ANNUAL REPORT 2017

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

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

CONTENTS

CORPORATE INFORMATION

DIRECTORS

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

Non-executive Director:
Mr. LI Weijing *(Appointed on 7 August 2017)*

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

COMPANY SECRETARY

Ms. CHEUNG Lin Shun

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

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

SHARE LISTING

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

32nd to 33rd Floors of HNA Tower
8 Linhe Zhong Road, Tianhe District,
Guangzhou, Guangdong Province, the PRC
Telephone: (86-20) 2208 2888
Facsimile: (86-20) 2208 2777

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1401, 14/F., Capital Centre
151 Gloucester Road, Wanchai, Hong Kong
Telephone: (852) 2111 2259
Facsimile: (852) 2890 4459

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

AUDITOR

BDO Limited
Certified Public Accountants

CORPORATE INFORMATION

BOND LISTING

The Stock Exchange of Hong Kong Limited

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

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

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

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

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

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

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

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

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

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

LEGAL ADVISERS

Hong Kong Laws:
Sidley Austin

Bermuda Laws:
Conyers Dill & Pearman

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

COMPANY'S WEBSITE

http://www.tianyudc.com

CHAIRMAN'S STATEMENT

In the past year, with the strong efforts taken by our management, the Group has successfully achieved aggregated contracted sales of RMB5.8 billion, 26% exceeding the sale budget of RMB4.6 billion, which marks another record-breaking year. We are confident that we can keep this momentum in the coming years, leading the Group stepping up a higher platform in our business regime.

As a dominant contributor to the surge in contracted sales in 2017, our focus on the developments and constructions of small-sized residential properties, namely the "Youth Community", is a correct business strategy since 2016. The youth community projects are residential property projects specializing in small-sized units that cater for young households. As a developer, we do not only provide quality residences at affordable prices to home buyers, but also render all-round supporting facilities in the projects to youngsters and their families for serving their daily living as well as business development needs. For daily living, we build up infrastructure in retailing complexes in the developments that satisfies most, if not all, of the occupants' living needs, such as catering, entertainment, education and medical care. We also build up co-working spaces for working population, and alongside, we provide necessary financing to potential projects that are nourished in incubators by start-up entrepreneurs working there.

The initial launch of the Group's we-work office at the commercial podium at Skyfame Garden Phase II, Guangzhou is a success. The office, also contains common areas for conference, road show presentations and a gym stationed by professional personnel giving business and administrative supporting services and advices to office users, is mostly fully occupied now in which many potentially successful projects have been nourished. Currently, our three projects under development in an aggregate GFA of approximately 3,030,000 sq.m. in Nanning and Xuzhou are the models of the Group's youth community projects. We has conducted large-scale pilot project in our Nanning Skyfame Garden Project, in which 9,000 households situate. The project is of an aggregate GFA of 1.2 million sq.m. consisting of a 5,000 sq.m. in GFA co-work place and street front shops of 84,000 sq. m. for start-up business, and will be handed over in 2018. The other youth community project in our Nanning ASEAN Maker Town Project comprising a shopping mall operated by service providers in education and health care is due to be opened in 2019 that serves the 8,800 households living in the community in a total GFA of 1.4 million sq.m.. Our first youth community project in Xuzhou of Jiangsu province, namely, Xuzhou Time City Project, with a total GFA of 430,000 sq.m. where accommodates 4,800 households, also offers retailing and commercial spaces in GFA of 20,000 sq.m. for co-work spaces and community living businesses. The management has a team of members delegating their efforts in the youth communities who team up specialized operators, including joint venture or business participation, to provide for quality goods and services to the households in the community.

CHAIRMAN'S STATEMENT

The youth community projects not only brings in strong property sales and cash flows, but also provides us with a growing and sustainable stream of income earned from the provision of community operations and investments in start-up business. With our larger participation in the development of youth community projects in the coming years, we anticipate that this new business line will become another important driver of income and earning of the Group.

The development of youth communities in fast growing cities or regions co-operates with a nation-wide policy to modernize old districts and develop into new towns. This type of development plans is mostly welcomed by local governments, thus helping the Group to some extents in gaining their support in the negotiations about land acquisitions. Further, our financial support to innovative industries nourished by young entrepreneurs who are lacking of funds adds on social value to the Group's brand name and corporate image.

Our business goal is to expand as a dual "Construction+Operation" developer who specializes in a market segment that is full of business potential, and the development of youth communities is our core business strategy for reaching this goal. Our mission is to develop properties that serve the all-round needs of the young population, the biggest age group, of our country. Inevitably, this mission and strategic plan need efforts and time to execute for which our management team is entrusted.

Our business exploration team is continuously seeking new lands and projects in core areas in cities or their nearby regions with sound economic growth, good accessibility, populated with youngsters and supportive governmental policies in startup business development. Our presence concentrates on the Great Bay area in Guangdong province, Huaihai economic zone and the southern-west regions in the PRC. As at 31 December 2017, we held a portfolio of contracted or potential land bank for projects under development or future development in an aggregated GFA of approximately 23.1 million sq.m..

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

Yu Pan
Chairman
Hong Kong, 26 March 2018

CORPORATE PROFILE

Skyfame Realty (Holdings) Limited ("Skyfame"), listed on the main board of The Stock Exchange of Hong Kong Limited under stock code 00059, is principally engaged in the property development, property investment, property management and operations at the youth community projects completed by the Group.

The Group focuses on the development of high-end properties with a wide range of property types, including commercial and residential properties, offices, serviced apartments and hotels. Rooted in Guangzhou, the Group explores into cities on mainland China with high potentials in the development of commercial and residential projects. Currently, the Group holds a portfolio of development projects and land reserves covering Guangzhou, Zhongshan and Shenzhen in the Greater Bay Area in Guangdong province, Nanning, Guilin and Kunming in the southern region, Chongqing in the south west region and Xuzhou in the Huahai economic zone of Jiangsu province.

Adding onto the Chongqing Project which was newly acquired in March 2018, the Group holds project portfolio with an aggregated GFA of approximately 23.1 million sq.m. consists of GFA 5,405,000 sq.m. under development, GFA of 448,000 sq.m. held for future development, and potential land reserves of GFA of 17,210,000 sq.m. in Guangzhou, Nanning, Guilin, Xuzhou, Kunming and Shenzhen for which cooperation agreements have been contracted with local governments pending land auctions, or initial framework agreements signed with parties involved in the redevelopment of old districts in Guangzhou and Shenzhen.

Leveraging on our management expertise in the development business and specialty on the development of youth community projects, the Group has established itself as a reputable and trustworthy property developer on mainland China.

Highlights of Events in 2017

May • The Group acquired land interest in Zhongshan Project with GFA of approximately 105,000 sq.m. which is part and parcel of a land of an existing residential development project.

May • The Group acquired 80% equity interests in 廣州海涌房地產有限公司 (Guangzhou Haicong Real Estate Company Limited) which is participating in the refurbishment of an old urban area in Guangzhou.

June • The Group acquired a land though public auction for the development of residential properties with GFA of approximately 184,000 sq.m. in Xuzhou, representing the second project since the launch of Xuzhou Skyfame Time City Project.

June • Skyfame Byland at Zhoutouzui, Guangzhou was completed and commenced the handing-over to buyers.

Nov • Admitted as an index constituent of "MSCI China Small Cap Index" with effect from 30 November 2017.

Dec • The Group formed a joint venture with two local developers, in which the Group participated 40% equity interest, for acquisition of three lands through public auction for the development of a planned GFA of approximately 722,000 sq.m.. The project is located in Wuxiang New Zone at the north of Yudong Avenue (玉洞大道) in Liangqing District, Nanning.

CORPORATE PROFILE

2017 Major Honours and Awards

The Group

Skyfame was ranked 177th and 192nd nation-wide among mainland real estate developers according to the "2017 China Real Estate Enterprises Top 200" by contracted sales area and amount respectively as published by CRIC Research Center.

Skyfame received the awards of "2017 Guangxi International Real Estate Brand" from Nanning Evening News and Guangxi Radio FM950.

Nanning Skyfame City Project

Nanning Skyfame City Project (Note) was ranked 90th nation-wide property project according to the "2017 Real Estate Project Top 100 by Contracted Sales Amount" as published by CRIC Research Center.

Nanning Skyfame City Project won the "2017 Guangxi Real Estate Energy Awards – Super High Rise City of Quality Metropolis" from Nanning Evening News and Guangxi Radio FM950, "2017 Most Popular Property of the Friends of Residence Award" from Guangxi Real Estate Festival Committee and Friends of Residence Network, "Guangxi Golden Brick Award – 2017 Regional Model Property" from Guangxi Daily Media Group, Southern Morning Post and Home Weekly and "Regional Signature Property Headline Award" from Headline Daily.

Our project company, Nanning Tianyu Jucheng Realty Company Limited, won the "Guangxi Golden Brick Award – 2017 Guangxi Real Estate City Motivating and Contributing Award" from Guangxi Daily Media Group, Southern Morning Post and Home Weekly.

Zhoutouzui Project

Guangzhou Skyfame Byland Project received the award of "2017 China Real Estate Championship – the Ultimate City Benchmarking Luxurious Residence" from Netease Real Estate, Guangdong Real Estate Chamber of Commerce and China Real Estate Championship Judging Committee and "Popularity Ranking – 2017 Valuable Real Estate in Guangzhou Property Market" from Fang.com.

Xuzhou Skyfame Time City Project

"Community of Mr. Fish" of Xuzhou Skyfame Time City Project won the "2017 Xuzhou Most Influential Property Award" from Fang.com and was also recognized as the "Best Selling Property" by Xuzhou Station of Tencent Real Property.

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

MANAGEMENT DISCUSSION AND ANALYSIS

A. BUSINESS REVIEW

The year 2017 was another record-breaking year of the Group. During the year, the Group put four projects on sale, namely Zhoutouzui Project in Guangzhou, Nanning Skyfame Garden Project, Skyfame Nanning ASEAN Maker Town Project and Xuzhou Skyfame Time City Project. Contracted sales of RMB5.8 billion in total were achieved, a 38.6% rise from the contracted sales of 2016 and 26.2% exceeding our target of RMB4.6 billion.

The Group's contracted sales and recognized sales of properties by projects for 2017 are summarised below:

	Contracted Sales		Sold and Delivered	
Project	**Gross Amount**	**Saleable GFA**	**Gross Amount**	**Saleable GFA**
	RMB'million	*sq.m.*	*RMB'million*	*sq.m.*
Zhoutouzui Project	1,121	17,388	3,466	84,866
Nanning Skyfame Garden Project	153	11,637	811	132,313
Skyfame Nanning ASEAN Maker Town Project	3,516	318,819	–	–
Xuzhou Skyfame Time City Project	1,013	160,904	–	–
Total in year 2017	5,803	508,748	4,277	217,179
Total in year 2016	4,188	407,377	1,492	189,502

The high-end residential properties of Zhoutouzui Project in Guangzhou were substantially completed during the year for which sale contracts of RMB1.12 billion had been made and RMB3.47 billion were recognised as revenue, gross of direct tax, for the year upon delivery of properties in 2017. Likewise, Nanning Skyfame Garden Project had contracted sales of RMB0.15 billion and RMB0.81 billion have been recognised as revenue, gross of direct tax, for the year. Both the GFA and average selling price of properties delivered were on the rise, i.e. GFA delivered grew from approximately 190,000 sq.m. in 2016 to approximately 217,000 sq.m. for the year and average selling price per GFA grew from approximately RMB7,900 per sq.m. to approximately RMB19,700 per sq.m.. The increase in volume of floor areas delivered led to a 174.8% leap in revenue, net of direct tax, for the year to RMB4.04 billion. The higher average selling price of properties sold explains the marked improvement in profitability from 19.3% for 2016 to 21.2% for the year.

In midst of the continuing stringent austerity policies implemented by local governments in the first and second-tier cities that have generally frustrated demand for properties, contracted sale performance of our Group is yet still above our expectation. Our projects in low second-tier cities, such as Nanning and Xuzhou where property prices are supported by solid demand from first-time buyers or upgraders, have not been adversely affected by the regulatory measures.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO

As at 31 December 2017, the Group has six projects under development for which four projects are on sale. For land reserve, we hold three projects for future development which construction has not been commenced as at 31 December 2017, pending the obtaining of land use right certificates on fulfillments of certain conditions. In addition, to prepare for increasing land reserve in a longer time horizon, we have entered into agreements with relevant parties in some projects in Guangzhou and Shenzhen in which we actively participate in the renovation of land plots which are included in the urban renewal programs of the district governments, though it may take some time before we are given the official permits to commence the construction works of the new districts.

1. *Projects under development*

1.1. *Projects under development as at 31 December 2017*

As at 31 December 2017, the Group engaged in a total of 4 property projects under development. The Group's project portfolio renders a total GFA of approximately 3,374,000 sq.m. (total saleable GFA of approximately 2,703,000 sq.m.), out of which saleable GFA of approximately 85,000 sq.m. in Zhoutouzui Project and 183,000 sq.m. in Nanning Skyfame Garden Project have been delivered.

The table below sets out details of our property projects under development in mainland China on hand.

