 2016

PROFILE ON DIRECTORS AND SENIOR MANAGEMENT (cont'd)

Senior Management

Mr. Wong Hong Ren, *aged 65*
Chief Executive Officer

Mr. Wong Hong Ren was appointed as the Chief Executive Officer of the Company on 2 March 2015.

Prior to joining the Company, Mr. Wong was the Group CEO of Millennium & Copthorne Hotels plc ("M&C") listed on the London Stock Exchange. Appointed as Group CEO at M&C in June 2011, Mr. Wong's responsibilities included leading the management team and setting the overall direction of M&C Group's operational activities and performance, and he was instrumental in developing and executing key elements of M&C's strategy.

Mr. Wong was previously a non-executive director of the Company from October 1994 until April 2009. He is currently the non-executive chairman of Millennium & Copthorne Hotels New Zealand Limited and CDL Investments New Zealand Limited, both of which are listed on the New Zealand Stock Exchange. Mr. Wong is also the non-executive Chairman of M&C REIT Management Limited, the manager of CDL Hospitality Real Estate Investment Trust, and M&C Business Trust Management Limited, the trustee-manager of CDL Hospitality Business Trust which are stapled together and listed on the Singapore Exchange Limited as CDL Hospitality Trusts.

Mr. Wong holds a Master degree in Business Administration from Bradford University, United Kingdom.

Mr. Rodrigo Jimenez, *aged 50*
Chief Executive Officer, Sceptre Hospitality Resources, LLC ("SHR")

Mr. Jimenez was appointed as Chief Executive Officer of SHR on 23 July 2015.

Mr. Jimenez has a long history in the hospitality technology space, starting with Webvertising, the company that created the iHotelier Central Reservations System. In 2004, he co-founded Whiteboard Labs, which produced the WindsurferCRS in 2009. Since then, in 2012, Whiteboard Labs merged with Sceptre to create SHR and he has been successfully leading SHR through great growth since its inception.

Prior to his time in the technology sector, Mr. Jimenez spent 10 years in the banking industry where he advised a large number of companies in a wide-range of industries and countries. During this time, he was a Vice President in the Latin America corporate banking group of Bank of America and also served as Vice President and Client Advisor in the International Department of the Chase Manhattan Bank in Houston. In that capacity, he advised subsidiaries of multinational companies in corporate finance and investment banking matters.

Mr. Jimenez is a graduate of the Financial Management Program at Stanford University and was a participant in the 1999 Focused Financial Management Series at Harvard Business School. He holds a B.B.A. in Marketing and an M.B.A. in International Business & Finance from the University of Houston.

Directors' Report
for the year ended 31 December 2016

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2016, the interests of the Directors and Chief Executives 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")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Percentage holding in the Company
Jiang Yulin	Beneficial owner/Beneficial interest	37,862,500	9.9%

Save as disclosed herein, as at 31 December 2016, none of the Directors and the Chief Executives of the Company or their associates were interested or had any short position in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2016, so far is known to any Directors or the Chief Executives of the Company, the following persons (excluding the Directors and the Chief Executives of the Company) were interested in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Percentage holding in the Company
Dong Jufeng *(Note)*	Interest of spouse/ Family interest	249,539,294	65.25%
Jia Tianjiang *(Note)*	Interest of controlled corporation/ Corporate interest	249,539,294	65.25%
China Tian Yuan Manganese Limited *(Note)*	Beneficial owner/ Beneficial interest	249,539,294	65.25%
Ningxia Tianyuan Manganese Industry Co., Ltd. *(Note)*	Interest of controlled corporation/ Corporate interest	249,539,294	65.25%

Note: China Tian Yuan Manganese Limited is a wholly owned subsidiary of Ningxia Tianyuan Manganese Industry Co., Ltd., a corporation controlled by Mr. Jia Tianjiang. By virtue of the SFO, Ningxia Tianyuan Manganese Industry Co., Ltd., Mr. Jia Tianjiang and his spouse, Ms. Dong Jufeng, are deemed to be interested in the 249,539,294 shares of the Company held by China Tian Yuan Manganese Limited.

Save as stated above, no person (excluding the Directors and the Chief Executives of the Company) was interested in or had a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2016.

Directors' Report

for the year ended 31 December 2016

INDEMNITY OF DIRECTORS

Pursuant to the Articles of Association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

ARRANGEMENTS TO ACQUIRE SHARES

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries, fellow subsidiaries or holding company a party to any arrangements to enable any Director of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

CONTROLLING SHAREHOLDERS' INTEREST

Save as disclosed herein, apart from transactions carried out in the normal course of business, there were no contracts of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries or any contracts of any significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

CONTINUING CONNECTED TRANSACTIONS

Provision of Property Management Services and Reservation Services

Property Management Services and Reservation Services are provided by the Group to owners of Hotels, being indirect wholly-owned subsidiaries of M&C. M&C is a subsidiary of the City Developments Limited, the previous controlling shareholder of the Company for the period up to 26 July 2016. Details of the transactions were set out in the press announcement dated 5 March 2014. The cap amount for Property Management Services and Reservation Services is HK$9.5 million for each of the three financial years commencing from 1 January 2014 and ended 31 December 2016.

The total revenue generated from the provision of Property Management Services and Reservation Services for the year ended 31 December 2016 amounted to HK$6.0 million (2015: HK$8.9 million).

All the independent non-executive Directors have reviewed the Continuing Connected Transactions in the 2016 financial year and confirmed that those transactions had been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Directors' Report
for the year ended 31 December 2016

CONTINUING CONNECTED TRANSACTIONS (cont'd)

The auditors of the Company, KPMG LLP, have confirmed in a letter to the Board that nothing has come to their attention that caused them to believe that the Continuing Connected Transactions in the 2016 financial year:

(i) had not been approved by the Board of the Company;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

(iii) were not entered into in all material respects in accordance with the relevant agreement governing such transactions; and

(iv) had exceeded the cap amount of HK$9.5 million disclosed in the announcement of the Company dated 5 March 2014.

Other Related Party Transactions

Other material related party transactions are set out in note 32 to the financial statements, which either fall under the definition of "Continuing Connected Transactions" in Chapter 14A of the Listing Rules and are exempted under the Listing Rules or does not fall into the definition of "connected transaction" or "continuing connected transaction". The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of its connected transactions or continuing connected transactions.

SERVICE CONTRACTS OF DIRECTORS

Each executive Director, excluding Mr. Lawrence Yip Wai Lam, has entered into a service agreement with the Company for a specific term of 2 years, subject to retirement by rotation according to the Articles of Association of the Company.

Each independent non-executive director has entered into an appointment letter with the Company for a specific term of 2 years, subject to retirement by rotation according to the Articles of Association of the Company.

None of the Directors has a service contract with the Company or its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are shown in note 12 to the financial statements.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

Under present Cayman Islands laws and the Articles of Association of the Company, no pre-emptive rights are imposed which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

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

Directors' Report

for the year ended 31 December 2016

SUFFICIENCY OF PUBLIC FLOAT

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

EMPLOYEE RETIREMENT BENEFIT

Details of the Group's employee retirement benefits are shown in note 26 to the financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this annual report, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete either directly or indirectly with the businesses of the Group as are required to be disclosed pursuant to the Listing Rules.

EQUITY-LINKED AGREEMENT

Apart from the Share Award Scheme adopted by the Company as set forth in note 27 to the financial statements, the Company has not entered into any equity-linked agreement during the year or there was not any subsisting equity-linked agreement entered into by the Company at the end of the reporting year.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

AUDITORS

KPMG LLP retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There is no change of auditor in the past three years.

PROFESSIONAL TAX ADVICE RECOMMENDED

If shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

On behalf of the Board

JIANG YULIN
Chairman

29 March 2017

Independent Auditors' Report
for the year ended 31 December 2016

OPINION

We have audited the consolidated financial statements of City e-Solutions Limited ("the Company") and its subsidiaries ("the Group") set out on pages 36 to 104, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance, its consolidated changes in equity 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 Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditors' Report
for the year ended 31 December 2016

Goodwill Impairment Assessment

Refer to note 14 to the consolidated financial statements for goodwill impairment assessment and note 1(h) to the consolidated financial statements for the accounting policies on goodwill.

The Key Audit Matter	How the matter was addressed in our audit
The Group has recognised goodwill that was arisen from business acquisition. The goodwill is subject to annual impairment assessment which involves the estimation of the recoverable amount. The Group engaged external valuers to estimate the recoverable amount. The estimation is complex and dependent on assumptions about the future. Specifically, significant judgement is required in relation to the appropriate use of discount rates, growth rates, occupancy rates, revenue per available room, terminal values and the resulting forecast cash flows in determining value in use. Therefore, this is one of the key judgemental areas that we have focused in our audit.	Our procedures included among others, an assessment of the competency, professional qualifications and objectivity of the independent valuers. We evaluated the valuation methodology used by the Group, checked for compliance with the relevant accounting standards and alignment to market practice. We challenged the key assumptions used in determining the recoverable amounts of the cash generating units. This included a comparison of occupancy rates, revenue per available room, market growth and expected inflation with externally derived data including external hospitality industry reports. We also performed an assessment of other key inputs such as estimated future costs, discount rates and terminal multipliers, and considered the historical accuracy of directors' estimates, and performed break-even analysis on the assumptions. For valuation that involves determination of the exit and revenue multipliers with reference to the performance of comparable companies, we considered the appropriateness of the multiplies used and the comparable companies selected. We assessed the principles and integrity of the valuation models and considered the appropriateness of the Group's disclosures in the financial statements about the methodologies used and the key assumptions applied.

Independent Auditors' Report

for the year ended 31 December 2016

Impairment Assessment on Available-For-Sale Investment stated at cost less accumulated impairment losses

Refer to notes 15 to the consolidated financial statements for impairment assessment on available-for-sale investment and note 1(i) to the consolidated financial statements for the accounting policies on available-for-sale investment.