Project	Location	Property type	Estimated total GFA *(sq.m.)*	Estimated total saleable GFA *(Note)* *(sq.m.)*	Accumulated saleable GFA contracted *(sq.m.)*	Accumulated saleable GFA delivered *(sq.m.)*	Estimated completion year	The Group's interest
Zhoutouzui Project	Guangzhou	Residential & commercial	320,000	152,000	98,000	85,000	2017 to 2018	100%
Nanning Skyfame Garden Project	Nanning	Residential & ancillary commercial	1,212,000	945,000	578,000	183,000	2016 to 2018	80%
Skyfame Nanning ASEAN Maker Town Project	Nanning	Composite development	1,405,000	1,204,000	397,000	–	2018 to 2022	100%
Xuzhou Skyfame Time City Project	Xuzhou	Residential & ancillary commercial	437,000	402,000	161,000	–	2018 to 2019	90%
Total			3,374,000	2,703,000	1,234,000	268,000		

Note:

Total saleable GFA excludes unsaleable area for municipal facilities, saleable GFA allocated to a cooperative partner and resettlement housing to be provided without compensation in certain projects.

MANAGEMENT DISCUSSION AND ANALYSIS


Guangzhou Skyfame Byland – Night View

Zhoutouzui Project

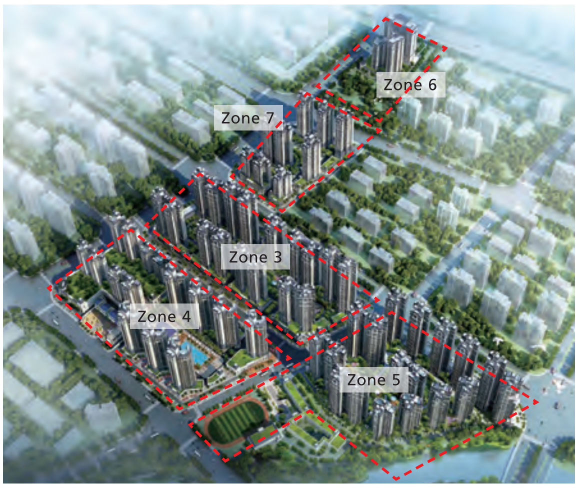
The project, named as "Skyfame Byland" ("天譽半島"), is held by a sino-foreign cooperative joint venture enterprise which is jointly controlled by the Company and a third party, Guangzhou Port Group Co., Limited (廣州港集團有限公司, "**Port Authority**"), an original user of the land who is entitled to share 28%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

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

The entire project, other than tower A1 which is under interior decoration works, was completed in June 2017. Saleable GFA of approximately 81,000 sq.m. in tower A4 and A5 and some car parking spaces were handed over to the Port Authority, and saleable GFA of approximately 85,000 sq.m. were handed over to buyers during the year. Contracted sales of RMB810 million made up to 31 December 2017 will be booked as revenue in 2018 when the relevant properties are handed over. As of 31 December 2017, GFA of approximately 23,000 sq.m. representing 57 residential units in tower A2 and A3, GFA of approximately 9,400 sq.m. of serviced apartments in tower A1, and about 1,100 car parking spaces are saleable but uncontracted and 800 car parking spaces are retained by the Group for long-term leasing purpose.

Nanning Skyfame Garden Project

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



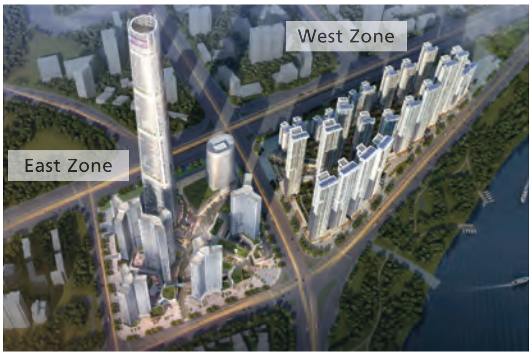
Nanning Skyfame Garden Project

Nanning Skyfame Garden Project is situated in Wuxiang New District (五象新區), a new zone in Nanning, Guangxi province. The project is developed into a residential district, namely "Nanning Skyfame Garden" ("南寧天譽花園"), with a total GFA of approximately 1,212,000 sq.m., consisting of GFA of approximately 923,000 sq.m. (saleable GFA of approximately 700,000 sq.m.) for residential and retail properties and car parking facilities for sale and GFA of approximately 289,000 sq.m. (saleable GFA of approximately 245,000 sq.m.) of residential and commercial units for compensated housing for the resettlement of the original occupants. The project is divided into five zones.

MANAGEMENT DISCUSSION AND ANALYSIS

Nanning Skyfame Garden

As of 31 December 2017, 62 out of a total 65 towers have been roof-topped and construction works of 35 residential towers were completed. An aggregated saleable GFA of approximately 578,000 sq.m. (representing 92.7% of area on sale) have been contracted at sale values of approximately RMB3.72 billion. Physical delivery to buyers are scheduled to take place by phases through late 2016 to 2018 for which an aggregated saleable GFA of approximately 183,000 sq.m. have been delivered up till 31 December 2017. In addition to the commodity properties, aggregated saleable GFA of 245,000 sq.m. will be delivered in 2018 to original land occupants for resettlement housing for which sale proceeds approximately RMB1 billion have been received from the district government according to the terms of the land transfer.



Skyfame ASEAN Maker Town Project

Skyfame Nanning ASEAN Maker Town Project

The development covers three land plots of site area of 194,221 sq.m. (equivalent to 291.33 mu) located at the north of Wuxiang Da Road, Wuxiang New Zone (五象新區), Liangqing District, Nanning. Guangxi.

The project is a complex development divided into east and west zone and is developed by phases. Planned total GFA is about 1,405,000 sq.m. (saleable GFA of approximately 1,204,000 sq.m.). The east zone consists of A-class offices, retail properties and an international 5-star hotel to be branded as the Westin Nanning in a skyscraper named as the Skyfame ASEAN Tower ("天譽東盟塔") to be built as well as serviced apartments, retail properties, and ancillary facilities developed for youngsters named as "the World of Mr. Fish" ("魚先生的世界"). The west zone consists of residential and retail properties named as "Skyfame Byland" ("天譽半島"). Construction works of properties in both zones are expected to be completed between the years from 2018 to 2022. The development, when completed, will be surely a landmark in Wuxiang New District.

West Zone of Skyfame ASEAN Maker Town Project

Up to 31 December 2017, residential and commercial units of saleable GFA of approximately 405,000 sq.m. are on presale, for which sales of approximately RMB4.16 billion (saleable GFA of approximately 397,000 sq.m.) have been contracted.

MANAGEMENT DISCUSSION AND ANALYSIS


Xuzhou Skyfame Time City Project

Xuzhou Skyfame Time City Project

The plot of Xuzhou Skyfame Time City ("徐州天譽時代城"), a site of 173,000 sq.m., was acquired through a public auction in December 2016. The land is located at the Xuzhou Quanshan Jiangsu Economic Development Zone (江蘇徐州泉山經濟開發區) of Xuzhou, Jiangsu province. It is situated in Times Avenue South and Xufeng Highway West in Xuzhou and will become an eco-residential and commercial development. Total GFA is about 437,000 sq.m. (saleable GFA of 402,000 sq.m.), inclusive of an underground area of about 57,000 sq.m.. Construction works are expected to be completed in three phases by end of 2019.

Construction works commenced in early 2017, the first phase of pre-sale has been launched in July 2017. Up to 31 December 2017, residential and retail units of saleable GFA of approximately 193,000 sq.m. are on presale, for which sales of approximately RMB1.01 billion (saleable GFA of 161,000 sq.m.) have been contracted.

Xuzhou Skyfame Time City Project

1.2. *Projects held for development*

As at 31 December 2017, the Group, held through its subsidiary and joint venture arrangement, 2 property projects for which construction is pending the obtaining of land use right certificates on fulfillments of certain procedural conditions. Investments made on these projects are presented as "Prepayments or Deposits for Proposed Projects" on the Consolidated Statement of Financial Position". Adding onto the Chongqing Danzishi Project which was newly acquired in March 2018, the Group's portfolio of project held for development as at the date of this announcement renders a total GFA of approximately 2,031,000 sq.m. (total saleable GFA of approximately 1,463,000 sq.m.).

MANAGEMENT DISCUSSION AND ANALYSIS

Zhongshan Project

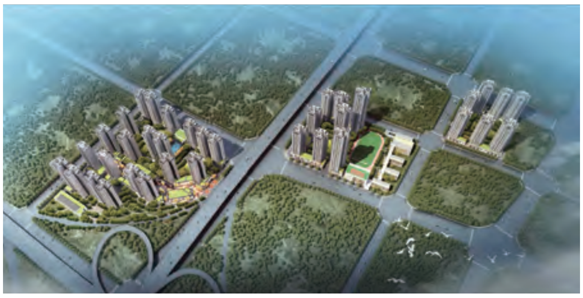
Zhongshan Project

The project is located in Tsui Sha Road, Rainbow Planning Zone, at the north of West Zone, Zhongshan, Guangdong province.

The project is a residential with ancillary commercial development. Total GFA is about 105,000 sq.m. (total saleable GFA of approximately 88,000 sq.m.), inclusive of an underground area of about 16,000 sq.m.. Construction works are expected to be completed in 2019. The project was acquired in May 2017 which is part and parcel of a land of an existing residential development project. As at 26 March 2018, the management was in the final stage of transferring the land title from the original project company to a subsidiary of the Group. The first phase of pre-sale will be launched in the first half of 2018.

Nanning Yudong Project

The Group participated in a joint venture arrangement with 40% equity interest in a joint venture company formed with two local developers. The land was newly acquired by the joint venture company through public auction in December 2017. The project is located in the core area of Wuxiang New Zone at the north of Yudong Avenue (玉洞大道) in Liangqing District, Nanning.



Nanning Yudong Project

The site area is about 138,000 sq.m with a planned GFA of approximately 722,000 sq.m. (saleable GFA of 443,000 sq.m.). The project, namely "Impression of Sandalwood House" ("檀府 • 印象") includes residential and commercial properties for sale, properties for resettlement of original occupants (not less than GFA of 138,000 sq.m.), primary school and municipal facilities. Construction works are expected to be completed in phases by 2021.

Chongqing Danzishi Project, Phase 2

Chongqing Danzishi Project

In January and March 2018, the Group entered into agreements with two vendors to acquire the entire interest in the project company of Chongqing Danzishi Project through step-up acquisitions, the final phase of which will be completed in 2019. Total consideration of the acquisitions for entire equity interest of the project company and shareholder's loan is approximately RMB4.84 billion, subject to an adjustment of interest to be accrued on the shareholder's loan.

MANAGEMENT DISCUSSION AND ANALYSIS

The project covers the development of two parcels of land under six land use right certificates covering an aggregate GFA of 1,204,000 sq.m that are situated in a central CBD district in the city of Chongqing. The project is developed by phases, for which phase 1 development commenced in 2015 with a total GFA of approximately 313,000 sq.m.. Total saleable area is 309,000 sq.m., of which residential properties and serviced apartments of GFA of approximately 41,000 sq.m. were delivered to buyers in 2017. The other saleable GFA of approximately 99,000 sq.m. were contracted and the remaining saleable area of approximately 169,000 sq.m. are in final stage of development. Phase 2 of Chongqing Danzishi Project consists of a total GFA of 891,000 sq.m. for which construction has not commenced but the surface of the land has been cleared. Under the requirement of one of the land transfer contracts for the development in phase 2, the project company has to retain an aggregate saleable GFA of 248,800 sq.m. for long-term investment purpose and not for sales.

1.3. Summary

The above 7 projects under development render the Group a total GFA of approximately 5,405,000 sq.m. (total saleable GFA of approximately 4,166,000 sq.m.).

2. Projects for future development

The Group holds some projects for imminent development in the coming future upon the fulfilment of certain outstanding conditions such as governmental consent to buy properties developed from the projects for resettlement housing, approvals on the conversion of land uses from industrial to commercial, and the grants by governments of development rights of old district in urban area that are to be remodelled. Applications or negotiations with local governments are being undertaken in the meantime, and development will be commenced right after the necessary approvals have been obtained. Investments made on these projects are presented as "Prepayments or Deposits for Proposed Projects" on the Consolidated Statement of Financial Position". These investments are at material values and can render to the Group an aggregate GFA of 448,000 sq.m. in land reserves. Details of these investments are summarized as follows:

Xuzhou Skyfame Maker Town Project

The land of this project was acquired through public auction in June 2017 for development of residential properties with an aggregate GFA of 184,000 sq.m. (total saleable GFA of 159,000 sq.m.), and is located 1 km apart from Xuzhou Skyfame Time City Project.

The management is discussing with the local government about a proposal of supply of resettlement housing for occupants affected by town development plans in Xuzhou out of the properties developed in this project. Construction works will be commenced upon reaching conclusions in 2018.

Xuzhou Skyfame Maker Town Project

MANAGEMENT DISCUSSION AND ANALYSIS

Shenzhen Dachitdat Project

The land of this project, a subject of an old district remodelling project, is under demolition and the project company is in the final stage of the application of the development right for a development of an aggregate GFA of 142,000 sq.m. (total saleable GFA of 119,000 sq.m.) for innovative industrial and serviced apartment uses. The project located on the southeast of Guangming New Zone, Shenzhen.


Shenzhen Dachitdat Project

Construction can be commenced once the development right is granted and is expected to take place in the later months of 2018.

Guangzhou Luogang Project

Guangzhou Luogang Project is located at the north of Yin Tong Road of Yonghe District in Huangpu, Guangzhou, the PRC. Our Group plans to develop the project into serviced apartments and commercial properties. The project occupies a site of 50,263 sq.m. with a planned aggregate GFA of approximately 122,000 sq.m. (total saleable GFA of 101,000 sq.m.).