The Key Audit Matter	How the matter was addressed in our audit
The Group invested in an unquoted investment fund which is carried at cost less accumulated impairment losses. The determination of the existence of impairment indicators requires significant judgement to be exercised by the management. If impairment indicators exist, a detailed impairment review comprising mainly the estimation of the recoverable amount of the investment will be carried out. The estimate is complex and dependent on assumptions about the future.	Our audit procedures included assessing the robustness of the process for identification of impairment indicators by management. This included comparing the actual performance of the underlying assets of the fund to the forecasts prepared by the fund manager and external market information. Management determined the recoverable amount of the fund based on its net assets value. We assessed the net assets value of the fund by reviewing the carrying value of the underlying property which is stated at its estimated fair value. We made enquiries with the fund manager on the valuation methods and key assumptions used in valuing the property and collaborated these information with historical data and externally available information.

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

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

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

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

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

Independent Auditors' Report

for the year ended 31 December 2016

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with ISAs, 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.

Independent Auditors' Report
for the year ended 31 December 2016

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

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

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

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

KPMG LLP
Public Accountants and Chartered Accountants
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

29 March 2017

Consolidated Statement of Profit or Loss

for the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	2	**100,654**	92,207
Cost of sales		**(19,498)**	(18,175)
Gross profit		**81,156**	74,032
Other net losses	3	**(30,712)**	(25,316)
Administrative expenses		**(119,847)**	(96,720)
Loss from operating activities		**(69,403)**	(48,004)
Finance costs	4	**(1,420)**	(1,542)
Share of profit of a joint venture		**19,560**	1,008
Share of profits of associates		**520**	202
Loss before taxation	4	**(50,743)**	(48,336)
Income tax expense	5a	**(10,556)**	(13,638)
Loss for the year		**(61,299)**	(61,974)
Attributable to:			
Equity shareholders of the Company	8	**(57,550)**	(55,067)
Non-controlling interests		**(3,749)**	(6,907)
Loss for the year		**(61,299)**	(61,974)
		HK cents	**HK cents**
Earnings per share			
Basic losses per share	9	**(15.05)**	(14.40)

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Loss for the year		**(61,299)**	(61,974)
Other comprehensive income for the year (after taxation):	10		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**96**	(306)
Exchange differences on monetary item forming net investment in a foreign operation		**26**	(31)
Reclassification adjustment of exchange differences to profit or loss on striking-off of subsidiary		**–**	(2,779)
Total comprehensive income for the year		**(61,177)**	(65,090)
Attributable to:			
Equity shareholders of the Company		**(57,448)**	(58,131)
Non-controlling interests		**(3,729)**	(6,959)
Total comprehensive income for the year		**(61,177)**	(65,090)

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Statement of Financial Position
as at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	12	**42,647**	43,351
Intangible assets	13	**5,475**	8,167
Goodwill	14	**8,941**	8,934
Available-for-sale financial assets	15	**18,179**	32,985
Long term bank deposits		**–**	3,797
Interests in associates	17	**8,491**	8,322
Deferred tax assets	18	**–**	10,183
Total non-current assets		**83,733**	115,739
Current assets			
Trading securities	19	**74,101**	87,498
Trade and other receivables	20	**29,854**	32,507
Short term bank deposits		**–**	5,974
Current tax recoverable	5c	**2,536**	2,681
Cash and cash equivalents	21	**339,945**	365,481
		446,436	494,141
Current liabilities			
Trade and other payables	22	**(27,928)**	(29,461)
Interest-bearing borrowings	23	**(719)**	(899)
Provision for taxation		**(180)**	(22)
		(28,827)	(30,382)
Net current assets		**417,609**	463,759
Total assets less current liabilities		**501,342**	579,498
Non-current liabilities			
Dividends received in excess of earnings from equity-method accounted joint venture	24	**(209)**	(19,487)
Interest-bearing borrowings	23	**(28,982)**	(29,591)
Loan from non-controlling interests	25	**(2,908)**	–
		(32,099)	(49,078)
NET ASSETS		**469,243**	530,420

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Statement of Financial Position
as at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
CAPITAL AND RESERVES			
Share capital	27	**382,450**	382,450
Reserves		**52,205**	109,653
Total equity attributable to equity shareholders of the Company		**434,655**	492,103
Non-controlling interests	28	**34,588**	38,317
TOTAL EQUITY		**469,243**	530,420

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

Jiang Yulin
Chairman

Zhang Xian
Director

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016

	Attributable to equity shareholders of the Company						
	Share capital HK$'000	Capital redemption reserve HK$'000	Exchange reserve HK$'000	Revenue reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2015	382,450	676	2,471	164,637	550,234	45,276	595,510
Changes in equity for 2015:							
Loss the year	–	–	–	(55,067)	(55,067)	(6,907)	(61,974)
Other comprehensive income							
Items that may be reclassified subsequently to profit or loss:							
Exchange differences on translation of financial statements of foreign operations	–	–	(254)	–	(254)	(52)	(306)
Exchange differences on monetary item forming net investment in a foreign operation	–	–	(31)	–	(31)	–	(31)
Reclassification adjustment of exchange differences to profit or loss on striking-off of subsidiary	–	–	(2,779)	–	(2,779)	–	(2,779)
Total other comprehensive income	–	–	(3,064)	–	(3,064)	(52)	(3,116)
Total comprehensive income for the year	–	–	(3,064)	(55,067)	(58,131)	(6,959)	(65,090)
Balance at 31 December 2015	382,450	676	(593)	109,570	492,103	38,317	530,420

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016

	Attributable to equity shareholders of the Company						
	Share capital HK$'000	Capital redemption reserve HK$'000	Exchange reserve HK$'000	Revenue reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2016	**382,450**	**676**	**(593)**	**109,570**	**492,103**	**38,317**	**530,420**
Changes in equity for 2016:							
Loss the year	**–**	**–**	**–**	**(57,550)**	**(57,550)**	**(3,749)**	**(61,299)**
Other comprehensive income							
Items that may be reclassified subsequently to profit or loss:							
Exchange differences on translation of financial statements of foreign operations	**–**	**–**	**76**	**–**	**76**	**20**	**96**
Exchange differences on monetary item forming net investment in a foreign operation	**–**	**–**	**26**	**–**	**26**	**–**	**26**
Total other comprehensive income	**–**	**–**	**102**	**–**	**102**	**20**	**122**
Total comprehensive income for the year	**–**	**–**	**102**	**(57,550)**	**(57,448)**	**(3,729)**	**(61,177)**
Balance at 31 December 2016	**382,450**	**676**	**(491)**	**52,020**	**434,655**	**34,588**	**469,243**

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Operating activities			
Loss for the year		**(61,299)**	(61,974)
Income tax expense	5a	**10,556**	13,638
Loss before taxation		**(50,743)**	(48,336)
Adjustments for:			
Amortisation of intangible assets	4	**2,704**	2,697
Depreciation of property, plant and equipment	4	**4,128**	3,527
Dividend income	2	**(1,719)**	(1,860)
Finance costs	4	**1,420**	1,542
Loss on disposal of property, plant and equipment	3	**–**	100
Gain on striking-off a dormant subsidiary	3	**–**	(2,779)
Interest income	2	**(2,217)**	(3,313)
Impairment loss on investment in available-for-sale financial assets	3	**14,832**	–
Net realised and unrealised foreign exchange loss	3	**14,701**	8,814
Net realised and unrealised valuation loss on trading securities	3	**1,179**	19,902
Share of profit of a joint venture		**(19,560)**	(1,008)
Share of profits of associates		**(520)**	(202)
Recognition/(Reversal) of impairment loss on trade and other receivables	4	**238**	(380)
		15,186	27,040
Operating loss before changes in working capital		**(35,557)**	(21,296)
Changes in working capital			
Trade and other receivables		**2,491**	(2,157)
Trade and other payables		**(1,208)**	(659)
Cash used in operations		**(34,274)**	(24,112)
Interest received		**2,101**	3,519
Dividend received		**1,719**	1,860
Tax (paid)/refunded – overseas tax		**(212)**	2,759
Net cash used in operating activities		**(30,666)**	(15,974)

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Investing activities			
Dividends received from a joint venture		**248**	3,255
Dividends received from associates		**257**	674
Decrease in bank deposits		**9,771**	17,110
Payment for purchase of property, plant and equipment		**(3,386)**	(4,437)
Payment for purchase of trading securities		**–**	(512)
Proceeds from sale of trading securities		**1,619**	1,492
Net cash generated from investing activities		**8,509**	17,582
Financing activities			
(Increase)/Decrease in cash pledged		**(932)**	730
Interest paid		**(1,327)**	(1,418)
Loan from non-controlling interests		**2,908**	–
Repayment of interest-bearing borrowings		**(896)**	(1,627)
Net cash used in financing activities		**(247)**	(2,315)
Net decrease in cash and cash equivalents		**(22,404)**	(707)
Cash and cash equivalents at 1 January		**364,257**	370,870
Effect of foreign exchange rate changes		**(4,064)**	(5,906)
Cash and cash equivalents at 31 December	21	**337,789**	364,257

The notes on pages 44 to 104 form part of these financial statements.

Notes to the Financial Statements

31 December 2016

These notes form an integral part of the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of Compliance*

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) *Basis of Preparation of the Financial Statements*

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint arrangements.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale or as trading securities (Note 1(i)) are stated at their fair value as explained in the accounting policies.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainties are discussed in note 36.

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Changes in Accounting Policies

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

- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*
- Amendments to HKAS 16 and HKAS 38, *Clarifications of acceptable methods of depreciation and amortisation*
- Amendments to HKAS 27, *Equity method in separate financial statements*
- Amendments to HKFRS 10, *Sale or contribution of assets between an investor and its associate or joint venture*
- Amendments to HKFRS 11, *Accounting for acquisition of interest in joint operations*
- Annual Improvements to *HKFRSs 2012-2014 Cycle*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and Non-controlling Interests

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

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

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

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Subsidiaries and Non-controlling Interests (cont'd)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 1(o) or 1(q) depending on the nature of the liability.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is regarded as the fair value on initial recognition of a financial asset (Note 1(i)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (Note 1(g)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 1(m)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Joint Arrangements

A joint arrangement is a contractual arrangement between the Group and other parties, where they have contractually agreed to share joint control, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

(f) Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Joint Operations (cont'd)

The Group recognises its interest in the joint operation from the date that joint control commences until the date on which the Group ceases to have joint control over the joint operation.

Unrealised profits and losses resulting from transactions between the Group and its joint operations are eliminated to the extent of the Group's interest in the joint operation, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over the joint operation, it is accounted for as a disposal of the entire interest in the joint operation, with a resulting gain or loss being recognised in profit or loss.

(g) Associates and Joint Ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 1(m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

Notes to the Financial Statements
31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Associates and Joint Ventures (cont'd)

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 1(i)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (Note 1(m)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(h) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 1(m)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(i) Other Investments in Debt and Equity Securities

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

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

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Other Investments in Debt and Equity Securities

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(t) (iii) and 1(t) (iv), respectively.

Investments in securities which do not fall into held-for-trading or held-to-maturity categories are classified as available-for-sale securities. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. The cumulative gain or loss in fair value reserve is reclassified to profit or loss when derecognised or impaired (Note 1(m)). As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (Note 1(m)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(t) (iii) and 1(t) (iv), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or when they expire.

(j) Property, Plant and Equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (Note 1(m)).

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

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

Building	—	2.6%
Plant, machinery and equipment (comprising principally furniture and fixtures and office equipment)	—	6% to 33.33%
Motor vehicles	—	20%

No depreciation is provided on freehold land.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Intangible Assets (Other Than Goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (Note 1(m)).

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where appropriate. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (Note 1(m)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	Trade name	1 to 15 years
–	Trademarks	15 years
–	Franchise application	10 years
–	Technology	5 to 11 years
–	Customer relations	7 to 11 years

Both the period and method of amortisation are reviewed annually.

(l) Leased Assets

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

(i) Classification of assets leased to the Group

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

Notes to the Financial Statements
31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Leased Assets (cont'd)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(m). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

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

(m) Impairment of Assets

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

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Impairment of Assets (cont'd)

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

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

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (Note 1(g)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(m) (ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(m) (ii).

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

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

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

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

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

– For unquoted available-for-sale equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Impairment of Assets (cont'd)

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– intangible assets;

– goodwill; and

– investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

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

Notes to the Financial Statements

31 December 2016

1. **SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

(m) Impairment of Assets (cont'd)

(ii) Impairment of other assets (cont'd)

– Recognition of impairment losses

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

– Reversal of impairment losses

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

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (Notes 1(m) (i) and 1(m) (ii)).

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

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (Note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (Note 1(m)).

(o) Trade and Other Payables

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

(p) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Interest-bearing Borrowings

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

(r) Employee Benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

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

(ii) Termination benefits

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

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Income Tax

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

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

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

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

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

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

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

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

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Income Tax (cont'd)

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

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

In the ordinary course of business, there are many transactions and calculations for which the ultimate tax treatment is uncertain. Therefore, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when the Group believes that certain positions may not be fully sustained upon review by tax authorities, despite the Group's belief that its tax return positions are supportable. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of multifaceted judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(t) Revenue Recognition

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

(i) Hotel management revenue

Revenue arising from hotel management services and provision of hotel reservation services is recognised when the relevant services are delivered.

(ii) Hotel operations

Revenue from hotel operations is recognised on an accrual basis, upon rendering of the relevant services.

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(t) Revenue Recognition (cont'd)

(iii) Dividends

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

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

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

(u) Translation of Foreign Currencies

(i) Foreign currency transactions

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

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

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Translation of Foreign Currencies (cont'd)

(ii) Translation of foreign currencies

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

(iii) Net investment in a foreign operation

Exchange differences arising from monetary items that in substance form part of the Company's net investment in a foreign operation are recognised in the Company's statement of profit or loss. Such exchange differences are reclassified to equity in the consolidated financial statements. When the foreign operation is disposed of, the cumulative amount in equity is transferred to the statement of profit or loss as an adjustment to the profit or loss arising on disposal.

(v) Finance Costs

Finance costs comprise interest expenses on borrowings and expenses incurred in connection with the arrangement of debt facilities.

Interest expenses on borrowings are recognised in the statement of profit or loss using the effective interest method. Expenses incurred in connection with the arrangement of debt facilities are recognised in the statement of profit or loss on an effective interest basis over the period for which the debt facilities are granted.

(w) Related Parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

Notes to the Financial Statements
31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(w) Related Parties (cont'd)

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

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

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

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

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

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(x) Segment Reporting

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

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

Notes to the Financial Statements

31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(y) Provisions and Contingent Liabilities

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

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

2. REVENUE

The principal activities of the Company comprise those of investment holding.

Revenue of the Group comprises revenue from hospitality related services, dividend income and interest income. The amount of each significant category of revenue recognised during the year is as follows:

	2016 HK$'000	2015 HK$'000
Hospitality related services	**96,718**	87,034
Interest income	**2,217**	3,313
Dividend income	**1,719**	1,860
	100,654	92,207

Further details regarding the Group's principal activities are disclosed in note 29 to these financial statements.

3. OTHER NET LOSSES

	2016 HK$'000	2015 HK$'000
Impairment loss on available-for-sale financial assets	**14,832**	–
Net realised and unrealised foreign exchange loss	**14,701**	8,814
Net realised and unrealised valuation loss on trading securities	**1,179**	19,902
Gain on striking-off a dormant subsidiary	**–**	(2,779)
Loss on disposal of property, plant and equipment	**–**	100
Miscellaneous income	**–**	(721)
	30,712	25,316

Notes to the Financial Statements

31 December 2016

4. LOSS BEFORE TAXATION

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

	2016 HK$'000	2015 HK$'000
Finance costs		
Amortisation of capitalised transaction costs	**93**	124
Interest expenses on borrowings	**1,327**	1,418
	1,420	1,542
Staff costs		
Salaries, wages and other benefits	**71,613**	62,956
Other items		
Amortisation of intangible assets	**2,704**	2,697
Auditors' remuneration		
– audit services	**2,984**	3,798
– tax services	**27**	61
– non-audit services:		
– review of continuing connected transactions	**15**	55
– review of half-year financial statements	**616**	590
– review of the compilation of financial information	**217**	155
– review of composite document	**804**	–
Depreciation of property, plant and equipment	**4,128**	3,527
Recognition/(Reversal) of impairment loss on trade and other receivables	**238**	(380)
Operating lease charges – rental of properties	**4,239**	3,178

Notes to the Financial Statements

31 December 2016

5. INCOME TAX

(a) Taxation in the consolidated statement of profit or loss represents:

	2016 HK$'000	2015 HK$'000
Current tax - Overseas		
Provision for the year	**287**	(876)
Under-provision in respect of prior years	**80**	85
	367	(791)
Deferred tax		
Origination and reversal of temporary differences	**10,189**	13,964
Under-provision in respect of prior years	**–**	465
	10,189	14,429
Income tax expense	**10,556**	13,638

The provision for Hong Kong Profits Tax for the year ended 31 December 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year. No provision has been made for Hong Kong Profits Tax, as the Group did not earn any income subject to Hong Kong Profits Tax during the year. Taxation for overseas subsidiaries has been provided on estimated assessable profits at the rates of taxation ruling in the relevant countries.

The Company is exempted from taxation in the Cayman Islands for a period of twenty years from 1989 under the provisions of Section 6 of the Tax Concessions Law (Revised) of the Cayman Islands. The tax concession was renewed for a further period of twenty years from 2 June 2009.

As at 31 December 2016, the Group had not recognised deferred tax assets in respect of tax losses and other temporary differences of approximately HK$73.3 million (2015: HK$55.6 million) (Note 18).

Notes to the Financial Statements
31 December 2016

5. INCOME TAX (cont'd)

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2016 HK$'000	2015 HK$'000
Loss for the year	**(61,299)**	(61,974)
Income tax expense	**10,556**	13,638
Loss before taxation	**(50,743)**	(48,336)
Income tax using Hong Kong tax rates	**(8,373)**	(7,974)
Tax effect of non-taxable income	**(6)**	(55)
Tax effect of non-deductible expenses	**10,056**	5,703
Effect of tax rates in foreign jurisdictions	**1,512**	(3,092)
Effect of tax on non-controlling interest's share of (profit)/loss pass through different taxpayer	**520**	450
Effects of US federal tax credit	**–**	(1,473)
Unrecognised deferred tax assets	**6,847**	19,529
Under-provision in respect of prior years	**–**	550
Actual income tax expense	**10,556**	13,638

(c) Current taxation in the statement of financial position represents:

	2016 HK$'000	2015 HK$'000
Recoverable for overseas tax for the year	**1,051**	899
Recoverable overseas tax relating to prior years	**1,485**	1,782
	2,536	2,681

Notes to the Financial Statements

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6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
2016				
Executive Directors				
Kwek Leng Beng (resigned on 9 September 2016)	**259**	–	–	**259**
Gan Khai Choon (resigned on 9 September 2016)	**69**	–	–	**69**
Lawrence Yip Wai Lam	**50**	–	–	**50**
Jiang Yulin (appointed on 19 August 2016)	**7,366**	–	–	**7,366**
Zhang Xian (appointed on 19 August 2016)	**1,473**	–	–	**1,473**
Non-Executive Directors				
Chan Bernard Charnwut (resigned on 9 September 2016)	**134**	–	–	**134**
Ronald Nathaniel Issen (resigned on 9 September 2016)	**69**	–	–	**69**
Independent Non-Executive Directors				
Dr. Lo Ka Shui (resigned on 9 September 2016)	**69**	–	–	**69**
Lee Jackson @ Li Chik Sin (resigned on 9 September 2016)	**134**	–	–	**134**
Teoh Teik Kee (resigned on 9 September 2016)	**199**	–	–	**199**
Guo Jingbin (appointed on 19 August 2016)	**66**	–	–	**66**
Hu Baihe (appointed on 19 August 2016)	**66**	–	–	**66**
Yuen Kwok Kuen (appointed on 19 August 2016)	**66**	–	–	**66**
	10,020	–	–	**10,020**
Chief Executive Officer*				
Wong Hong Ren	–	**2,995**	–	**2,995**
	–	**2,995**	–	**2,995**

Notes to the Financial Statements

31 December 2016

6. DIRECTORS' REMUNERATION (cont'd)

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
2015				
Executive Directors				
Kwek Leng Beng	375	–	–	375
Kwek Leng Joo (passed away on 16 November 2015)	88	–	–	88
Gan Khai Choon	100	–	–	100
Lawrence Yip Wai Lam	50	–	–	50
Non-Executive Directors				
Chan Bernard Charnwut	194	–	–	194
Ronald Nathaniel Issen	100	–	–	100
Independent Non-Executive Directors				
Dr. Lo Ka Shui	100	–	–	100
Lee Jackson @ Li Chik Sin	194	–	–	194
Teoh Teik Kee	288	–	–	288
	1,489	–	–	1,489
Chief Executive Officer*				
Sherman Kwek Eik Tse (stepped down on 2 March 2015)	–	297	–	297
Wong Hong Ren (appointed on 2 March 2015)	–	2,608	–	2,608
	–	2,905	–	2,905

* In accordance with Paragraph 24 of Appendix 16 to the Hong Kong Exchange Listing Rules, references to 'Director' include a Chief Executive Officer who is not a director.