Commencement of construction is pending the obtaining of government approval for the conversion of the land use from industrial to commercial. Negotiations with the local government have been in progress.

3. *Potential land reserves*

3.1 *Refurbishment of old urban areas*

We are participating in certain projects that are the subject of refurbishment of old urban areas in Guangzhou and Shenzhen. The development parameters of these projects are still under plans of the local governments and the commencement of these projects are pending the finalization of development parameters set out by governments. If the development plans are materialized, these projects can render to the Group additional land reserves of an aggregate GFA of 6,594,000 sq.m.. Investments made on these projects are included as "Prepayments or Deposits for Proposed Projects" on the Consolidated Statement of Financial Position.

3.2 *Intended bids for lands*

We have entered into certain framework agreements with local governments in Nanning, Guilin, Xuzhou and Kunming for land purchases through pending auctions scheduled in 2018 and 2019. If the auctions become materialized, the Group will contract an additional land bank of GFA of 10,616,000 sq.m..

Upon obtaining the governmental approval of development plans of the subject zones of urban area refurbishment and completion of pending land auctions as set out above, the Group is enabled to build up an additional land bank of a total estimated GFA of 17,210,000 sq.m..

MANAGEMENT DISCUSSION AND ANALYSIS

4. *Overview of project portfolio*

Counted in the potential land reserves, all in all, the Group has a total project portfolio of GFA of 23.1 million sq.m. that will provide sufficient resources to the Group to pave the way for its continuing growth in the approaching time horizon.

C. INVESTMENT PROPERTIES

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

Commercial podium at Tianyu Garden Phase II

A 17,300 sq.m. commercial podium at Tianyu Garden Phase II in Tianhe District, Guangzhou was revalued at an open market value totaling RMB469.0 million as at 31 December 2017. An area of 4,700 sq.m. of contemporary co-working places and serviced offices are leased out to start-up enterprises and small tenants. The other 12,600 sq.m. retail and offices units, are also fully occupied.

Office premise at Capital Centre

A 8,700 sq.ft. office premise at Capital Centre (Formerly known as "AXA Centre") in Wanchai, Hong Kong was fully occupied and was revalued at an open market value of approximately RMB146.4 million (approximately HK$175.1 million) as at 31 December 2017.

Car parking spaces, in Guangzhou Skyfame Byland

800 car parking spaces in Zhoutouzui Project were put for long-term leasing during 2017. The project company has outsourced the management of these car parks to a third party at a fixed management fee with certain rent-free period. These car parking spaces were revalued at an open market value totaling RMB479.0 million as at 31 December 2017.

D. BUSINESS OUTLOOK

We could not see a high chance of relaxation of the city-specific tightening regulatory policies on real estate development industry on the mainland in regions where sales are robust, but for those non-hot second-tier cities, where our projects in Nanning and Xuzhou situate, we foresee property prices remain to grow in a steady manner thanks to strong demand from end-users and upgraders. The management expects the general property market on the mainland will be gradually stabilized in the wake of the growing economy that has, to an extent, offset the effect of the austerities introduced by regulators in the past years.

On the ground of the Group's year-on-year improving sales in recent years, we remain positive in the sale performance of the Group in the coming months of 2018. Foreseeing that Skyfame Nanning ASEAN Maker Town Project and Xuzhou Time City Project will play the lead in contracted sales in 2018, the management is confident on achieving an annual sale target of RMB8 billion, a rise of 37.9% from the actual contracted sales in 2017. The stepped-up target is mainly driven by the expected contributions from three new projects, namely Zhongshan Project, Nanning Yudong Project and the newly acquired Chongqing Danzishi Project.

To maintain a steady momentum in our ongoing sales, we have well-defined business strategies in land bank building. In acquisition of land reserves, we aim to strike a healthy balance between our growth in land reserves and financial liquidity. Our budget for land acquisitions in the coming years is aligned to a reasonable proportion of cash internally generated from sales and external financing.

MANAGEMENT DISCUSSION AND ANALYSIS

We are a developer focusing on the development of projects that specifically cater for the community living of young and first home buyers. To this end, the Group delegates its attention on development of projects that are specifically designed to accommodate the living needs of young home buyers. With detailed analysis on the geographical and demographic information of the sites, we develop projects with standardized designs in layouts of residences and the all-rounded surrounding facilities to be built in these community projects, satisfying not only the basic living needs, but also the demand for entertainment, education, medical care of the occupants and the start-up of entrepreneurs in co-working spaces set up in the community projects. Focusing in youth community developments, the Group will expand into easily accessible and populated regions at the outskirts of key cities and in the frontline of urbanization on mainland China.

We now have a team of 11 staff delegated in putting business plans of youth community projects into reality. The provision of services to support the living needs of residents of and start-up enterprises in co-work spaces established at our youth community developments will generate income to the Group by our collaborating with renowned corporations in the sectors of entertainment, education, medical care and co-work places operations. As well, we assist start-up enterprises set up in our pilot co-work place in Guangzhou by investing in potential business incubated by some enterprises, and this type of investments is expanding when increasing business ideas are nourished in these incubators. Commenced in 2016, operations of the youth community developments have not had material operating profits or losses to the Group yet. This business segment is not only an ancillary business line to our property developments for young buyers, but will also be an income driver to the Group in the near future as and when increasing youth community projects are completed and put into use.

E. FINANCIAL REVIEW

Sales Turnover and Margins

Property sales of the Group climbed to a record high level to RMB4,042.8 million for the period, an increase of 174.8% compared with the corresponding year. The surged turnover is due to the increase in floor areas delivered at higher selling prices. During the year, the Group delivered residential units in Zhoutouzui Project and Nanning Skyfame Garden Project an aggregate saleable GFA of 217,000 sq.m. at an overall average selling price of RMB19,700 per sq.m. (2016: RMB7,900 per sq.m.), whilst a total saleable GFA190,000 sq.m. in Nanning Skyfame Garden Project, Tianhe Project and Yongzhou Project were delivered in 2016.

Gross margin on property sales is 21.2% (2016: 19.3%), Costs of properties sold include write-down in carrying values of RMB131.3 million in respect of properties developed or under development in Nanning Skyfame Garden Project to pre-agreed prices as contracted with local government for resettlement housings. Excluding this effect, the gross margin should be 24.5% which is improved by the higher margin in the high-end apartments sold in Zhoutouzui Project whilst properties sold in 2016 attracted smaller margins.

The leasing of properties at the commercial podium at Tianyu Garden Phase II in Guangzhou and offices at Capital Centre in Wanchai, Hong Kong, the Group's secondary line of business, contributed a total revenue of RMB17.6 million (2016: RMB16.6 million). The leasing activities bring a stable margin of 89.7% to the Group (2016: 90.0%).

The property management company provides a relative stable income of RMB20.1 million for the year (2016: RMB20.1 million). The operation enjoys a margin of 49.1% (2016: 59.2%).

MANAGEMENT DISCUSSION AND ANALYSIS

Due to the higher margin of and bigger revenue contributed by property sales during the year, boosting both revenue and margin, we have achieved gross profit of RMB883.1 million (2016: RMB311.3 million) at an overall gross margin for the year rose to 21.6% (2016: 20.7%).

Operating Expenses

In line with the high contracted sales in Zhoutouzui Project and Skyfame Nanning ASEAN Maker Town Project, sale commission for the period surged 112.6% to RMB89.9 million. Together with other marketing expenses, total selling and marketing expenses amounted to RMB152.9 million (2016: RMB107.0 million), a 43.0% rise year-to-year. Administrative and other operating expenses, amounting to RMB219.8 million, increase 34.4% from RMB163.6 million for 2016. Included in administrative and other operating expenses are staff costs of RMB116.6 million, the biggest expense item. Total staff costs incurred during the year amounted to RMB180.1 million (2016: RMB157.1 million), grew 14.6% from last year, of which RMB47.4 million were capitalised as development costs of properties under development.

Finance Costs

Finance costs, including arrangement fees and interests charged on indebtedness, amounted to RMB332.6 million for the year (2016: RMB217.2 million). The costs increased 53.1% in pace with the increased indebtedness in the second half of the year for financing the expanding business activities. Most of the finance costs incurred were capitalized as costs of projects under development, leaving RMB33.1 million (2016: RMB3.0 million) charged against operating results for the year. Despite the increased finance costs incurred in the current year, thanks to the improved financial positions and operating results of the Group in recent years, its blended borrowing costs was reduced from 9.0% per annum for 2016 to 8.4% for 2017.

Non-operating Items

Non-operating items include the following:

(a) unrealised gain of RMB111.9 million on exchange of offshore loans denominated in HK$ and US$ to RMB as a result of the appreciation of RMB against HK$ and US$ during the year (2016: loss of RMB97.2 million);

(b) gain on investment properties revaluation of RMB35.7 million (2016: RMB10 million) and properties valuation of RMB353.4 million arose when 800 car parking spaces in Zhoutouzui Project were newly completed and put for leasing during the year;

(c) fair value changes of RMB13.1 million (2016: RMB11 million) in respect of derivative financial assets and liabilities that are embedded in the redemption rights attached to the Company's unsecured bonds;

(d) loss of RMB23.4 million on early repayments of two term loans with HK$560 million and US$60 million respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Taxation

Provision in taxation included provision for land appreciation tax on properties sold in Zhoutouzui Project of RMB170.8 million (2016: RMB4.9 million), provision of RMB198.3 million (RMB60.2 million) for corporate income taxes on assessable earnings for the year, and deferred tax liabilities of RMB122.1 million arising on surpluses on revaluation of leased properties (2016: deferred tax asset of RMB55.6 million) and withholding tax estimated at RMB40.0 million on final dividend proposed. Due to the low land cost of Zhoutouzui Project, the project company is subject to a comparatively higher land appreciation tax payable upon the recognition of sales of properties in the project.

Profits Attributable to Shareholders

The Company had a consolidated after-tax profit of RMB547.3 million for the year. Netting the loss of RMB3.2 million shared by non-controlling shareholders of subsidiaries, consolidated profit of RMB550.5 million was attributable to the shareholders of the Company for the year.

Liquidity and Financial Resources

1. *Asset Base*

	Change in %	**2017** ***RMB'000***	2016 *RMB'000*
Total assets	*16.8%*	**16,252,454**	13,920,633
Net assets	*32.1%*	**2,378,627**	1,799,968

Upon completion of Zhoutouzui Project in mid-2017, there remains residential units and serviced apartments of GFA49,000 sq.m. and about 1,100 car parking spaces unsold. Together with completed properties of GFA491,000 sq.m. in Nanning Skyfame Garden, mostly consisting of resettlement housings contracted with government and residential units contracted with home buyers that will be delivered in 2018, properties held for sale amounted to RMB3,754.2 million. Properties under development, with total carrying costs of RMB3,552.4 million, is the second asset category. Total assets also include prepayments and deposits paid for proposed projects totaling RMB1,385.3 million, investment properties at fair market values totaling RMB1,094.4 million, investment costs in project held for development in Xuzhou Maker Town Project of RMB488.1 million, leasehold land and building for self-use, plant and equipment totaling RMB239.5 million, restricted cash and pledged deposits of RMB1,313.3 million, cash and cash equivalents of RMB2,983.8 million, and trade and other receivables of RMB1,200.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Capital structure and liquidity*

The indebtedness of the Group aggregates to RMB4,287.6 million at the year-end date, representing an increase of 23.6% from that on the last year-end date. Indebtedness of the Company includes money market loans of RMB506.8 million which are secured by deposits or guaranteed by letters of credits issued by banks that are backed up by cash deposits of RMB456.5 million and short-term investment in an insurance policy of RMB100.0 million. Excluding these deposit backed-up loans, the indebtedness of the Group amounted to RMB3,780.8 million at the year-end. The increase of indebtedness is in pace with the financing required for new project or land acquisitions. The details and maturity profile of the indebtedness are illustrated as follows:

	Within one year *RMB'000*	1 to 2 years *RMB'000*	2 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total carrying amount *RMB'000*
Bank and other borrowings					
– Secured bank borrowings	955,190	1,063,494	87,130	111,554	2,217,368
– Other secured borrowings	216,008	623,164	200,000	–	1,039,172
– Unsecured borrowings	–	120,927	107,706	790,121	1,018,754
	1,171,198	1,807,585	394,836	901,675	4,275,294
Derivative financial liabilities	–	5,791	6,406	136	12,333
	1,171,198	1,813,376	401,242	901,811	4,287,627

Gearing ratio, calculated as total indebtedness net of cash and cash equivalents (including a short-term investment in insurance policy) (the "**Net Debt**") divided by the equity attributable to shareholders of the Company plus Net Debt), drops to 24.3% as at year-end date(2016: 42.4%) as a reflection of the stronger equity base and lower net debt, despite the increased indebtedness. The Net Debt amounted to RMB747.3 million (2016: RMB1,299.6 million) at the year-end date. The maturity of the indebtedness shows that the Group's indebtedness bears a longer duration than the prior years. An aggregate amount of RMB1,171.2 million of the indebtedness, representing 27.3% (2016: 31%) of total indebtedness, are due to be repaid within one year, indicating that the indebtedness generally have a longer duration to maturity.

MANAGEMENT DISCUSSION AND ANALYSIS

	Change in %	2017 RMB'000	2016 RMB'000
Current assets			
Properties held for development	202.8%	**488,072**	161,160
Properties under development	-55.4%	**3,552,378**	7,971,027
Properties held for sale	2,018.3%	**3,754,243**	177,228
Consideration receivable – current portion	-100.0%	–	277,401
Loan to a non-controlling shareholder of a subsidiary	-100.0%	–	52,900
Trade and other receivables	39.3%	**1,200,792**	862,037
Prepayment/deposits for proposed projects	125.6%	**1,385,269**	614,093
Short-term investments	–	**100,000**	–
Prepaid income tax	-100.0%	–	93,368
Restricted and pledged deposits	33.0%	**1,313,264**	987,290
Cash and cash equivalents	66.3%	**2,983,799**	1,794,440
Sub-total (A)	13.8%	**14,777,817**	12,990,944
Current liabilities			
Trade and other payables	15.4%	**1,374,346**	1,190,525
Properties pre-sale deposits	7.3%	**7,821,274**	7,290,196
Bank and other borrowings – current portion	9.7%	**1,171,198**	1,067,634
Derivative financial liabilities – current portion	-100.0%	–	11,177
Income tax payable	–	**137,192**	–
Sub-total (B)	9.9%	**10,504,010**	9,559,532
Net current assets (A–B)	24.5%	**4,273,807**	3,431,412
Current ratios (A/B)	3.5%	**1.41**	1.36

Current assets were steadily maintained at RMB14,777.8 million as at the year-end. Cash, or its equivalents and restricted deposits, amounting RMB4,297.1 million, constitutes 29.1% (2016: 21.4%) to total current assets, indicating a stronger liquidity position.

Total current liabilities at the year-end amounted to RMB10,504.0 million, representing a mild increase of 9.9% from last year-end date. The increase in current liabilities is mainly caused by the growing presale deposits received from projects on sale during the year.

The current ratio, being 1.41 times at the year-end (2016: 1.36 times) indicates improvements in the Company's strength to liquidate assets to meet with its loan repayment commitments.

MANAGEMENT DISCUSSION AND ANALYSIS

3. *Borrowings and pledge of assets*

The office units at Capital Centre in Hong Kong and office premises at HNA Tower in Guangzhou and certain commercial units at the commercial podium in Tianyu Garden Phase II in Guangzhou and project interests under development in Nanning are mortgaged in favour of commercial banks to secure for financing facilities granted to the Group for its general working capital. In addition, cash deposits and a short-term investment in an insurance policy are placed with commercial banks to secure for the Group's repayment performance of the money market loans. Equity interests held in two subsidiaries and 321,860,000 shares of the Company owned by the Company's controlling shareholder are charged as security in favor of two financial institutions for two loans. As at 31 December 2017, the outstanding total balances of these secured indebtedness amounted to RMB3,256.5 million whilst the pledged assets and the underlying assets carried an aggregate estimated realizable value of approximately RMB8.9 billion measured by open market values as at the year-end date. The securities provide the creditors with sufficient cover on their lending. Overall, adequate financial resources are in place to support the Group to serve the repayment of its indebtedness.

F. CONTINGENT LIABILITIES

The Group had no other material contingent liabilities as at 31 December 2017 (2016: Nil).

G. TREASURY MANAGEMENT

The Group is principally engaged in property development activities which are all conducted in the PRC and denominated in RMB, the functional currency of the Company's principal subsidiaries. At the same time, certain financing, property leasing, investment holding and administrative activities of the Group are carried out and denominated in HK or US dollars. At the year-end date, the Group has foreign currency denominated borrowings and financial derivatives equivalent to RMB2,114.4 million, representing 49.3% of total indebtedness, and a property in Hong Kong at carrying value equivalent to RMB146.4 million. Other material assets and liabilities are denominated in RMB.

In contrast with 2016, RMB strengthened against HK and US dollars in 2017 by around 6.6% and 5.8%, turning around the depreciation pressure experienced in 2016. As a result, net unrealised foreign exchange gains of RMB111.9 million were recorded when liabilities denominated in foreign currencies are converted into RMB in the financial accounts. In addition, exchange differences arising from the consolidation of assets and liabilities of a subsidiary operated in Hong Kong as at 31 December 2017 results to an exchange loss of RMB2.8 million which is charged against the exchange reserve that forms part of the equity of the Company.

We believe the central government's currency policy will be neutral in the coming year and therefore foresee that RMB will turn stable. However, depreciation of RMB may happen, bringing negative impacts on the profitability of the Group when losses are incurred upon conversion of foreign currency denominated indebtedness into RMB on maturities or at reporting dates. Unfortunately, the Group does not have natural hedge against depreciation of RMB. Taking account the costs and possibilities of depreciation of RMB, we do not carry hedging instruments to counter currency exposure, but will monitor actively our exchange exposure so as to manage the risks by feasible approaches such as reducing foreign currency debts or, if at reasonable cost, taking useful hedging instruments at appropriate timing.

MANAGEMENT DISCUSSION AND ANALYSIS

H. RISKS MANAGEMENT

There are lots of business risks that our management has to face and cope with. Amongst, in particular under the increasingly stringent austerity measures imposed on the property market, property sales may be dragged and becoming unpredictable, leading to illiquidity in cash flows. In addition, the cooled-down capital market on the mainland makes financing for new acquisitions especially uneasy. Assessing regularly the possible risks and their impacts on the business and operational environment, our management reviews the business and financial position of the Group from time to time and develops strategies to alleviate the impacts that may be induced by risks. The board of directors of the Company has set up a risk management committee to assist the directors to formulate strategies and drive the management in the development of policies to identify risks and implement procedures to counter the risks in priority of their significance.

I. EMPLOYEES

The Group recruits suitable staff in capable caliber to fill vacancies created as a result of the growing business. As at 31 December 2017, including three executive directors of the Company, the Group employed a total of 742 full-time staff, of which 158 work in site offices, 154 in the head office in Guangzhou and Hong Kong for central management and supporting work in the property development and leasing business and 430 full-time staff in the property management offices in Guangdong provinces, Xuzhou, Yongzhou and Nanning. Employees are remunerated according to qualifications and experience, job nature and performance. They are incentivized by bonuses benchmarked on performance targets and options to acquire shares of the Company. Besides, training programs are offered to management trainees and staff at all levels. Remuneration packages are aligned with job markets in the business territories where the staff are located.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YU Pan (*Chairman and Chief Executive Officer*)
Aged 53, joined the Company in December 2004 when he took control of the Company through acquisition of a controlling interest in the Company. Mr. YU has over 28 years of experience in the development of high-end residential, commercial and hotel projects in the PRC. He is a founder of the prestigious real estate company, 廣州天譽控股集團有限公司 (Guangzhou Tianyu Holdings Group Company Limited*)(前稱廣州市天譽房地產開發有限公司, formerly known as Guangzhou Tianyu Real Estate Development Company Limited*), which was set up in July 1997 and from which the Company acquired some real estate projects in Guangzhou in 2007. Mr. YU also acts as the chief executive officer of the Company, overseeing the strategic planning and corporate development of the Group.

Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*
Aged 49, was appointed as executive director in November 2013. He is also the Deputy Chief Executive Officer of the Group and President of the Guangzhou head office overall in charge of human resources, design and business exploration functions in the PRC. Mr. WEN holds a Bachelor Degree in History from Beijing University(北京大學)and is a professionally qualified economist specialized in labor economics in the PRC. He has over 27 years of working experience in managerial positions in corporations in the PRC.

Mr. WONG Lok
Aged 60, joined the Company in August 2005. Mr. WONG has over 32 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

NON-EXECUTIVE DIRECTOR

Mr. LI Weijing
Aged 30, was appointed as non-executive director in August 2017. Mr. LI holds a Bachelor Degree (First Class Honour) in Business Administration (major in Accounting) in The Chinese University of Hong Kong. He passed the National Judicial Examination and has obtained legal qualification in the People Republic of China. Mr. LI passed and obtained Certificate for Passing the National Uniform CPA Examination of PRC in 2017. He also passed the Qualification Programme of Hong Kong Institute of Certificated Public Accountants. Mr. LI has worked as an Associate Director of Investment Banking Department in China Huarong International Holdings Limited since 2014 and currently is the Managing Director of Capital Market Department of China Huarong International Holdings Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOY Shu Kwan
Aged 63, joined the Company in December 2004. Mr. CHOY holds a Master Degree in Business Administration and has over 27 years of extensive experience in banking and investment management. He worked for the CITIC group for 20 years in Hong Kong. Before his resignation in 2007, he was the managing director of CITIC Capital Markets Limited. Mr. CHOY is also an independent non-executive director of Poly Property Group Co., Limited (Stock code: 119).

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. CHENG Wing Keung, Raymond

Aged 58, joined the Company in December 2004. Mr. CHENG is a practising solicitor in Hong Kong. He holds an honour degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. CHENG also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, the PRC. He has been appointed by the Hon Chief Justice Ma of the Court of Final Appeal as a Practising Solicitor Member of the Solicitors Disciplinary Tribunal Panel with effect from 4 October 2017. Besides, Mr. CHENG has also been appointed by The Government of the Hong Kong Special Administrative Region as a member of the Panel of the Board of Review (Inland Revenue Ordinance) with effect from 1 January 2018. Mr. CHENG has over 30 years of experience in legal, corporate finance, company secretarial and listing affairs. He is an independent non-executive director in a listed company in Hong Kong, namely Elife Holdings Limited (Formerly known as Sino Resources Group Limited) (Stock code: 223).

Ms. CHUNG Lai Fong

Aged 50, joined the Company in December 2004. Ms. CHUNG is a practising barrister in Hong Kong. She holds a Bachelor of Laws (Honours) Degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. Ms. CHUNG is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 22 years of professional experience in accounting, taxation, company secretarial, legal, regulatory and corporate affairs.

COMPANY SECRETARY

Ms. CHEUNG Lin Shun

Aged 55, joined the company in March 2005 and has been the Company Secretary of the Company since then. Ms CHEUNG is also the Vice President in charge of all finance affairs at the corporate level of the Group. Ms. CHEUNG is a professionally qualified accountant in Hong Kong. She holds a Master Degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. CHEUNG is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 32 years of experience in auditing, corporate secretarial, accounting and corporate finance obtained from an international accounting firm and a number of listed companies in Hong Kong.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LIN Shengjie

Aged 52, is the Vice President of the Guangzhou head office in charge of all general financial operations in the PRC. Mr. LIN is a Bachelor Degree graduate in finance and accountancy of Guangdong University of Finance & Economics（廣東財經大學）(Formerly known as Guangdong University of Business Studies（廣東商學院）) and has over 27 years of working experience in the finance and accounting in property development, direct investments in the PRC, Thailand and Hong Kong.

Mr. XIE Xiaohua

Aged 47, is the Vice President of Guangzhou head office in charge of general project management, costing and coordinate the operations of projects. Mr. XIE graduated from Sun Yat-sen University（中山大學）with a Doctor's Degree in Science and holds a senior engineer certificate for geotechnical engineering. He has over 23 years of working experience in the area of engineering management in overall project development.

Mr. ZENG Fanyou

Aged 42, is the Vice President of Guangzhou head office in charge of youth community project, sales and marketing management. Mr. ZENG graduated from Henan University School of Economics（河南財經學院）with a Bachelor's Degree in Economics and holds a Project Management Professional certificate. He has 17 years of working experience in property sales and marketing in the PRC, working for Zhu Jiang Real Estate Development Co., Ltd. and New World China Land Limited in the past.

Mr. TAN Yongqiang

Aged 54, is the Vice President of Guangzhou head office in charge of city development business that focuses on the urban renewal projects in Guangzhou and administrative affairs at the Guangzhou head office. Mr. TAN graduated from South China University of Technology（華南理工大學）with a Bachelor's Degree in Industrial and Civil Construction. He is also a postgraduate in Business Administration from Western Sydney University. Mr. TAN has over 21 years of working experience in the area of project management and has worked in large-scale group in the PRC such as Yuexiu Group（越秀集團）.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

INTRODUCTION

This report covers Skyfame Realty (Holdings) Limited ("**Skyfame**" or the "**Company**"), and its subsidiaries (collectively, the "**Group**") for the financial year ended 31 December 2017, and is to disclose the information on the Group's management approach and strategy in respect of environmental, social and governance aspects.

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

This report discusses what measures the Group takes for the environment, how it creates quality working environment for employees and how it operates with responsible practices for the interest of customers. This report is prepared in compliance with the "Comply or Explain" provisions under the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Emissions that are generated in the course of construction are not included in this report as all developments of the Group are outsourced to its main contractors for construction. Nevertheless, they are monitored by the Group to ensure they have measures in place to reduce environmental damage from emissions during operation.