Notes to the Financial Statements

31 December 2016

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2015: none) of them is a director whose emolument is disclosed in note 6. The aggregate of the emoluments in respect of the other four (2015: five) individuals are as follows:

	2016 HK$'000	2015 HK$'000
Salaries and other emoluments	**7,723**	8,128
Discretionary bonuses	**–**	153
	7,723	8,281

The emoluments of the four (2015: five) individuals with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
HK$Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**–**	3
HK$1,500,001 – HK$2,000,000	**3**	1
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**1**	1
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**–**	–

8. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of HK$80,966,000 (2015: loss of HK$34,118,000) which has been dealt with in the financial statements of the Company.

9. EARNINGS PER SHARE

(a) Basic losses per share

The calculation of basic losses per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$57,550,000 (2015: HK$55,067,000) and on the weighted average number of ordinary shares of 382,449,524 (2015: 382,449,524 shares) in issue during the year, calculated as follows:

	2016	2015
Weighted average number of ordinary shares at 1 January and 31 December	**382,449,524**	382,449,524

(b) Diluted losses per share

Diluted losses per share is not applicable as there are no dilutive potential ordinary shares during the year.

Notes to the Financial Statements

31 December 2016

10. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2016			2015		
	Before tax amount HK$'000	Tax expenses HK$'000	Net of tax amount HK$'000	Before tax amount HK$'000	Tax expenses HK$'000	Net of tax amount HK$'000
Exchange differences on translation of financial statements of foreign operations	**96**	**–**	**96**	(306)	–	(306)
Exchange differences on monetary item forming net investment in a foreign operation	**26**	**–**	**26**	(31)	–	(31)
Reclassification adjustment of exchange differences to profit or loss on striking-off of subsidiary	**–**	**–**	**–**	(2,779)	–	(2,779)
	122	**–**	**122**	(3,116)	–	(3,116)

11. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by products and services. The Group has identified the following two reportable segments based on the information that is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment:

– Investment holding : This segment relates to investments in listed equity investments, unlisted marketable equitable equity mutual funds held as trading securities and investment in an unlisted equity fund classified as available-for-sale financial assets. Currently, the Group's equity investment portfolio includes equity securities listed on the London Stock Exchange, NASDAQ Stock Market and The Philippines Stock Exchange, Inc. and investment portfolio in United States and Hong Kong.

– Hospitality : This segment primarily derives the revenue from the provision of hotel management, hotel reservation, revenue management services, risk management services and procurement services to the hospitality industry as well as owning and managing hotels. Currently, the Group's activities in this segment are carried out in the United States.

Notes to the Financial Statements

31 December 2016

11. SEGMENT REPORTING (cont'd)

(a) Segment results, assets and liabilities

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

Segment assets include all tangible assets, intangible assets, goodwill and current assets with the exception of deferred tax assets and current tax recoverable. Segment liabilities include interest-bearing borrowings, trade and other payables and dividends received in excess of earnings from equity-method accounted joint venture.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expenses arising from the activities of the Group's joint operation.

The measure used for reporting segment profit is "profit from operations". In addition to receiving segment information concerning profit from operations, management is provided with segment information concerning revenue, interest income, depreciation and amortisation, impairment losses, foreign exchange gain/loss, gain/loss on trading securities and additions to non-current segment assets used by the segments in their operations.

(b) Information about reportable segments

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

	Investment Holding		Hospitality		Total	
	2016	2015	2016	2015	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	**1,719**	1,860	**96,718**	87,034	**98,437**	88,894
Interest income	**2,126**	3,127	**91**	186	**2,217**	3,313
Reportable segment revenue	**3,845**	4,987	**96,809**	87,220	**100,654**	92,207
Reportable segment (loss) profit	**(54,231)**	(31,178)	**3,488**	(17,158)	**(50,743)**	(48,336)
Depreciation and amortisation	**(48)**	(1)	**(6,784)**	(6,223)	**(6,832)**	(6,224)
Impairment loss on available-for-sale financial assets	**(14,832)**	–	**–**	–	**(14,832)**	–
Net realised and unrealised valuation loss on trading securities	**(1,179)**	(19,831)	**–**	(71)	**(1,179)**	(19,902)
Net realised and unrealised foreign exchange loss	**(14,623)**	(8,798)	**(78)**	(16)	**(14,701)**	(8,814)
Additions to non-current assets	**1,525**	27	**1,861**	5,069	**3,386**	5,096
Reportable segment assets	**329,167**	418,542	**198,466**	178,474	**527,633**	597,016
Reportable segment liabilities	**5,002**	6,278	**55,744**	73,160	**60,746**	79,438

Notes to the Financial Statements
31 December 2016

11. SEGMENT REPORTING (cont'd)

(c) Reconciliations of reportable segment assets and liabilities

	2016 HK$'000	2015 HK$'000
Assets		
Reportable segment assets	**527,633**	597,016
Deferred tax assets	**–**	10,183
Current tax recoverable	**2,536**	2,681
Consolidated total assets	**530,169**	609,880
Liabilities		
Reportable segment liabilities	**60,746**	79,438
Provision for taxation	**180**	22
Consolidated total liabilities	**60,926**	79,460

(d) Geographical segments

The Group's investing activities are mainly carried out in Hong Kong. Hospitality activities are carried out by the subsidiaries based in the United States.

In presenting information on the basis of geographical segments, segment revenue in relation to investment holding is based on the geographical location of investments and segment revenue in relation to hospitality is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

(e) Geographical information

2016

	Revenue HK$'000	Non-current assets HK$'000
Hong Kong	**3,503**	**1,493**
China	**–**	**1,558**
United States	**97,145**	**62,401**
British Virgin Islands	**–**	**18,179**
Singapore	**6**	**102**
	100,654	**83,733**

Notes to the Financial Statements

31 December 2016

11. SEGMENT REPORTING (cont'd)

(e) Geographical information (cont'd)

2015

	Revenue HK$'000	Non-current assets* HK$'000
Hong Kong	4,795	10
China	–	1,573
United States	87,406	70,977
British Virgin Islands	–	32,985
Singapore	6	11
	92,207	105,556

* *exclude deferred tax assets*

Major customer

Revenue from the largest customer of the Group's hospitality segment amounting to HK$8,679,000 (2015: HK$8,884,000) represents approximately 8% (2015: 10%) of the Group's total revenue.

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Building HK$'000	Plant, machinery and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 January 2015	5,058	34,503	13,050	–	52,611
Additions	–	698	4,398	–	5,096
Disposals	–	–	(397)	–	(397)
Exchange adjustments	–	(37)	(4)	–	(41)
At 31 December 2015	5,058	35,164	17,047	–	57,269
At 1 January 2016	**5,058**	**35,164**	**17,047**	**–**	**57,269**
Additions	**–**	**39**	**2,643**	**704**	**3,386**
Disposals	**–**	**–**	**(70)**	**–**	**(70)**
Exchange adjustments	**2**	**30**	**15**	**–**	**47**
At 31 December 2016	**5,060**	**35,233**	**19,635**	**704**	**60,632**

Notes to the Financial Statements

31 December 2016

12. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Freehold land HK$'000	Building HK$'000	Plant, machinery and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Accumulated depreciation and impairment losses					
At 1 January 2015	28	3,353	7,326	–	10,707
Depreciation for the year	–	961	2,566	–	3,527
Disposals	–	–	(297)	–	(297)
Exchange adjustments	–	(3)	(16)	–	(19)
At 31 December 2015	28	4,311	9,579	–	13,918
At 1 January 2016	**28**	**4,311**	**9,579**	**–**	**13,918**
Depreciation for the year	**–**	**955**	**3,161**	**12**	**4,128**
Disposals	**–**	**–**	**(62)**	**–**	**(62)**
Exchange adjustments	**–**	**(5)**	**6**	**–**	**1**
At 31 December 2016	**28**	**5,261**	**12,684**	**12**	**17,985**
Net book value					
At 1 January 2015	5,030	31,150	5,724	–	41,904
At 31 December 2015	5,030	30,853	7,468	–	43,351
At 31 December 2016	**5,032**	**29,972**	**6,951**	**692**	**42,647**

Freehold land is situated outside Hong Kong and is being held for own use.

During the year ended 31 December 2016, the Group acquired property, plant and equipment amounting to HK$3,386,000 (2015: HK$5,096,000), of which HK$Nil (2015: HK$659,000) was acquired via finance leases. The cash outflow on acquisition of property, plant and equipment amounted to HK$3,386,000 (2015: HK$4,437,000).

At 31 December 2016, property, plant and equipment of the Group with a carrying amount of HK$36,633,000 (2015: HK$37,848,000) were pledged as security to secure bank loans (Note 23).

Notes to the Financial Statements

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13. INTANGIBLE ASSETS

	Trade name HK$'000	Trademarks HK$'000	Franchise application HK$'000	Technology HK$'000	Customer relations HK$'000	Total HK$'000
Cost						
At 1 January 2015	1,605	1,033	330	14,934	1,675	19,577
Exchange adjustments	(1)	–	2	(18)	(1)	(18)
At 31 December 2015	1,604	1,033	332	14,916	1,674	19,559
At 1 January 2016	**1,604**	**1,033**	**332**	**14,916**	**1,674**	**19,559**
Exchange adjustments	**1**	**–**	**1**	**12**	**2**	**16**
At 31 December 2016	**1,605**	**1,033**	**333**	**14,928**	**1,676**	**19,575**
Accumulated amortisation and impairment losses						
At 1 January 2015	297	1,033	64	6,730	580	8,704
Charge for the year	107	–	16	2,366	208	2,697
Exchange adjustments	4	–	1	(21)	7	(9)
At 31 December 2015	408	1,033	81	9,075	795	11,392
At 1 January 2016	**408**	**1,033**	**81**	**9,075**	**795**	**11,392**
Charge for the year	**107**	**–**	**17**	**2,371**	**209**	**2,704**
Exchange adjustments	**3**	**–**	**3**	**(3)**	**1**	**4**
At 31 December 2016	**518**	**1,033**	**101**	**11,443**	**1,005**	**14,100**
Net book value						
At 1 January 2015	1,308	–	266	8,204	1,095	10,873
At 31 December 2015	1,196	–	251	5,841	879	8,167
At 31 December 2016	**1,087**	**–**	**232**	**3,485**	**671**	**5,475**

The amortisation charge for the Group's trade name, trademarks, technology and customer relations and the Group's share of the joint operation's franchise application are included in "administrative expenses" in the consolidated statement of profit or loss.