A. ENVIRONMENT

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A1. Construction discharges

1. *Machinery noises*

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

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

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

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

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

2. *Construction air emissions*

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A1. Construction discharges (continued)

2. Construction air emissions (continued)

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

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

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

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

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

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A1. Construction discharges (continued)

3. Construction wastewater

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

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

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A1. Construction discharges (continued)

4. *Construction solid wastes*

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

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

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

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

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

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

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

The Group has vehicles in operation mainly for providing pick-up and drop-off services to staff/clients as well as assisting project management personnel to conduct site visit. To reduce air emissions from the vehicles, the Group performs vehicle check-ups, maintenance and repairs on a regular basis. During the reporting period, total air emissions from the Group's vehicles were as follows:

Emission category	Unit	Amount
Nitrogen oxides (NO_x)	kg	5.38
Sulphur oxides (SO_x)	kg	1.07
Particulate matter (PM)	kg	2.18

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A1. Construction discharges (continued)

The Group's direct greenhouse gas emissions are mainly generated from the consumption of electricity and fuels at office premises. During the reporting period, the Group had offices (including site offices) in 14 operating locations and their total direct and indirect greenhouse gas emissions were as follows:

Greenhouse gas emission at source	Unit	Emission volume
Office	tonne of carbon dioxide (CO_2) equivalents	950.69
Scope 1 – direct emissions (Group vehicles)	tonne of carbon dioxide (CO_2) equivalents	171.65
Scope 2 – indirect emissions (purchases of electricity)	tonne of carbon dioxide (CO_2) equivalents	779.04
Property management operation	tonne of carbon dioxide (CO_2) equivalents	1,992.19
Scope 1 – direct emissions (Group vehicles)	tonne of carbon dioxide (CO_2) equivalents	23.89
Scope 2 – indirect emissions (purchase of electricity)	tonne of carbon dioxide (CO_2) equivalents	1,968.30

A2. Use of resources

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A2. Use of resources (continued)

1. *Conservation and use of energy*

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

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

    c. High efficiency lighting sources, high efficiency lighting equipment and accessories such as electronic ballasts with low dissipation are used in public areas and for partial lighting. Other energy conservation measures such as the application of time control or light control in areas with natural lighting are adopted.

    d. Make full use of solar, geothermal and other renewable energy sources according to local climates and resources conditions. Make use of natural lighting and ventilation (directly or indirectly from entrances and exits, open yards, side windows and skylights) in underground area.

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

2. *Conservation and use of water resources*

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

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

    c. Use water-saving appliances and equipment.

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

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A2. Use of resources (continued)

2. Conservation and use of water resources (continued)

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

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

3. Conservation and use of material resources

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

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

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

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A3. The environment and natural resources

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

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

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

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

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

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

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A3. The environment and natural resources (continued)

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

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

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

k. Underground areas should be reasonably developed and utilised.

Electricity, gasoline and diesel are the main energy sources used by the Group at its operating locations. During the reporting period, the Group's usage of these energy sources was as follows:

		Office	Property management	Total
Energy category	Unit	Volume	Volume	Volume
Electricity	kilowatts	960,109	2,424,017	3,384,126
Gasoline	litres	57,069	8,789	65,858
Diesel	litres	6,177	0	6,177

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

A. ENVIRONMENT (continued)

A4. Heritage conservation and urban redevelopment

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

The Group is now taking active participation in the urban redevelopment projects in Guangzhou and Shenzhen to develop the old districts into livable cities. The local governments are still in the process of drawing up the development plan of these projects. Once the development plan is finalised by the governments, development of these projects will be commenced.

B. SOCIAL

Employment and labour practices

B1. Employment

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

As at 31 December 2017, the Group had a total of 742 (2016: 586) employees including 3 executive directors. Compared to last year, the number increased by 156, which was mainly attributable to the recruitment of additional 89 property management staff members for Nanning Skyfame Garden after its delivery. Overall, there were additional 138 property management staff members. 256 employees were undergraduates, representing 34.50% (2016: 40.79%) of the Group's total employees. The employees of the Group were relatively young, with 72.51% (2016: 68.77%) were under the age of 40. To accommodate the requirements for the development of new projects in 2018, the Company has been, from time to time, recruiting new college graduates as well as those having appropriate working experience. The Company was successful in recruiting youthful and energetic employees who have brought new impetus to the Company.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B1. Employment (continued)

The Group strives to introduce appropriate staff based on the needs from the industry and manpower availability in the market. As the Group operates in the property construction industry, which tends to recruit male staff, it accounted for 67.39% (2016: 67.24%) of the total employees.

Number of employees by gender and age group

	Gender	Under 30	31-40	41-50	Over 50	2017 Total	2016 Total
Head office/ Administration office	Male	12	42	23	**7**	**84**	86
	Female	19	36	10	5	**70**	66
	Sub-total	31	78	33	12	**154**	152
Project operation	Male	30	59	16	6	**111**	104
	Female	15	27	4	1	**47**	38
	Sub-total	45	86	20	7	**158**	142
Property management	Male	98	96	73	38	**305**	204
	Female	68	36	18	3	**125**	88
	Sub-total	166	132	91	41	**430**	292
Total in 2017	**Male**	**140**	**197**	**112**	**51**	**500**	
	Female	**102**	**99**	**32**	**9**	**242**	
	Total	**242**	**296**	**144**	**60**	**742**	
Total in 2016	Male	89	154	111	40		394
	Female	78	82	21	11		192
	Total	167	236	132	51		586

Number of employees by region

	Guangzhou	Nanning	Xuzhou	Yongzhou	Shenzhen	Zhongshan	Shunde	Hong Kong	2017 Total	2016 Total
Head office/ Administration office	145	0	0	0	0	0	0	**9**	**154**	152
Project operation	16	89	34	3	3	13	0	0	**158**	142
Property management	181	195	26	11	0	7	10	0	**430**	292
Total in 2017	**342**	**284**	**60**	**14**	**3**	**20**	**10**	**9**	**742**	
Total in 2016	346	207	6	17	0	0	0	10		586

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B1. Employment (continued)

Employees are engaged in two different business segments, namely project development and property management. For 2017, the Group reported an overall employee turnover rate of 43.67%, up from 32.48% for last year. Turnover rate at head office and administration office stood at approximately 23%, a percentage similar to that of last year. Due to the effort on simplifying staffing, Nanning projects had a relatively high level of employee turnover with a rate of 37.89% for this year, up from 26.53% for last year. In 2017, turnover rate of property management staff further increased to 59.28% from 45.25% for last year, mainly attributable to the fact that property management sector has a generally higher turnover rate than other sectors. 214 (2016: 119) employees departed from the property management companies, accounting for 72.30% of the Group's total departed employees, and thus raised the Group's total employee turnover rate to 43.67% (2016: 32.48%). For the year, 99 of the 296 departed staff were at the age between 31-40 and 151 were at the age below 30, which, in aggregate, accounted for 86.21% (2016: 75.79%) of the total departed employees. To analyse by age group, most of the Group's staff were young people as evidenced by 72.51% of the Group's total employees were under the age of 40. Turnover rate of this age group is commonly high and the figure for the year reached 73.84%

Employee turnover rate by age group and region

	Region	Under 30	31-40	41-50	Over 50	Total number of departed employees (by region/ function)	2017 Turnover rate (by region/ function) (note)	2016 Turnover rate (by region/ function) (note)
Head office/ administration office	Guangzhou	11	19	4	0	34	**23.69%**	23.49%
	Hong Kong	1	0	0	0	1	**10.53%**	10.00%
	Sub-total	12	19	4	0	35	**22.88%**	22.64%
Projects	Guangzhou	2	1	1	0	4	**16.33%**	21.69%
	Nanning	7	27	2	0	36	**37.89%**	26.53%
	Xuzhou	0	1	0	0	1	**5.00%**	0.00%
	Sub-total	9	29	3	0	41	**27.33%**	24.56%
Property management	Total	130	51	23	10	214	**59.28%**	45.25%
Total number of departed employees in 2017 (by age)		**151**	**99**	**30**	**10**	**290**	**43.67%**	
Total turnover rate in 2017 (by age)		**73.84%**	**37.22%**	**21.74%**	**18.02%**	**43.67%**		
Total number of departed employees and turnover rate in 2016		60	84	35	11	190		32.48%

Note: Turnover rate = Number of departed employees during the year / ((number of employees at the beginning of the year + number of employees at the end of the year) / 2)

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B2. Health and Safety

The Company complies strictly to the PRC's laws and regulations to protect the employee's occupational safety and health. The Company has developed its enterprise occupational health guidelines according occupational health and safety standards including the Occupational Health and Safety Management System (OHSMS), ISO 9000 Quality Assurance System and ISO 14000 Environmental Management Standards, for the prevention of occupational diseases, protect workers' health, enhance employees' safety awareness, ensure safety in construction that satisfy both the goals of the enterprise and the needs of the employees. The Company has instructed department supervisors to be fully responsible for the management of occupational safety and health. To take better preventive measures, from time to time, the project companies' safety supervisors provide safety trainings to employees working at positions that are highly susceptible to occupational diseases, supervise and inspect the use of safety measures, and inspect and rectify the safety pitfalls in workplaces, so as to reduce the spread of epidemic diseases and ensure construction safety. The Group arranges relevant health checking for employees in positions that are highly susceptible to occupational diseases, and document their health profile. The Group also arranges annual body check for all employees to help identify potential health risks in advance so as to strengthen the employees' health protection. Employees' body check expenses in 2017 amounted to approximately RMB118,174 (2016: RMB113,520), representing an increase of 4.1% as compared to 2016. To provide staff with more tips on healthy life, lead them to healthy working and living habits and keep them away from sub-health, the Company has invited doctors at Guangdong Second Provincial General Hospital to conduct a health seminar on 16 August 2017.

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

The Group's Project Management Centre periodically assigns the internal safety management team to inspect the safety of the projects under construction, the results of which will be reported to the Group's leaders. During the year, the Group strictly complied with relevant laws and regulations and guidelines and has formulated the "Administrative measures for the reporting, investigating and handling of safety production incidents" (《安全生產事故報告與調查處理管理辦法》), to stipulate the procedures of reporting, investigating and handling of safety incidents, to implement an accountability system on safety production incidents and to prevent and reduce the occurrence of safety production incidents.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B3. Development and Trainings

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

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

In 2017, the head Office and the project companies have provided 319 training sessions for employees at different levels, with a total of 4,579 participants. These training sessions included internal training totaling 572 hours and external training totaling 198 hours. Total cost of trainings amounted to RMB588,634 (2016: RMB530,333), representing an increase of 10.99% as compared with 2016. The training programs in 2017 mainly covered:

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

- to raise the Company's operational and management standards and to facilitate the establishment of the Company's standardised management system, the head office organised a special training program named "Establishment of Standardised System of Real Estate" during 3-4 of June 2017, where external practical management specialists were invited to deliver talks on major areas such as the organisation and management of the establishment of standardised system on real estate, case study of industry benchmarking, establishment of standardised system of products, design standardisation, contract standardisation, delivery standardisation, marketing standardisation and standardised implementation and management;

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B3. Development and Trainings (continued)

- to pursue the Skyfame's concept of people development and to strengthen the backup force of project management team, during 5-6 of May 2017, the head office launched the first round of project management training program. Internal experienced business specialists were invited and external practical management specialists were engaged to talk about project control and role positioning. During 4-5 of August 2017, the head office also launched the second round of project talent training class which was named as "Staff Mentoring and Effective Incentives by Outstanding Management" (《卓越管理者的部屬輔導與有效激勵》). External practical management specialists were invited to host a talk to give lecture on staff mentoring and effective incentives, and conduct group discussion and practices on the content of every module; and

- to improve the expertise and skills of staff, in mid-December 2017, the head office launched a training program called "Decision-making for Project Investment, Mergers and Acquisitions, Joint Development and Land Negotiation" (《投資項目決策、兼併收購、合作開發及土地談判》). External practical management specialists were engaged to give lectures, in layman's terms, to help attendants understand the investment of projects in the current property market, to give them updated information on land expansion and to allow them systematically obtain the relevant knowledge and skills.

B4. Incentives and recognitions

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

B5. Recruitment and Retaining Talents

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Employment and labour practices (continued)

B5. Recruitment and Retaining Talents (continued)

The Company has also established the "Employee Share Options Scheme", under which, share options are granted to employees so that the results and performance of the Group are linked to the employees' individual performance. The purposes are to motivate employees in achieving the Group's long-term goals, to reward and provide incentives to employees in making continued contributions to the Group, and to recruit and retain talents. Pursuant to the share option schemes adopted on 4 August 2005 and 9 June 2015, the Company has granted a total of 162,850,000 share options to eligible staff, for the purpose of motivating the staff to continue to make contribution to the Group. During 2017, options to subscribe a total of 1,566,000 shares of the Company were exercised by the staff. As at 31 December 2017, there were 82,062,791 share options outstanding.

B6. Employee's Relation

To reward the staff for their dedication over the year and to enhance the communication and exchanges among employees, the head office organised a Chinese New Year gathering in late January 2017 and a Mid-Autumn cocktail in late-August 2017.

Moreover, in order to enhance the team building and relationships between the staffs, the head office organises annual country-tours and project-visits to foster connections between the employees of different management centers and project companies. This June, the head office organised a three-day country tour for 2017 for its staffs to promote communication and interaction between different departments. On 26 August 2017, the Company organised an outward bound training in Foshan for its employees. The purpose was to temper a stronger willpower of the employees, to strengthen their team unity and overall solidarity, to promote staff communication, and to boost them a sense of belonging through integrating into the team during the outward bound activities.

B7. Labour standards

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Operating Practices

B8. Supply chain management

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

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Operating Practices (continued)

B9. Product Liability

1. *Skyfame's Mission*

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

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

2. *Monitoring of Product Quality*

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Operating Practices (continued)

B9. Product Liability (continued)

3. *Customers' Feedback*

To better understand customers' satisfaction on the work quality, the construction quality and the services provided by relevant entities of the Group in the course of property development, sales and post-sales service, the Group has developed the "Procedures for Measuring and Monitoring Customer Satisfaction" (《顧客滿意度測量監察程序》). Based on the results, the Group would propose corrective and preventive measures and continue to make improvement, in order to maintain or increase customers' satisfaction.

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

B10. Anti-corruption

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

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

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

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

B. SOCIAL (continued)

Community

B11. Community engagement

Our property management companies have always attached to their primary initiative of "sharing owners' concerns" and embraced their philosophy of "providing customers with touching services and surprisingly good quality". To achieve this, they strive to render heart-warming, quality, prompt and efficient personalised services, and create good residential atmosphere with their enthusiasm and sincerity, so as to give pampering experience of property management services to owners.

Our property management companies closely embrace their service objective of "giving public convenience, benefits and considerations". In this regard, they have, in each project, organised different activities such as tree plantation day, wrapping festive rice dumplings, 1st of June Children's Day, 1st of July Free Medical Consultation Day, Skyfame Mid-Autumn Festival Gathering, and setting used clothes recycling bins in communities to donate clothes collected to the underprivileged in remote rural areas. By rewarding and building closer ties between owners and the properties, the property management companies can have emotional interaction with owners and enhanced friendship with them, which are crucial to promoting the development of a harmonious and modern community.

B12. Start-up and community operation service for residents

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period covered by the 2017 financial statements, in compliance with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") except for the following deviations:

Code Provision A.2.1 – Chairman and Chief Executive

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

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

Code Provision E.1.2 – Chairman Attending Annual General Meeting

Mr. YU Pan, the Chairman of the Board, was unable to attend the annual general meeting held on 1 June 2017 (the "**AGM**") due to other business engagements. Mr. WEN Xiaobing, the Deputy Chief Executive Officer, acted as chairman of the AGM which was properly convened.

BOARD OF DIRECTORS

As at 31 December 2017, the Board comprised seven Directors as follows:

Executive Directors

Mr. YU Pan (*Chairman and Chief Executive Officer*)
Mr. WEN Xiaobing (*Deputy Chief Executive Officer*)
Mr. JIANG Jing (*resigned on 25 April 2017*)
Mr. WONG Lok

Non-executive Directors

Mr. LI Weijing (*appointed on 7 August 2017*)
Mr. ZHONG Guoxing (*resigned on 20 July 2017*)

Independent Non-executive Directors

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

The Board held five meetings in 2017. The record of attendance of each Director is as follows:

Name of Director	Number of Board Meetings Attended/Held	Attendance Rate	Attended the annual general meeting on 1 June 2017
Executive Directors			
Mr. YU Pan (*Chairman and Chief Executive Officer*)	5/5	100%	–
Mr. WEN Xiaobing (*Deputy Chief Executive Officer*)	5/5	100%	✓
Mr. JIANG Jing (*resigned on 25 April 2017*)	1/1	100%	–
Mr. WONG Lok	5/5	100%	–
Non-executive Director			
Mr. LI Weijing *(appointed on 7 August 2017)*	2/2	100%	–
Mr. ZHONG Guoxing *(resigned on 20 July 2017)*	0/3	0%	–
Independent Non-executive Directors			
Mr. CHOY Shu Kwan	4/5	80%	–
Mr. CHENG Wing Keung, Raymond	5/5	100%	–
Ms. CHUNG Lai Fong	5/5	100%	–
Overall Attendance Rate		88.89%	14.23%

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

To the best knowledge of the Company, there is no financial, business and family relationship amongst the members of the Board, save as Mr. Wen Xiaobing is (i) an executive director and legal representative of 廣州天譽控股集團有限公司 (Guangzhou Tianyu Holdings Group Company Limited*) (前稱廣州市天譽房地產開發有限公司. Formerly known as Guangzhou Tianyu Real Estate Development Company Limited*), a PRC incorporated company; and (ii) the chairman of 綠景控股股份有限公司 (Lvjng Holding Co., Ltd.), a PRC company listed on the Shenzhen Stock Exchange, of these two companies the Chairman of the Company, Mr. YU Pan, is the controlling shareholder.

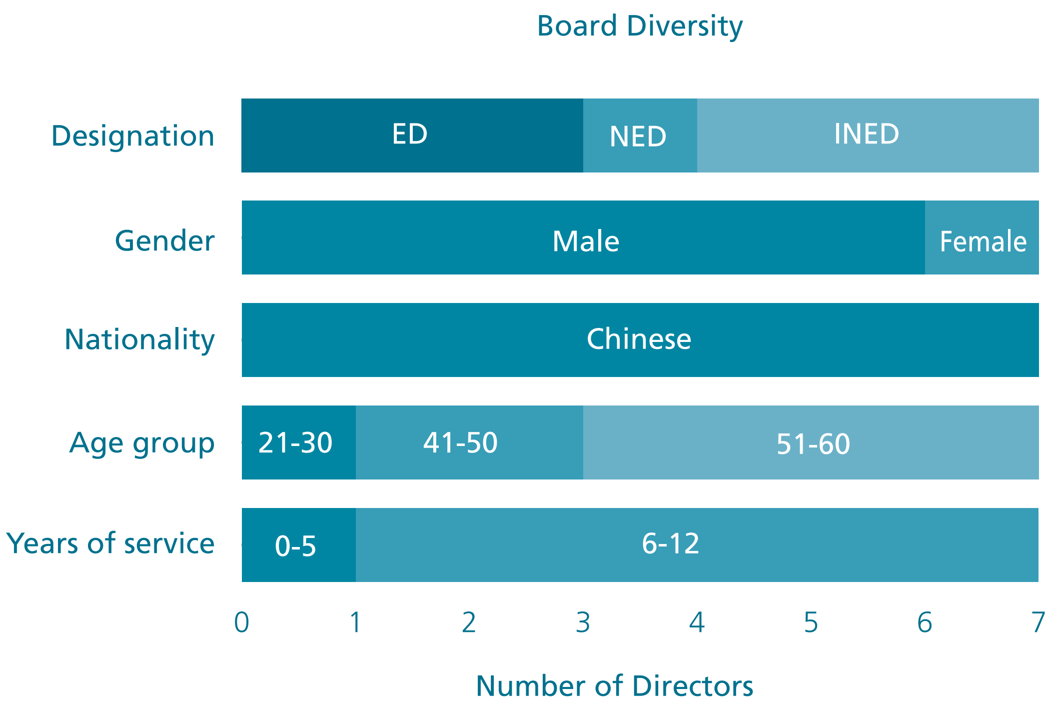
The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities of the Group.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

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

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



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

DIRECTORS' RESPONSIBILITY IN THE CONSOLIDATED FINANCIAL STATEMENTS

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

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

The training each Director received during the year ended 31 December 2017 is summarized as below:

Name of Director	Reading materials regarding regulatory update and corporate governance matters	Attending seminars/ in-house workshops relevant to the Company's business and Listing Rules compliance and directors' duties
Executive Directors		
Mr. YU Pan *(Chairman and Chief Executive Officer)*	✓	–
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*	✓	✓
Mr. JIANG Jing *(resigned on 25 April 2017)*	–	–
Mr. WONG Lok	✓	–
Non-executive Director		
Mr. LI Weijing *(appointed on 7 August 2017)*	✓	–
Mr. ZHONG Guoxing *(resigned on 20 July 2017)*	–	–
Independent Non-executive Directors		
Mr. CHOY Shu Kwan	✓	✓
Mr. CHENG Wing Keung, Raymond	✓	✓
Ms. CHUNG Lai Fong	✓	✓

CORPORATE GOVERNANCE REPORT

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

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

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

REMUNERATION COMMITTEE

As at 31 December 2017, the Remuneration Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong (Chairman of the Remuneration Committee).

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE (continued)

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

The Remuneration Committee held one meeting in March 2017 and all the members attended the meeting. The matters discussed included (i) the review of the remuneration policy of the Group's directors and senior management; and (ii) the review of incentive bonus paid to directors and senior management for 2016.

Details of the remuneration of each director are set out in the consolidated financial statements on pages 109.

NOMINATION COMMITTEE

As at 31 December 2017, the Nomination Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board and Nomination Committee) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

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

The Nomination Committee held two meetings in March and July 2017 to which all members attended. The matters discussed included (i) the review of the size, structure and composition of the Board; (ii) the assessment of the independence of independent non-executive directors; (iii) the recommendation of retiring Directors for re-election in 2017 annual general meeting; and (iv) the nomination of Mr. LI Weijing as non-executive director of the Company.

AUDIT COMMITTEE

As at 31 December 2017, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. CHOY Shu Kwan (Chairman of the Audit Committee), Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (continued)

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

The Audit Committee held three meetings in March, August and November 2017 to which all members attended. The matters discussed in the meetings included: (i) reviewing the financial statements of the Company for the year ended 31 December 2016 and the six months ended 30 June 2017 before submission to the Board for approval; (ii) considering the findings disclosed in the bi-annual internal audit reports prepared by the Internal Audit Department; (iii) reviewing and discussing the effectiveness of the Group's internal controls system with the Chief Internal Auditor; and (iv) reviewing and discussing the 2018 work plan of Internal Audit Department; and (v) reviewing the status report of the Risk Management Committee in respect of their work done in 2017. The representatives of the external auditor were present at the meetings held on 23 November 2017 and 31 March 2017 and discussed with the committee members, amongst the other agendas, the scope of audit and presented their findings on major issues to the committee members on the audit of the financial statements for the year ended 31 December 2017. Both the annual results for the year ended 31 December 2016 and the interim result for the six months ended 30 June 2017 have been reviewed by the Audit Committee before presenting to the Board for approval.

AUDITORS' REMUNERATION

BDO Limited was re-appointed by the shareholders as the Company's auditor during 2017. Their engagement of the audit for 2017 was reviewed and approved by the Audit Committee on a meeting held on 23 November 2017.

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

Nature of service	**Fees** *(Reminbi)*
Audit services	
– Current year	1,206,000

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

The 2018 annual general meeting is scheduled to be held at *Empire Room 1, 1st Floor, Empire Hotel Hong Kong•Wanchai, 33 Hennessy Road, Wanchai, Hong Kong on Thursday, 31 May 2018 at 3:00 p.m.*.

SHAREHOLDERS' RIGHTS

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

Rights to convene a special general meeting

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (continued)

Procedures for putting forward proposals at shareholders' meeting

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

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

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

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

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

Company's contact details

For general enquires:

Enquiries, concerns and requisitions to the Board can be addressed to: (i) for shareholders and corporate investors, the secretary of the Company at the principal place of business in Hong Kong at Unit 1401, 14/F., Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong, or by fax to (852) 2890 4459, or by email to cs@sfr59.com or (ii) for other stakeholders, the customer officer at the head office in Guangzhou at 33/F., HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, the PRC (Postage code: 510610), or by telephone to (86 20) 2208 2888, or by fax to (85 20) 2208 2777.

For suggestions and complaints:

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

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS AND RISK MANAGEMENT

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

Internal Audit Department

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

Risk Management Committee

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

The Risk Management Committee held one meeting in November 2017 to review the works performed and difficulties encountered by the risk management team during the year. Those highlighted high level risks factors, covering aspects on strategic, operational, financial and compliance, were discussed in the meeting in which control measures defined by operating units for alleviation of risks were focused.

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

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

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS AND RISK MANAGEMENT (continued)

Regular Review of the Risk Management and Internal Control Systems

Through regular interactions with the internal auditor and the Audit Committee, the Board has assessed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2017. The Chief Internal Auditor reports to the Chairman of the Board regularly and periodically to the Board through the Audit Committee with findings on regular and ad hoc internal audits. He developed the work plan for the year 2018 in late 2017 which was approved by the Audit Committee setting out the objectives and scopes of the audit work to be undertaken. The internal audit covers testing on controls over financial, operation and compliance aspects of the Group. In the internal audit reports issued by the internal audit department, the Chief Internal Auditor highlights deficiencies in controls and makes recommendations on the internal control systems to the responsible managers in the operating units under internal review. Interim and annual internal audit reports issued by the internal audit department during the year 2017, comprising the details of audit work, findings and recommendations of improvements in all audit assignments performed by the department, have been reviewed and discussed by the Audit Committee during the two audit committee meetings held in August and March 2017 respectively. In the internal audits performed in the year, the Chief Internal Auditor identifies no fundamental deficiencies with material adverse consequences, but points out potential risks and areas for improvements and recommends to the management the remedial actions to be taken by the management team. The internal audit department consistently follows up those highlighted issues with the departments covered by the audits to ensure proper improvement measures are executed by management and also the follow-up results are reported in its audit reports. Based on the audit findings and management responses noted from the assignments, though enhancements are required in certain areas that need to be taken for further improvements, the Board considers that, overall, the existing internal control system is effective and adequate in controlling the operations and safeguarding the assets of the Company, and can prevent irregularities and protect the interests of its shareholders in material aspects.

DIRECTORS' REPORT

The Directors herein present their annual report together with the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are property development, property investment, property management and provision of goods and services at our community developments. The last type of activities relates to our provision of services to support the living needs to residents and start-up enterprises in the co-working spaces at our youth community developments. This business line commenced in 2016, the status of development is detailed in the Chairman Statement in this annual report. Operations of the community development services have not had material operating profits during the year, yet the management expects the operations will have in a growing income stream of the Group in the near future.

BUSINESS REVIEW

Details of the operation of the Company's principal business during the year, as required by Schedule 5 to the Companies Ordinance, including an indication of likely future development in the Group's business, an analysis of key performance indicators, a description of the principal risks and uncertainties facing the Group, and the Group's environmental policies and performance are set out under the section "Management Discussion and Analysis" on pages 8 to 23 and Environmental and Social Responsibility Report on pages 27 to 47 of this annual report respectively.