Notes to the Financial Statements

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14. GOODWILL

	HK$'000
At 1 January 2015	8,942
Translation differences	(8)
At 31 December 2015	8,934
Translation differences	7
At 31 December 2016	8,941

Impairment testing for cash-generating unit containing goodwill

For the purpose of impairment testing, goodwill is allocated to hotel operations of Sheraton Chapel Hill Hotel and hotel reservation business of Sceptre Hospitality Resources which is included in the hospitality segment.

Recoverable amounts are determined by management based on the following:

(a) As at the reporting date, the Group has determined the recoverable amount of the hotel operations of Sheraton Chapel Hill Hotel based on value in use calculation. The value in use calculation is a discounted cash flow model using cash flow projections based on the most recent budgets and forecasts approved by the management covering a period of 5 years and using a discount rate of 14.5% (2015: 21.1%). The terminal value is calculated by applying an exit multiple of 10 times to the projected terminal period Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA") and it is discounted using a capitalisation rate of 9.3%. The exit multiple for the terminal value is based on the Enterprise Value/EBITDA of comparable business enterprises. The recoverable amount in 2015 was determined based on an indicative offer price stated in a letter of offer. The Group did not proceed with the offer which expired subsequent to 31 December 2015.

(b) As at the reporting date, the Group has determined the recoverable amount of the hotel reservation business based on the average of the fair values determined under the discounted cash flow method and guideline public company method.

The discounted cash flow method uses cash flow projections based on the most recent budgets and forecasts approved by the management covering a period of 5 years and using a discount rate of 13.0% (2015: 20.0%). The terminal value is calculated by applying a capitalisation rate of 10.0% (2015: 17.0%) on the residual free cash flow based on EBITDA.

The guideline public company method entails a comparison of the subject company to publicly traded companies. The comparison is based on published data of public companies' stock prices, earnings or sales. The comparison is known as multiple. The multiples of 1.0 times (2015: 1.3 times to 1.5 times) for revenue and 10.5 times (2015: 10 times) for EBITDA are used in determining the recoverable amount of the hotel reservation business.

There is no impairment loss recognised based on the above impairment testing undertaken by the management. The management believes that any reasonable possible change in the key assumptions used are not likely to cause the recoverable amounts to be significantly lower than the carrying amount of goodwill, and result in significant impairment loss to be recognised.

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15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 HK$'000	2015 HK$'000
Available-for-sale equity securities:		
BEA Blue Sky Real Estate Fund LP (the "Fund"), unlisted, at cost	**18,179**	32,985

The Fund is a closed-ended private equity fund structured as a Cayman Islands exempted limited partnership, organised for the sole purpose of subscribing for a limited partnership interest in the China Fund. The China Fund is a real estate private equity fund established for the purpose of making investments in real estate assets and real estate-related assets in China.

As at 31 December 2016, the Fund, which is included in the investment holding segment, was determined to be impaired in view of (i) the depreciation of Renminbi (which is the denominated currency of China Fund) against the functional currency of the China Fund (which is the US Dollar) and (ii) the under-perfomance of the underlying property held by the China Fund (the "Property"), both occupancy rate and rental yield, as compared to the initial forecast. The underperform of the underlying property is due to the Property has not yet reached the stabilisation stage.

The management determined the recoverable amount based on the net assets value of the China Fund as at 31 December 2016. The China Fund comprises largely the Property which is stated at its estimated fair value. The estimated fair value of the property was determined based on discounted cash flow valuation (for the phase 1 development) and comparable based valuation (for the phase 2 development) carried out by the fund manager. The key assumptions used are as follows:

– discount rate of 7.88% (2015: 8.9% – 10.8%)

– terminal capitalisation rate of 6.25% (2015: 6.25%)

– estimated selling price for the land of US$720 per square feet (2015: US$770 per square feet)

Impairment loss on the Fund, which amounted to HK$14.8 million, was recognised in profit or loss in accordance with the policy set out in note 1(m).

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16. INTEREST IN A JOINT OPERATION

	2016 HK$'000	2015 HK$'000
Line-by-line interest in net assets of joint operation that are combined to the Group, including line-by-line interest in goodwill as below	**14,370**	10,633
Line-by-line interest in goodwill that is combined to the Group	**1,694**	1,694

Details of the Group's net interest in the joint operation, which is accounted for in the consolidated financial statements using the accounting policy in note 1(f), are as follows:

			Proportion of ownership interest			
Name of joint operation/ Principal activities	Form of business structure	Place of operation	Group's effective interest	Held by subsidiary	Group's effective interest	Held by subsidiary
			2016		2015	
			%	%	%	%
Sheraton Chapel Hill hotel (Provision of hospitality related services)	Tenant-in-common agreement	USA	43	50	43	50

The Group, through an indirect subsidiary, SWAN Carolina Investor, LLC ("SCI"), entered into a tenant-in-common agreement with SFI Carolina TIC SPE, LLC, a wholly-owned subsidiary of Shelbourne Falcon Investors, LP, to own an equal 50% tenant-in-common interest in Sheraton Chapel Hill hotel (the "Property") for the purpose of owning and operating the Property as a hotel and as an investment.

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16. INTEREST IN A JOINT OPERATION (cont'd)

The table below summarised the Group's line-by-line interest in the results, assets and liabilities of the joint operation that had been combined into the Group's statement of financial position and consolidated statement of profit or loss.

	2016 HK$'000	2015 HK$'000
Non-current assets	**38,554**	39,801
Current assets	**8,539**	3,380
Non-current liabilities	**(29,678)**	(29,585)
Current liabilities	**(3,045)**	(2,963)
Net assets	**14,370**	10,633
Revenue	**24,446**	24,925
Expenses	**(23,542)**	(23,896)
Profit for the year	**904**	1,029

17. INTEREST IN ASSOCIATES

	2016 HK$'000	2015 HK$'000
Share of net assets	**8,491**	8,322

Details of the Group's interests in the associates are as follows:

Name of associate/ principal activities	Form of business structure	Place of incorporation and operation	Issued and paid up capital US$	Proportion of ownership interest 2016 Group's effective interest %	 2016 Held by subsidiary %	 2015 Group's effective interest %	 2015 Held by subsidiary %
Cosmic Hospitality China Limited (Provision of hospitality related services)	Incorporated	China	400,000	43	50	43	50
S-R Burlington Partners, LLC (Provision of hospitality related services)	Incorporated	USA	2,970,281	27	32	27	32

Notes to the Financial Statements

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17. INTEREST IN ASSOCIATES (cont'd)

All of the above associates are accounted for using the equity method in the consolidated financial statements. None of the associates are individually material to the Group. Aggregate information of the associates that are not individually material, is as follows:

	2016 HK$'000	2015 HK$'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**8,491**	8,322
Aggregate amounts of the Group's share of those associates:		
Profit from continuing operations	**520**	202
Other comprehensive income	**–**	–
Total comprehensive income	**520**	202

18. DEFERRED TAX ASSETS

(a) Deferred tax assets recognised

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

	Tax losses HK$'000	Deductible allowances in excess of the related depreciation HK$'000	Others HK$'000	Total HK$'000
Deferred tax arising from:				
At 1 January 2015	19,381	4,056	1,195	24,632
Charged to profit or loss	(12,135)	(1,294)	(1,000)	(14,429)
Exchange adjustments	(15)	(3)	(2)	(20)
At 31 December 2015	7,231	2,759	193	10,183
At 1 January 2016	**7,231**	**2,759**	**193**	**10,183**
Charged to profit or loss	**(7,235)**	**(2,761)**	**(193)**	**(10,189)**
Exchange adjustments	**4**	**2**	**–**	**6**
At 31 December 2016	**–**	**–**	**–**	**–**

(b) Deferred tax assets not recognised

The following temporary differences have not been recognised:

	2016 HK$'000	2015 HK$'000
Tax losses	**74,226**	55,559
Other temporary differences	**(916)**	(9)
	73,310	55,550

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18. DEFERRED TAX ASSETS (cont'd)

(b) Deferred tax assets not recognised (cont'd)

Deferred tax assets have not been recognised in respect of unutilised tax losses and other temporary differences because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

Tax losses amounting to HK$60.1 million (2015: HK$43.0 million) have expiry dates of more than 5 years. The earliest expiry date is on 31 December 2022 and the latest expiry date is on 31 December 2035. The remaining tax losses amounting to HK$14.1 million (2015: HK$12.6 million) do not expire under the tax legislations of the respective jurisdiction.

19. TRADING SECURITIES

	2016 HK$'000	2015 HK$'000
Equity securities (at market value)		
– Listed outside Hong Kong		
– previous fellow subsidiaries	**–**	61,894
– non-related companies	**59,683**	10,053
– Unlisted	**14,418**	15,551
	74,101	87,498

The breakdown of listed equity securities at market value is as follows: –

	2016	2015
Millennium & Copthorne Hotels plc	**50,278**	61,311
Grand Plaza Hotel Corporation	**466**	583
Fanhua Inc.	**8,939**	10,053
	59,683	71,947

Included in trading securities in 2015 was an amount of HK$1,619,000 relating to investment securities held in respect of the Group's defined contribution plan (Note 26).

The previous fellow subsidiary refers to a subsidiary of the previous immediate holding company, City Developments Limited ("CDL"). The equity securities held by the Group in the previous fellow subsidiary was classified as non-related company as CDL ceased to be the immediate holding company subsequent to its disposal of its shareholding in the Company during the financial year.