There is no important event affecting the Group that has occurred after the year ended 31 December 2017. Details of the Company's relationships with its employees, suppliers and customers who have significant impacts on the Group and on which the Group's success depends are set out in Environmental and Social Responsibility Report under the section headed "Social" in paragraph B6 (Employee's Relation), and the section headed "Operating Practices" in paragraphs B8 (Supply Chain Management) and B9.3 (Customers' Feedback).

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

SEGMENT INFORMATION

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 73.

The Board proposed to declare a final dividend of HK$0.04 per share for the year ended 31 December 2017. The proposed final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting and, if approved, will be paid in Hong Kong dollars.

PRINCIPAL PROPERTIES

Details of the Group's principal properties held for development, properties held for sale and investment properties are set out in notes 22 to 24 to the financial statements.

DIRECTORS' REPORT

SHARE ISSUED IN THE YEAR

In December 2017, an aggregate of 1,566,000 Shares were allotted and issued upon the exercise of share options by some employees and a director of 1,566,000 options granted under the 2015 Option Scheme at the exercise price of HK$1.082 per Share.

Details of the Company's share capital during the year are set out in note 35 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2017, the Company's distributable reserves amounted to RMB1,119.5 million (inclusive of the Company's share premium account in the amount of approximately RMB1,664.7 million which can be distributed to shareholders of the Company in the form of fully paid bonus shares in accordance with Section 40 of the Companies Act 1981 of Bermuda). Thus, the Board recommends the payment of a final dividend in form of cash of HK$0.04 per Share for the year ended 31 December 2017.

EQUITY LINKED AGREEMENTS

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

Share Options

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

During the year, no share option was granted to eligible participants under the 2015 Scheme and 1,566,000 share options granted under the 2015 Scheme were exercised for subscription of 1,566,000 Shares at exercise of HK$1.082 per Share. There were in total 82,062,791 share options granted under the 2005 Scheme and 2015 Scheme outstanding as at 31 December 2017.

Details of the share options scheme are set out in note 37 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 36 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

The aggregate purchases attributable to the Group's largest supplier, being a main contractor for projects and five largest suppliers accounted for approximately 68.4% and 92.1%, respectively, of the Group's total purchases for the year.

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

DIRECTORS' REPORT

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

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

DIRECTORS AND THEIR SERVICE CONTRACTS

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

Executive Directors
Mr. YU Pan *(Chairman and Chief Executive officer)*
Mr. WEN Xiaobing *(Deputy Chief Executive Officer))*
Mr. JIANG Jing *(resigned on 25 April 2017)*
Mr. WONG Lok

Non-executive Director
Mr. LI Weijing *(appointed on 7 August 2017)*
Mr. ZHONG Guoxing *(resigned on 20 July 2017)*

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

In accordance with the Bye-law 83(2) of the Company's amended and restated bye-laws (the "**Bye-laws**"), Mr. LI Weijing, will retire from office at the forthcoming annual general meeting and being eligible, will offer himself for re-election.

In accordance with Bye-law 84(1) of the Bye-laws, Mr. WEN Xiaobing and Ms. CHUNG Lai Fong will retire from office by rotation at the forthcoming annual general meeting and being eligible, will offer themselves for re-election.

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

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

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

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out in section headed "Brief biographical details of directors and senior management" on page 24.

MANAGEMENT CONTRACTS

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

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

As at 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in the Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

(a) Interests in the Shares or underlying Shares

Name of Director	Company/ Associated corporation	Capacity	Number of Shares or underlying Shares *(note 1)*	Approximate shareholding percentage *(note 2)*
Mr. YU Pan	Company	Interest of controlled corporation and/or beneficial owner	1,909,028,407 (long)	72.92%

Notes:

1. These Shares comprised (i) 228,364,000 existing Shares; and (ii) 1,680,664,407 existing Shares held directly by Grand Cosmos Holdings Limited ("**Grand Cosmos**"). The entire issued share capital of Grand Cosmos was held by Sharp Bright International Limited ("**Sharp Bright**"), the entire issued share capital of which was held by Mr. YU Pan. Of the 1,909,028,407 Shares, 235,000,000 and 86,860,000 Shares were charged by Grand Cosmos and Mr. YU Pan respectively in favour of China Huarong International Holdings Limited pursuant to two collateral agreements both dated 27 July 2017 in relation to a loan facility of HK$500 million granted to the Company; and 1,000,000,000 Shares were charged by Grand Cosmos in favour of Haitong International Financial Solutions Limited pursuant to a security deed dated 14 December 2017 in relation to a term loan facility granted to Grand Cosmos.

2. For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 2,618,097,175 Shares in issue as at 31 December 2017.

DIRECTORS' REPORT

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

(b) Interests in underlying Shares arising from share options

As at 31 December 2017, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the 2005 Scheme and 2015 Scheme:

Name of Director	Exercise price (adjusted) (HK$) *(note 1)*	Exercise period	Number of underlying Shares	Approximate shareholding percentage *(note 3)*
Mr. WEN Xiaobing	0.6714	11 August 2012 to 10 August 2021 *(note 1)*	5,213,097	0.20%
	1.0820	26 June 2016 to 25 June 2025 *(note 2)*	8,000,000	0.31%
Mr. CHOY Shu Kwan	1.0820	26 June 2016 to 25 June 2025 *(note 2)*	1,000,000	0.04%
Mr. CHENG Wing Keung, Raymond	1.0820	26 June 2016 to 25 June 2025 *(note 2)*	1,000,000	0.04%
Ms. CHUNG Lai Fong	1.0820	26 June 2016 to 25 June 2025 *(note 2)*	714,000	0.03%

Notes:

1. (i) First tranche (33.33% of the Options granted) is exercisable from 11 August 2012 to 10 August 2021;

   (ii) Second tranche (33.33% of the Options granted) is exercisable from 11 August 2015 to 10 August 2021; and

   (iii) Third tranche (33.34% of the Options granted) is exercisable from 11 August 2018 to 10 August 2021;

2. (i) First tranche (14.3% of the Options granted) is exercisable from 26 June 2016 to 25 June 2025;

   (ii) Second tranche (14.3% of the Options granted) is exercisable from 26 June 2017 to 25 June 2025;

   (iii) Third tranche (14.3% of the Options granted) is exercisable from 26 June 2018 to 25 June 2025;

   (iv) Fourth tranche (14.3% of the Options granted) is exercisable from 26 June 2019 to 25 June 2025;

   (v) Fifth tranche (14.3% of the Options granted) is exercisable from 26 June 2020 to 25 June 2025;

   (vi) Sixth tranche (14.3% of the Options granted) is exercisable from 26 June 2021 to 25 June 2025; and

   (vii)Seventh tranche (14.2% of the Options granted) is exercisable from 26 June 2022 to 25 June 2025.

3. For the purpose of this section, the percentage of shareholding in the Company was calculated on the basis of 2,618,097,175 Shares in issue as at 31 December 2017.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors and his/her respective close associates had any other interests in any business, which competes or is likely to compete, either directly or indirectly, with the Company's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules).

SUBSTANTIAL SHAREHOLDERS

At 31 December 2017, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Interests in the Shares or underlying Shares

Name of Shareholder	Capacity	Number of Shares and underlying Shares	Approximate shareholding percentage *(note 2)*
Sharp Bright	Interest of controlled corporation	1,680,664,407 (long) *(note 1)*	64.20%
Grand Cosmos	Beneficial owner	1,680,664,407 (long) *(note 1)*	64.20%
China Huarong International Holdings Limited	Person having a security interest in shares	321,860,000 (long)	12.29%
China Huarong Asset Management Co., Ltd.	Interest of controlled corporation	321,860,000 (long)	12.29%
Ministry of Finance of the People's Republic of China	Interest of controlled corporation	321,860,000 (long)	12.29%
Haitong International Financial Solutions Limited	Person having a security interest in shares	1,000,000,000 (long)	38.20%
Haitong International Holdings Limited	Interest of controlled corporation	1,000,000,000 (long)	38.20%
Haitong International Securities Group Limited	Interest of controlled corporation	1,000,000,000 (long)	38.20%
Haitong Securities Co., Ltd.	Interest of controlled corporation	1,000,000,000 (long)	38.20%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

1. The 1,680,664,407 existing Shares were held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. YU Pan, Mr. YU Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. Of 1,680,664,407 Shares, (i) 235,000,000 Shares and 86,860,000 Shares were charged by Grand Cosmos and Mr. YU Pan respectively in favour of China Huarong International Holdins Limited pursuant to two collateral agreements both dated 27 July 2017 in relation to a loan facility of HK$500 million granted to the Company; and (ii) 1,000,000,000 Shares were charged in favour of Haitong International Financial Solutions Limited pursuant to a security deed dated 14 December 2017 in relation to a term loan facility granted to Grand Cosmos.

2. For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 2,618,097,175 Shares in issue as at 31 December 2017.

Save as disclosed above, as at 31 December 2017, the Company had not been notified by any persons or corporations who had long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

CONNECTED TRANSACTIONS

Save as the transactions stated in note 44 to the consolidated financial statements, none of the Directors, substantial shareholders or controlling shareholders of the Company and their respective associates was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at 31 December 2017 which was significant in relation to the business of either the Group or has any material personal interest.

RETIREMENT BENEFIT SCHEMES

Particular of the retirement benefits schemes of the Group are set out in note 39 to the financial statements.

PRE-EMPTIVE RIGHTS

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 166.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' REPORT

EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the events after the end of the reporting period are set out in note 50 to the financial statements.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, the Director(s) shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation to any affairs of the Company.

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

AUDITOR

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

On behalf of the Board

YU Pan
Chairman
Hong Kong, 26 March 2018

INDEPENDENT AUDITOR'S REPORT

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

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

OPINION

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") set out on pages 73 to 165, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Carrying value of properties held for development, properties under development and properties held for sale

The Group held several property projects and had entered into several arrangements during the year ended 31 December 2017 with a view to acquiring the underlying assets for property development.

The carrying amounts of the Group's properties held for development, properties under development and properties held for sale as at 31st December 2017 were RMB488 million, RMB3,552 million and RMB3,754 million respectively.

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

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

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

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

Refer to note 22 and 23 in the consolidated financial statements.

How our audit addressed the key audit matter:

Our procedures in relation to management's valuation of these properties included:

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

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

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

INDEPENDENT AUDITOR'S REPORT

- Checking to payment advices and verifying the amounts paid;

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

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

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

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

Valuation of investment properties
Management estimated the fair value of the Group's investment properties to be RMB1,094 million at 31 December 2017, with a revaluation gain of RMB36 million and gain on properties valuation of RMB353 million for the year ended 31 December 2017 recorded in the consolidated statement of profit or loss. Independent external valuations were obtained for the investment properties in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including capitalisation rates and fair market rents.

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

Refer to note 17 in the consolidated financial statements.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

Hong Kong, 26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	7	**4,080,514**	1,507,971
Cost of sales and services		**(3,197,387)**	(1,196,640)
Gross profit		**883,127**	311,331
Other income and gains, net		**34,100**	4,048
Sales and marketing expenses		**(152,913)**	(106,971)
Administrative and other expenses		**(219,828)**	(163,597)
Unrealised exchange gains/(losses)		**111,909**	(97,231)
Fair value changes in investment properties	17	**35,701**	10,051
Gain on properties valuation		**353,351**	–
Fair value changes in derivative financial asset/liabilities		**13,080**	11,121
Loss on early repayment of term loans		**(23,418)**	–
Gain on disposal of subsidiaries		**–**	97,285
Finance costs	8	**(33,088)**	(3,051)
Finance income	8	**36,483**	32,771
Profit before income tax	9	**1,038,504**	95,757
Income tax expenses	13	**(491,232)**	(9,518)
PROFIT FOR THE YEAR		**547,272**	86,239
Other comprehensive income, items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on foreign operations		**2,827**	(138)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**550,099**	86,101
Profit for the year attributable to:			
– Owners of the Company	14	**550,460**	92,918
– Non-controlling interests		**(3,188)**	(6,679)
		547,272	86,239
Total comprehensive income for the year attributable to:			
– Owners of the Company		**553,287**	92,780
– Non-controlling interests		**(3,188)**	(6,679)
		550,099	86,101
Earnings per share	14		
– Basic		**RMB0.210**	RMB0.038
– Diluted		**RMB0.210**	RMB0.038

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	16	**239,497**	251,390
Investment properties	17	**1,094,400**	588,370
Goodwill	18	**13,554**	13,554
Available-for-sale investment	19	**10,000**	10,000
Loan to a non-controlling shareholder of a subsidiary	25	**52,900**	–
Derivative financial assets	33	**46,144**	9,022
Deferred tax assets	34	**18,142**	57,353
		1,474,637	929,689
Current assets			
Properties held for development	22	**488,072**	161,160
Properties under development	22	**3,552,378**	7,971,027
Properties held for sale	23	**3,754,243**	177,228
Considerations receivable	21	–	277,401
Loan to a non-controlling shareholder of a subsidiary	25	–	52,900
Trade and other receivables	26	**1,200,792**	862,037
Prepayments/deposits for proposed projects	27	**1,385,269**	614,093
Short-term investments	28	**100,000**	–
Prepaid income tax		–	93,368
Restricted and pledged deposits	29	**1,313,264**	987,290
Cash and cash equivalents	30	**2,983,799**	1,794,440
		14,777,817	12,990,944
Current liabilities			
Trade and other payables	31	**1,374,346**	1,190,525
Properties pre-sale deposits		**7,821,274**	7,290,196
Bank and other borrowings – current portion	33	**1,171,198**	1,067,634
Derivative financial liabilities – current portion	33	–	11,177
Income tax payable		**137,192**	–
		10,504,010	9,559,532
Net current assets		**4,273,807**	3,431,412
Total assets less current liabilities		**5,748,444**	4,361,101