20. TRADE AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Third-party trade receivables	**20,547**	17,736
Less: Allowance for impairment loss (Note 20(b))	**(385)**	(147)
	20,162	17,589
Other receivables and deposits	**3,230**	3,648
Amounts owing by previous fellow subsidiary, trade	**–**	4,714
Loans and receivables	**23,392**	25,951
Prepayments	**6,462**	6,556
Trade and other receivables	**29,854**	32,507

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20. TRADE AND OTHER RECEIVABLES (cont'd)

(a) Ageing analysis

The ageing analysis of third-party trade receivables (net of allowance for impairment loss) and trade amount owing by previous fellow subsidiary based on invoice date is as follows:

	2016 HK$'000	2015 HK$'000
Less than 1 month	**10,130**	10,675
1 to 3 months	**9,205**	8,816
3 to 12 months	**827**	2,812
	20,162	22,303

The Group's credit policy is set out in note 31. Trade receivables are due within 1 month from the date of invoice.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movements in the allowance for impairment loss during the year are as follows:

	2016 HK$'000	2015 HK$'000
At 1 January	**147**	527
Recognition/(Reversal) of impairment loss	**238**	(380)
At 31 December	**385**	147

Notes to the Financial Statements

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20. TRADE AND OTHER RECEIVABLES (cont'd)

(c) Trade receivables that are not impaired

The ageing analysis of third-party trade receivables and trade amount owing by previous fellow subsidiary that are neither individually nor collectively considered to be impaired is as follows:

	2016 HK$'000	2015 HK$'000
Neither past due nor impaired	**9,628**	12,481
1 to 3 months overdue	**8,766**	7,300
3 to 12 months overdue	**977**	487
	9,743	7,787
	19,371	20,268

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

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

21. CASH AND CASH EQUIVALENTS

	2016 HK$'000	2015 HK$'000
Deposits with banks and other financial institutions	**272,167**	313,030
Cash at bank and on hand	**67,778**	52,451
Cash and cash equivalents in the consolidated statement of financial position	**339,945**	365,481
Less: Cash pledged for interest-bearing borrowings (Note 23)	**(2,156)**	(1,224)
Cash and cash equivalents in the consolidated statement of cash flows	**337,789**	364,257

The weighted average effective interest rates per annum relating to cash and cash equivalents at the end of the reporting period for the Group is 0.894% (2015: 1.394%). Interest rates re-price within twelve months.

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22. TRADE AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	**4,986**	7,516
Other payables and accrued charges	**16,490**	16,645
	21,476	24,161
Deferred income	**6,452**	5,300
	27,928	29,461

All of the trade and other payables are expected to be settled within one year.

Deferred income relates to revenue billed in advance.

Trade and other payables, excluding deferred income, have the following ageing analysis based on due date:

	2016 HK$'000	2015 HK$'000
Due within 1 month or on demand	**16,438**	18,358
Due 1 to 3 months	**1,040**	2,054
Due 3 to 12 months	**3,998**	3,749
	21,476	24,161

23. INTEREST-BEARING BORROWINGS

	2016 HK$'000	2015 HK$'000
Bank loans - secured	**29,701**	30,428
Finance lease liabilities	**–**	62
	29,701	30,490
Repayable:		
– Within 1 year	**719**	899
– After 1 year but within 2 years	**785**	873
– After 2 years but within 5 years	**2,609**	2,846
– After 5 years	**25,588**	25,872
	28,982	29,591
	29,701	30,490

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23. INTEREST-BEARING BORROWINGS (cont'd)

Security

The Group's term loan is secured by:

- a first priority mortgage of Sheraton Chapel Hill Hotel, its improvements, equipment and fixtures with a carrying amount of HK$36.6 million (2015: HK$37.8 million) as at 31 December 2016 (Note 12);
- assignments of all rights and benefits to sale, lease, agreements, trademarks and insurance proceeds in respect of Sheraton Chapel Hill Hotel;
- pledge of monies held in specific bank accounts of HK$2.2 million (2015: HK$1.2 million) as at 31 December 2016 (Note 21); and
- guarantee by Richfield Hospitality, Inc ("RHI"), an indirect subsidiary of the Group.

Covenant

The Group's banking facilities are subjected to the fulfillment of covenants relating to certain Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 31. As at 31 December 2016, none of the covenants relating to the drawn down facilities had been breached.

Non-recourse Carveout Guarantees

As of 31 December 2016, RHI and SWAN USA, Inc (the "Guarantors"), both being indirect subsidiaries of the Group, are guarantors for certain indebtedness relating to the Group's joint operation, joint venture and associate, as below:

a. RHI is a guarantor of indebtedness of the term loan entered into by Swan Carolina Investor, LLC and SFI Carolina TIC SPE, LLC for Sheraton Chapel Hill Hotel. The term guarantee expires on 6 May 2023; and

b. RHI and Swan USA, Inc are guarantors of indebtedness of the term loans entered into by RBH Mezz, LLC and Rich Burlington Hotel, LLC, which are underlying investments of S-R Burlington Partners, LLC. The term guarantees expire on 11 November 2017.

c. RHI and SWAN USA, Inc were guarantors of indebtedness of the term loan entered into by the Group's joint venture, Richfield Syracuse Hotel Partners, LLC. The term guarantee was discharged on 16 May 2016 following the repayment of the loan by the joint venture.

The above indebtedness are non-recourse in nature and the Group's liabilities are limited to the collaterals on which the individual loans are secured. The guarantees entered into by the Guarantors provide the lender with recourse for any losses and expenses arising from specific acts such as fraud, misappropriation of rents and intentional damages ("covenants"). The obligations of the Guarantors are to the extent which the collaterals are insufficient to meet the lender's losses and expenses. These guarantees do not impose liability on the Guarantors for any other event such as the non-payment of loan by the borrower. The maximum potential liability of the Group under the guarantees as at 31 December 2016 is HK$167.7 million (2015: HK$290.8 million).

The management is of the view that the possibility of violating the above covenants and triggering any cash outflow within the scope of the above guarantees is remote. In addition, the above indebtedness are non-recourse in nature and the carrying amount of the individual collateral is in excess of its respective outstanding loan amount.

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24. DIVIDENDS RECEIVED IN EXCESS OF EARNINGS FROM EQUITY-METHOD ACCOUNTED JOINT VENTURE

	2016 HK$'000	2015 HK$'000
Dividends in excess of earnings	**209**	19,487

Details of the Group's net interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture/ Principal activities	Form of business structure	Issued and paid up capital	Proportion of ownership interest Group's effective interest 2016	Held by subsidiary 2016	Group's effective interest 2015	Held by subsidiary 2015
		US$	%	%	%	%
RSF Syracuse Partners, LLC (Provision of hospitality related services)	Incorporated	6,911,000	43	50	43	50

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24. DIVIDENDS RECEIVED IN EXCESS OF EARNINGS FROM EQUITY-METHOD ACCOUNTED JOINT VENTURE (cont'd)

Summarised financial information of RSF Syracuse Partners, LLC and reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2016 HK$'000	2015 HK$'000
Gross amounts of RSF Syracuse Partners, LLC's		
Current assets	**178**	13,846
Non-current assets	**–**	74,589
Current liabilities	**(596)**	(127,410)
Equity	**(418)**	(38,975)
Included in the above assets and liabilities:		
Cash and cash equivalents	**178**	8,143
Current financial liabilities (excluding trade and other payables and provisions)	**–**	(119,788)
Revenue	**27,381**	76,150
Profit for the year	**39,117**	2,008
Dividend received from RSF Syracuse Partners, LLC	**248**	3,255
Included in the above profit:		
Depreciation and amortisation	**(3,323)**	(8,619)
Interest expense	**(1,700)**	(3,479)
Reconciled to the Group's interest in RSF Syracuse Partners, LLC		
Gross amounts of net liabilities	**418**	38,975
Group's interest	**50%**	50%
Group's share of net liabilities, representing the carrying amount in the consolidated financial statements	**209**	19,487

Disposal of the hotel operated by RSF Syracuse Partners, LLC

On 16 May 2016, RSF Syracuse Partners, LLC disposed its interests in Crowne Plaza Syracuse Hotel, New York, U.S. for a consideration of HK$117,870,000 which resulted in a gain of HK$19,560,000 to the Group.

25. LOAN FROM NON-CONTROLLING INTERESTS

The loan from non-controlling interests is unsecured and interest free. The loan is due for repayment in June 2018.

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26. EMPLOYEE RETIREMENT BENEFITS

In prior years, the Group operated a defined contribution plan (the "Plan") in the United States. Under the Plan, employees might elect to contribute a percentage of their regular compensation to the Plan and to direct the distribution of these amounts among the Plan's investment options. The Group would match 50% of each employee's contributions up to a maximum of 3% of the employee's annual base compensation.

On 1 January 2015, in compliance with the new Affordable Care Act regulations that were issued, the Group terminated the Plan. In January 2016, the Group disposed all trading securities under the Plan and refunded the affected employees.

At the end of the reporting period, the contributions by the Group and its employees amounting to nil (2015: HK$1,619,000) have been invested in securities and included within trading securities on the consolidated statement of financial position (Note 19).

27. CAPITAL AND RESERVES

(a) Movements in components of equity

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

	Share capital HK$'000	Capital redemption reserve HK$'000	Revenue reserve HK$'000	Total HK$'000
The Company				
Balance at 1 January 2015	382,450	676	197,030	580,156
Changes in equity for 2015:				
Total comprehensive income for the year	–	–	(34,118)	(34,118)
Balance at 31 December 2015	382,450	676	162,912	546,038
Balance at 1 January 2016	**382,450**	**676**	**162,912**	**546,038**
Changes in equity for 2016:				
Total comprehensive income for the year	**–**	**–**	**(80,966)**	**(80,966)**
Balance at 31 December 2016	**382,450**	**676**	**81,946**	**465,072**

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27. CAPITAL AND RESERVES (cont'd)

(b) Share capital

(i) Authorised and issued share capital

	The Company			
	2016		2015	
	No. of shares ('000)	HK$'000	No. of shares ('000)	HK$'000
Authorised:				
Ordinary shares of HK$1 each	**2,720,615**	**2,720,615**	2,720,615	2,720,615
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**382,450**	**382,450**	382,450	382,450

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Purchase of own shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the years ended 31 December 2016 and 31 December 2015.

(c) Nature and purpose of reserves

(i) Capital redemption reserve

Capital redemption reserve represents the nominal value of the shares repurchased which has been paid out of the distributable reserves of the Company.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and exchange differences on monetary items which form part of the Group's net investment in foreign operations, provided certain conditions are met. The reserve is dealt with in accordance with the accounting policy set out in note 1(u).

(d) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$81,946,000 (2015: HK$162,912,000).

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27. CAPITAL AND RESERVES (cont'd)

(e) Share award scheme

On 9 December 2016, the Company adopted a share award scheme (the "Share Award Scheme"), pursuant to which the Board may propose or determine the grant of the Company's shares to any Directors, employees or third party service providers of the Group as their incentives and rewards so as (i) to provide them with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain such individuals to work with the Company; and (iii) to provide additional incentive for them to achieve performance goals, subject to such conditions as the Board may deem appropriate at its discretion.

The Board has resolved to award an aggregate of 37,862,500 shares to Mr. Jiang Yulin on 9 December 2016. The issue and allotment of new shares to Mr, Jiang Yulin is subjected to approval at an extraordinary general meeting to be convened by the Company.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

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

The Group monitors its capital structure on the basis of net debt-to-adjusted capital ratio. It is the Group's strategy to keep the net debt-to-adjusted capital ratio as low as feasible. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

28. NON-CONTROLLING INTERESTS

The following table lists out the information relating to the consolidated results and financial position of SWAN Holdings Limited, its subsidiaries, joint arrangements and associates ("Swan"). Swan is the only subsidiary of the Group which has material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2016 **HK$'000**	2015 HK$'000
NCI percentage	**15%**	15%
Current assets	**137,094**	198,035
Non-current assets	**119,762**	82,733
Current liabilities	**(24,510)**	(24,720)
Non-current liabilities	**(32,099)**	(49,078)
Net assets	**200,247**	206,970
NCI of Swan's subsidiaries	**(5,354)**	(8,554)
Net assets attributable to equity shareholders of Swan	**194,893**	198,416

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28. NON-CONTROLLING INTERESTS (cont'd)

	2016 HK$'000	2015 HK$'000
Carrying amount of NCI of Swan	**29,234**	29,763
Add: NCI of Swan's subsidiaries (as above)	**5,354**	8,554
Total carrying amount of NCI	**34,588**	38,317
Revenue	**96,711**	87,034
Loss for the year	**(6,792)**	(30,714)
Loss attributable to NCI of Swan's subsidiaries	**3,213**	2,705
Loss for the year attributable to equity shareholders of Swan	**(3,579)**	(28,009)
Loss allocated to NCI of Swan	**(536)**	(4,202)
Cash flows used in operating activities	**(6,163)**	(6,944)
Cash flows (used in)/generated from investing activities	**(44,184)**	16,562
Cash flows generated from/(used in) financing activities	**823**	(2,317)

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29. PRINCIPAL SUBSIDIARIES

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

			Proportion of Ownership Interest					
Company name/ Principal activities	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Held by Company 2016	Held by Subsidiary	Group's effective interest	Held by Company 2015	Held by Subsidiary
			%	%	%	%	%	%
Principal direct and indirect subsidiaries								
CES Capital Limited (Investment holding)	British Virgin Islands	1 share of US$1 each	100	100	–	100	100	–
SWAN Holdings Limited (Investment holding)	Bermuda	33,345,333 shares of US$1 each	85	85	–	85	85	–
SWAN USA, Inc. (Investment holding)	United States of America	100 common stocks of US$0.01 each	85	–	100	85	–	100
Richfield Hospitality Inc. (Investment holding and provision of hospitality related services)	United States of America	100 common stocks of US$1,000.01 each	85	–	100	85	–	100
Sceptre Hospitality Resources, LLC. (Provision of hotel reservation services)	United States of America	100 common stocks of US$0.01 each	43	–	51	43	–	51

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30. FINANCIAL INSTRUMENTS BY CATEGORY

An analysis of the Group's financial instruments is set out below:

	Note	Loan and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Available-for-sale financial assets HK$'000	Liabilities at amortised cost HK$'000
2016					
Assets					
Available-for-sale financial assets	15	**–**	**–**	**18,179**	**–**
Trading securities	19	**–**	**74,101**	**–**	**–**
Trade and other receivables, excluding prepayments	20	**23,392**	**–**	**–**	**–**
Cash and cash equivalents	21	**339,945**	**–**	**–**	**–**
		363,337	**74,101**	**18,179**	**–**
Liabilities					
Trade and other payables, excluding deferred income	22	**–**	**–**	**–**	**21,476**
Interest-bearing borrowings	23	**–**	**–**	**–**	**29,701**
Loan from non-controlling interests	25	**–**	**–**	**–**	**2,908**
		–	**–**	**–**	**54,085**
2015					
Assets					
Available-for-sale financial assets	15	–	–	32,985	–
Trading securities	19	–	87,498	–	–
Trade and other receivables, excluding prepayments	20	25,951	–	–	–
Bank deposits		9,771	–	–	–
Cash and cash equivalents	21	365,481	–	–	–
		401,203	87,498	32,985	–
Liabilities					
Trade and other payables, excluding deferred income	22	–	–	–	24,161
Interest-bearing borrowings	23	–	–	–	30,490
		–	–	–	54,651

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 1 month from the date of invoice. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Investments are normally only in liquid securities and with counterparties that have a credit rating equal to or better than the Group. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations.

Bank deposits placed with a financial institution have maturity dates ranging from one to two (2015: four to sixteen) months from the end of the reporting period. Given its high credit rating, management does not expect the financial institution to fail to meet its obligations.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, 17% (2015: 21%) and 47% (2015: 58%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the hospitality business segment.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 20.

Notes to the Financial Statements

for the year ended 31 December 2016

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(b) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (Note 19).

The Group's listed equity investments are listed on the London Stock Exchange, NASDAQ Stock Market and The Philippines Stock Exchange, Inc. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to other industry indicators, as well as the Group's liquidity needs.

At 31 December 2016, a 4% (2015: 3%) increase in the underlying equity prices of the equity investments listed on the London Stock Exchange at the end of the reporting period would decrease the Group's loss after tax and increase the Group's revenue reserve by approximately HK$2,004,000 (2015: HK$2,121,000). There is no impact on the other components of consolidated equity for both years. The analysis assumes that all other variables remain constant.

A 4% (2015: 3%) decrease in the underlying equity prices of the equity investments listed on the London Stock Exchange at the end of the reporting period, with all other variables held constant, would have an equal but opposite effect on the Group's loss after tax and revenue reserve.

At 31 December 2016, a 4% (2015: 3%) increase in the underlying equity prices of the equity investments listed on the NASDAQ Stock Market at the end of the reporting period would decrease the Group's loss after tax and increase the Group's revenue reserve by approximately HK$356,000 (2015: HK$374,000).

A 4% (2015: 3%) decrease in the underlying equity prices of the equity investments listed on the NASDAQ Stock Market at the end of the reporting period, with all other variables held constant, would have an equal but opposite effect on the Group's loss after tax and revenue reserve.

In respect of the Group's equity investment listed on The Philippines Stock Exchange, Inc., based on the historical trend analysis, management does not expect significant equity price movements on this investment and hence, any significant impact on the Group's loss after tax, revenue reserve and other components of consolidated equity, assuming that all other variables remain constant.

The Group also holds investments in unlisted marketable equity mutual funds. Included in such investments was an amount of nil (2015: HK$1,619,000) relating to investments held in respect of the Group's defined contribution plan (Note 26). Any movement in the equity price would not have any impact on the Group's loss after tax as there would be an equal and opposite change in the staff costs (Note 4) in response to the changes in the equity price.

Notes to the Financial Statements

for the year ended 31 December 2016

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(b) Equity price risk (cont'd)

At 31 December 2016, a 4% (2015: 3%) increase in the net asset value of the remaining balance of the investments in unlisted marketable equity mutual funds at the end of the reporting period would decrease the Group's loss after tax and increase the Group's revenue reserve by approximately HK$577,000 (2015: HK$418,000). There is no impact on the other components of consolidated equity for both years. The analysis assumes that all other variables remain constant.

A 4% (2015: 3%) decrease in the net asset value of the remaining balance in unlisted marketable equity mutual funds at the end of the reporting period, with all other variables held constant, would have had the equal but opposite effect on the Group's loss after tax and revenue reserve.

The sensitivity analysis has been determined assuming that the reasonably possible changes in stock prices, net asset values or other risk variables had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the relevant stock price, net asset value or the relevant risk variables over the period until the next annual end of the reporting period. The analysis is performed on the same basis for 2015.

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

Except for the interest-bearing borrowings, the total contractual undiscounted cash flows of the Group's non-derivative financial liabilities are the same as their carrying amounts as their remaining contractual maturities are within one year.

Notes to the Financial Statements

for the year ended 31 December 2016

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(c) Liquidity risk (cont'd)

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

	Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	After 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Non-derivative contractual liabilities					
2016					
Interest-bearing borrowings	**(2,159)**	**(8,635)**	**(27,261)**	**(38,055)**	**(29,701)**
Loan from non-controlling interests	**–**	**(2,908)**	**–**	**(2,908)**	**(2,908)**
	(2,159)	**(11,543)**	**(27,261)**	**(40,963)**	**(32,609)**
2015					
Interest-bearing borrowings	(2,219)	(8,628)	(29,396)	(40,243)	(30,490)

(d) Interest rate risk

The Group's interest rate risk arises primarily from its bank deposits and interest-bearing borrowings. Bank deposits and borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The effective interest rates per annum relating to the bank deposits at the end of the reporting period were within 0.45% to 1.10% at 31 December 2015. The weighted average effective interest rates per annum relating to cash and cash equivalents at the end of the reporting period is set out in note 21.

The weighted average effective interest rates per annum relating to the borrowings at the end of the reporting period is 4.21% (2015: 4.21%).

Notes to the Financial Statements

for the year ended 31 December 2016

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(e) Currency risk

The Group is exposed to foreign currency risk through deposits and withdrawals of fixed deposits, sales and purchases of the trading securities that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to these risks are mainly the Sterling Pound, Singapore Dollar, Philippine Peso, Renminbi and US Dollar.

When necessary, the Group uses forward exchange contracts to hedge its specific currency risks. However, forward exchange contracts that do not qualify for hedge accounting are accounted for as trading instruments. As at the reporting date, the Group had no outstanding forward exchange contracts.

(i) Recognised assets and liabilities

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level.

(ii) Exposure to foreign currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate to. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the exchange rate ruling at the end of the reporting period.

	Sterling Pound HK$'000	Singapore Dollar HK$'000	Philippine Peso HK$'000	Renminbi HK$'000	US Dollar HK$'000
2016					
Trading securities	**50,277**	**–**	**466**	**–**	**8,938**
Cash and cash equivalents	**1,011**	**1,555**	**–**	**52,031**	**176,580**
Trade and other payables	**–**	**(504)**	**–**	**–**	**–**
Overall exposure arising from recognised assets and liabilities	**51,288**	**1,051**	**466**	**52,031**	**185,518**
2015					
Trading securities	61,314	–	582	–	10,049
Trade and other receivables	–	–	–	57	7
Cash and cash equivalents	369	5,200	–	66,438	132,150
Trade and other payables	–	(862)	–	–	(271)
Overall exposure arising from recognised assets and liabilities	61,683	4,338	582	66,495	141,935

Notes to the Financial Statements

for the year ended 31 December 2016

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(e) Currency risk (cont'd)

(iii) Sensitivity analysis

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the Group's exposure to currency risk for financial instruments in existence at that date.

A 10% (2015: 10%) strengthening of the following foreign currencies against the functional currency of each of the Group's entities at the end of the reporting period would impact the Group's loss after tax and revenue reserve by the amounts shown below. There is no impact on the other components of consolidated equity. The analysis assumes that all other variables, in particular, interest rates, remain constant.

	Decrease in loss after tax and increase in revenue reserve 2016 HK$'000	**Decrease in loss after tax and increase in revenue reserve 2015 HK$'000**
Sterling Pound	**5,129**	6,168
Singapore Dollar	**105**	434
Philippine Peso	**47**	58
Renminbi	**5,203**	6,650
US Dollar	**18,552**	14,194

A 10% (2015: 10%) weakening of the above currencies against the functional currency of each of the Group's entities at the end of the reporting period would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables, in particular, interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual end of the reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent the effect of the Group's loss after tax and revenue reserve measured in the respective foreign currencies, translated into Hong Kong dollar at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2015.

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for the year ended 31 December 2016

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement

(i) Financial instruments measured at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of inputs used in the valuation techniques as follows:

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

		Fair value measurements as at 31 December 2016 categorised into				Fair value measurements as at 31 December 2015 categorised into		
	Fair value at 31 December 2016 HK$'000	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Fair value at 31 December 2015 HK$'000**	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**
Recurring fair value measurements								
Asset:								
Equity securities held for trading:								
– Listed	**59,683**	**59,683**	–	–	71,947	71,947	–	–
– Unlisted	**14,418**	**–***	–	**14,418****	15,551	1,619*	–	13,932**
	74,101	**59,683**	–	**14,418**	87,498	73,566	–	13,932

Notes to the Financial Statements

for the year ended 31 December 2016

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement (cont'd)

(i) Financial instruments measured at fair value (cont'd)

* The unlisted equity securities relates to securities held under the Group's defined contribution plan and were disposed of in January 2016 following the termination of the plan. The plan invested in listed securities and hence, the fair value of the underlying securities which could be measured using quoted price (unadjusted) in active markets, reflects the fair value of the plan.

** The fair value of the unlisted held-for-trading equity securities is determined based on the net asset value of the fund, which had underlying unlisted investments categorised as Level 3 in the fair value hierarchy. The fair value of such underlying investments is determined based on inputs such as contractual agreements, current and projected operating performance, rounds of financing and third-party transactions, discounted cash flow analysis and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors.

During the years ended 31 December 2016 and 31 December 2015, there were no transfers between levels.

The movements in the Level 3 financial instruments measured at fair value are as follows:

Financial assets at fair value through profit or loss

	2016	**2015**
	HK$'000	**HK$'000**
At 1 January	**13,932**	19,566
Net unrealised gain/(loss) recognised in profit or loss	**486**	(5,634)
At 31 December	**14,418**	13,932

The fair value gain or loss of the unlisted equity securities for the period recognised in profit or loss is presented in "other net losses" in the consolidated statement of profit or loss.

Notes to the Financial Statements

for the year ended 31 December 2016

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement (cont'd)

(i) Financial instruments measured at fair value (cont'd)

Although the Group believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values. For fair value measurement in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

	2016 HK$'000	2015 HK$'000
Financial assets at fair value through profit or loss		
– Equity securities:		
Fair value	**14,418**	13,932
Effect on fair value:		
– Favourable change	**144**	139
– Unfavourable change	**(144)**	(139)

The favourable and unfavourable effects have been calculated based on one percentage change in the net asset value of the fund.

(ii) Financial instruments not measured at fair value but for which the fair value is disclosed.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 31 December 2015 except for available-for-sale equity securities and fixed rate borrowings.

Fair value information has not been disclosed for the Group's available-for-sale equity securities that are carried at cost less impairment loss of HK$18.2 million (2015: HK$33.0 million) because fair value cannot be measured reliably. These equity securities represent the capital contribution in a fund that is not quoted on any active market. The Group does not intend to dispose of this investment in the foreseeable future.

Notes to the Financial Statements

for the year ended 31 December 2016

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement (cont'd)

(ii) Financial instruments not measured at fair value but for which the fair value is disclosed. (cont'd)

The carrying amounts, fair values and the level of fair value hierarchy of the fixed rate borrowings are as follows:

			Fair value measurements categorised into		
	Carrying amounts HK$'000	**Fair value HK$'000**	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**
2016	**(29,701)**	**(29,740)**	**–**	**(29,740)**	**–**
2015	(30,490)	(30,955)	–	(30,955)	–

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. The interest rate used is as follows:

	2016	**2015**
Fixed rate borrowings	**4.40%**	4.17%

32. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere, there were the following material related party transactions entered into on terms agreed between the parties during the year:

	2016 HK$'000	**2015 HK$'000**
Dividend income received from previous fellow subsidiary*	**819**	1,860
Income received from the provision of hospitality and other related services to previous fellow subsidiary*	**6,038**	8,884
Income received from the provision of hospitality and other related services to a joint operation	**845**	859
Income received from the provision of hospitality and other related services to a joint venture	**5,211**	5,021
Tax service fee paid to previous fellow subsidiary*	**(316)**	(407)
Secretarial service fee paid to previous fellow subsidiary*	**(199)**	(449)
Accounting fee paid to previous fellow subsidiary*	**(195)**	(339)

* Following the completion of the sales of shares in the Company on 26 July 2016, CDL and its subsidiaries ceased to have a controlling stake in the Company. As a result, Millennium & Copthorne Hotels plc, a subsidiary of CDL, is no longer regarded as a related party (as defined in HKAS 24 *Related Party Disclosures*) of the Group. The balances disclosed above comprise transactions that were entered into up to 26 July 2016.

Notes to the Financial Statements

for the year ended 31 December 2016

32. MATERIAL RELATED PARTY TRANSACTIONS (cont'd)

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	2016 HK$'000	2015 HK$'000
Short-term employee benefits	**13,266**	7,096

Total remuneration is included in the administrative expenses.

33. COMMITMENTS

At 31 December 2016 and 31 December 2015, the total future minimum lease payments under non-cancellable operating leases payable are as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year	**3,684**	2,774
After 1 year but within 5 years	**7,605**	6,749
After 5 years	**6,336**	7,121
	17,625	16,644

The leases typically run for an initial period of between one to ten (2015: one to ten) years. One of the leases includes an option to renew the lease on expiry. The leases do not include any contingent rental.

Notes to the Financial Statements

for the year ended 31 December 2016

34. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**801**	10
Other receivables		**18,181**	32,989
Interests in subsidiaries		**195,860**	220,860
Total non-current assets		**214,842**	253,859
Current assets			
Trading securities		**74,101**	85,879
Trade and other receivables		**3,535**	6,942
Cash and cash equivalents		**232,946**	208,435
		310,582	301,256
Current liabilities			
Trade and other payables		**(60,352)**	(9,077)
		(60,352)	(9,077)
Net current assets		**250,230**	292,179
Total assets less current liabilities		**465,072**	546,038
NET ASSETS		**465,072**	546,038
CAPITAL AND RESERVES	27		
Share capital		**382,450**	382,450
Reserves		**82,622**	163,588
TOTAL EQUITY		**465,072**	546,038

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

Jiang Yulin
Chairman

Zhang Xian
Director

Notes to the Financial Statements

for the year ended 31 December 2016

35. IMMEDIATE AND ULTIMATE HOLDING COMPANIES

On 19 July 2016, the previous immediate holding company, CDL, through its wholly owned subsidiaries, entered into a Share Purchase Agreement with China Tian Yuan Manganese Limited ("China Tian Yuan") to sell 200,854,743 shares of the Company (the "Sale Shares") to China Tian Yuan for a total consideration of HK$566.4 million. The Sale Shares represent a controlling stake of approximately 52.52% of the entire share capital in the Company.

Following the completion of the sale and purchase of shares on 26 July 2016, Hong Leong Investment Holdings Pte. Ltd. and CDL ceased to be the ultimate and immediate holding companies, respectively. With effect from that date, Ningxia Tianyuan Manganese Industry Co., Ltd., a company incorporated in the Cayman Island becomes the ultimate holding company and China Tian Yuan Manganese Limited, a company incorporated in the People's Republic of China, becomes the immediate holding company.

36. ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 14 contains information about the assumptions and the risk factors relating to impairment of goodwill.

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

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

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

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

Corporate Information

Executive Directors
Jiang Yulin (Chairman)
Zhang Xian
Lawrence Yip Wai Lam

Independent Non-Executive Directors
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin

Audit Committee
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin

Remuneration Committee
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin
Zhang Xian

Nomination Committee
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin
Jiang Yulin

Chief Executive Officer
Wong Hong Ren

Company Secretary
Leung Wing Han Sharon

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Public Accountants and Chartered Accountants
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Registrars
Principal Registrar
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Cayman Islands
Maples and Calder,
Attorneys-at-Law