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Bank and other borrowings – non-current portion	*33*	**3,104,096**	2,388,429
Derivative financial liabilities – non-current portion	*33*	**12,333**	2,182
Deferred tax liabilities	*34*	**253,388**	170,522
		3,369,817	2,561,133
Net assets		**2,378,627**	1,799,968
Capital and reserves			
Share capital	*35*	**24,469**	24,456
Reserves	*36*	**2,301,560**	1,740,653
Equity attributable to owners of the Company		**2,326,029**	1,765,109
Non-controlling interests		**52,598**	34,859
Total equity		**2,378,627**	1,799,968

On behalf of the Board

YU Pan
Director

WEN Xiaobing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Attributable to owners of the Company												
	Notes	Share capital RMB'000	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Property revaluation reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Foreign exchange reserve RMB'000	Other/ capital reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016		21,068	1,507,182	16,116	10,576	34,499	(293,095)	6,471	(1,303)	743	201,683	1,503,940	5,065	1,509,005
Profit for the year		–	–	–	–	–	–	–	–	–	92,918	92,918	(6,679)	86,239
Other comprehensive expenses		–	–	–	–	–	–	–	(138)	–	–	(138)	–	(138)
Total comprehensive expenses for the year		–	–	–	–	–	–	–	(138)	–	92,918	92,780	(6,679)	86,101
Issue of shares:														
Share placing issue	35(a)	3,388	159,217	–	–	–	–	–	–	–	–	162,605	–	162,605
Share issue expenses		–	(3,812)	–	–	–	–	–	–	–	–	(3,812)	–	(3,812)
Transfer among reserves		–	–	–	–	(34,499)	–	–	–	–	34,499	–	–	–
Capital contribution		–	–	–	–	–	–	–	–	–	–	–	14,144	14,144
Disposals of subsidiaries	38(c)	–	–	–	–	–	–	–	–	–	–	–	22,329	22,329
Recognition of equity-settled share-based payment expenses	37	–	–	–	9,596	–	–	–	–	–	–	9,596	–	9,596
Reallocation of lapsed options from share-based payment reserve to retained profits		–	–	–	(994)	–	–	–	–	–	994	–	–	–
At 31 December 2016 and 1 January 2017		**24,456**	**1,662,587**	**16,116**	**19,178**	**–**	**(293,095)**	**6,471**	**(1,441)**	**743**	**330,094**	**1,765,109**	**34,859**	**1,799,968**
Profit for the year		–	–	–	–	–	–	–	–	–	550,460	550,460	(3,188)	547,272
Other comprehensive expenses		–	–	–	–	–	–	–	2,827	–	–	2,827	–	2,827
Total comprehensive expenses for the year		–	–	–	–	–	–	–	2,827	–	550,460	553,287	(3,188)	550,099
Issue of shares:														
Exercise of share options	35(a)	13	2,162	–	(727)	–	–	–	–	–	–	1,448	–	1,448
Capital contribution			–	–	–	–	–	–	–	–	–	–	25,529	25,529
Recognition of equity-settled share-based payment expenses	37	–	–	–	6,185	–	–	–	–	–	–	6,185	–	6,185
Dividend paid to non-controlling shareholder		–	–	–	–	–	–	–	–	–	–	–	(4,602)	(4,602)
At 31 December 2017		**24,469**	**1,664,749**	**16,116**	**24,636**	**–**	**(293,095)**	**6,471**	**1,386**	**743**	**880,554**	**2,326,029**	**52,598**	**2,378,627**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Net cash from operating activities	38(a)	**972,514**	378,383
Investing activities			
Interest received		**42,543**	27,437
Disposal of subsidiaries, net of cash disposed of	38(c)	**–**	125,159
Purchases of property, plant and equipment		**(9,273)**	(1,883)
Acquisition of available-for-sale investment		**–**	(10,000)
Acquisition of short-term investments		**(951,000)**	(760,000)
Disposal of short-term investments		**851,000**	1,220,000
Loan advanced to a non-controlling shareholder of a subsidiary		**–**	(32,500)
Increase in restricted and pledged deposits		**(325,974)**	(64,561)
Net cash (used in)/from investing activities		**(392,704)**	503,652
Financing activities	38(b)		
Proceeds from shares issued under share placing	35(a)	**–**	162,605
Proceeds from shares issued under share option scheme	35(a)	**1,448**	–
Expenses incurred on issue of shares		**–**	(3,812)
New bank and other borrowings		**5,158,509**	4,090,870
Repayment of bank and other borrowings		**(2,587,677)**	(2,612,688)
Other borrowing costs paid		**(106,819)**	(99,370)
Interest paid		**(1,879,589)**	(1,022,267)
Dividend paid to non-controlling shareholder		**(4,602)**	–
Capital contributions from non-controlling shareholders of subsidiaries		**25,529**	14,144
Net cash from financing activities		**606,799**	529,482
Net increase in cash and cash equivalents		**1,186,609**	1,411,517
Effect of exchange rate changes on cash and cash equivalents		**2,750**	(332)
Cash and cash equivalents at beginning of year		**1,794,440**	383,255
Cash and cash equivalents at end of year	30	**2,983,799**	1,794,440

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

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

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

The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**". The principal activity of the Company continues to be investment holding. Other than the operations in our youth community developments which currently do not bear operating results, assets or liabilities of significance to the Group, the principal activities of its subsidiaries are property development, property investment and property management.

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

(a) Adoption of new/revised HKFRSs

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKAS 40	Transfers of Investment Property
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7 – Disclosure Initiative

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

The adoption of the amendments has led to the additional disclosure presented in the notes to the cash flow statement, note 38(b).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(a) Adoption of new/revised HKFRSs (continued)

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

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

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

Amendments to HKAS 40 – Transfers of Investment Property

The new standard will be effective for annual periods beginning on or after 1 January 2018. The Group has early applied the new standard that has been issued but not yet effective.

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred. The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity’s interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

The following new/revised HKFRSs, potentially relevant to the Group's financial statements have been issued but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards[1]
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

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

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

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

HKFRS 9 – Financial Instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

HKFRS 9 – Financial Instruments (continued)

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

During the year ended 31 December 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and summarised as follows:

(i) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets.

(ii) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade or other receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has expected that the provision for impairment will increase upon the initial adoption of the standard.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

HKFRS 15 – Revenue from Contracts with Customers (continued)

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1:	Identify the contract(s) with a customer
Step 2:	Identify the performance obligations in the contract
Step 3:	Determine the transaction price
Step 4:	Allocate the transaction price to each performance obligation
Step 5:	Recognise revenue when each performance obligation is satisfied

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

The Group principal activities consisted of property development, investment and management. During the year ended 31 December 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 15. The Group does not expect the adoption of HKFRS 15 will have a significant impact on the Group's financial performance and financial position.

However, the presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and may significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of most of these disclosure requirements will not be significant.

HKFRS 16 – Leases

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

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

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

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Use of estimates and judgements

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

(d) Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(b) Subsidiaries

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

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

(c) Joint arrangements

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

The group classifies its interests in joint arrangements as either:

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

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

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

– The structure of the joint arrangement;

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

– The contractual terms of the joint arrangement agreement; and

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill

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

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

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

(e) Property, plant and equipment

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

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

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

(f) Investment properties

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

(g) Properties under development

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

(h) Properties held for sale

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

(i) Capitalisation of borrowing costs

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments

(i) *Financial assets*

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

<u>Loans and receivables</u>

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

<u>Available-for-sale financial assets</u>

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

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

(ii) *Impairment loss on financial assets*

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

For Loans and receivables investments

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

Available-for-sale investments

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

(iii) Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(iii) Financial liabilities (continued)

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

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

Financial liabilities at amortised cost

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

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

(iv) Effective interest method

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

(v) Equity instruments

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

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

(vi) Financial guarantee contracts

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(vii) Derecognition

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Revenue recognition

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

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

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

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

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

(m) Income taxes

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Income taxes (continued)

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

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

(n) Foreign currency

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution pension plan

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

(iii) Termination benefits

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

(p) Share-based payments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

- No longer exists or may have dec investment property under cost model;
- No longer exists or may have dec investment property under cost model;
- Investment in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)

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

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

(r) Provisions and contingent liabilities

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

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

(s) Leasing

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

The Group as lessor

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leasing (continued)

The Group as lessee

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

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

(t) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Related parties (continued)

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

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

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

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

(u) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

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

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

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

(b) Income taxes and deferred taxes

The Group is subject to taxation in the PRC and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(c) Land appreciation taxes

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

Those subsidiaries of the Company which are engaged in property development business in the PRC are subject to land appreciation taxes, which have been included in income tax expense in profit or loss. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with the relevant tax authorities in respect of certain property development projects. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and provision for land appreciation taxes in the period in which such determination is made.

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

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

(e) Prepayments/Deposits for proposed projects

Management of the Group assesses the carrying amounts of prepayments/deposits for proposed projects according to their recoverable amounts based on the realisability of these property development projects, taking into account estimated net sales values based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(f) Impairment of goodwill

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

Critical judgments in applying accounting policies are as follows:

(a) Consideration from disposal of Tianhe Project

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

(b) Acquisition of projects

During the year ended 31 December 2016 and 2017, the Group had several acquisitions of projects. The management makes judgement on whether the Group has controls over the investees and the rights are substantive in accordance with HKFRS10. The Group consolidated the investees in the consolidated financial statements if control is existed. The Group classified the amounts paid as deposits if the Group did not obtain the control.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, other than the operations in the youth community developments which currently do not bear operating results, assets or liabilities of significance to the Group, the Group is operating in three principal operating divisions, i.e. property development, property investment and property management services. As management of the Group considers that nearly all consolidated revenue are attributable to the markets in the People's Republic of China (the "**PRC**") and consolidated non-current/current assets are substantially located in the PRC, no geographical information is presented. The Group's reportable segments are as follows:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING (continued)

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

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Total *RMB'000*
Year ended 31 December 2017				
Segment revenue				
Reportable segment revenue	4,042,763	25,504	42,146	4,110,413
Elimination of intra-segment revenue	–	(7,895)	(22,004)	(29,899)
Consolidated revenue from external customers	4,042,763	17,609	20,142	4,080,514
Segment results	655,580	6,767	(23,332)	639,015
Reconciliation:				
Unallocated other revenue				17,380
				656,395
Fair value changes in investment properties	–	35,701	–	35,701
Gain on properties valuation	–	353,351	–	353,351
Loss on early repayment of term loans				(23,418)
Fair value changes in derivative financial asset/liabilities				13,080
Finance costs				(33,088)
Finance income				36,483
Consolidated profit before income tax				1,038,504
Other segment information:				
Depreciation and amortisation	(1,786)	(768)	(1,777)	(4,331)
Additions to properties held for/ under development	2,505,692	–	–	2,505,692
Capital expenditure	3,476	–	340	3,816
As at 31 December 2017				
Assets and liabilities				
Assets				
Reportable segment assets	10,427,908	1,850,264	40,556	12,318,728
Reconciliation:				
Derivative financial assets				46,144
Available-for-sale investment				10,000
Short-term investments				100,000
Deferred tax assets				18,142
Cash and cash equivalents				2,983,799
Unallocated restricted and pledged deposits				456,511
Unallocated corporate assets				
– Leasehold land and building				190,409
– Other corporate assets				128,721
Consolidated total assets				16,252,454
Liabilities				
Reportable segment liabilities	10,913,563	64,145	19,434	10,997,142
Reconciliation:				
Income tax payable				137,192
Deferred tax liabilities				253,388
Derivative financial liabilities				12,333
Unallocated bank and other borrowings				2,463,795
Unallocated corporate liabilities				9,977
Consolidated total liabilities				13,873,827

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING (continued)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING (continued)

Information about major customers

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

	2017	2016
	RMB'000	*RMB'000*
HNA Hotel *(Note)*	–	1,115,557

Note: Revenue from sale of properties in Tianhe Project

None of the customers of the Group contributed more than 10% of the Group's revenue for the year ended 31 December 2017.

7. REVENUE

Revenue represents the amounts arising on sales of properties, rental income from the operating leases of investment properties and provision of property management services. The amounts of each significant category of revenue recognised during the year are as follows:

	2017	2016
	RMB'000	*RMB'000*
Sale of properties	**4,042,763**	1,471,268
Rental income	**17,609**	16,576
Property management services	**20,142**	20,127
	4,080,514	1,507,971

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. FINANCE COSTS AND INCOME

	2017	2016
	RMB'000	*RMB'000*
Finance costs:		
Interest on bank and other borrowings	**314,888**	203,207
Less: Amount capitalised as properties under development		
Interest on bank and other borrowings	**(281,822)**	(200,169)
	33,066	3,038
Other borrowing costs	**17,725**	14,041
Less: Amount capitalised as properties under development	**(17,703)**	(14,028)
	22	13
Finance costs charged to profit or loss	**33,088**	3,051
Finance income:		
Bank interest income	**24,953**	24,876
Interest income on short-term investments	**8,884**	6,325
Interest income on loan to a non-controlling shareholder of a subsidiary	**2,646**	1,570
Finance income credited to profit or loss	**36,483**	32,771

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 8.4% (2016: 9.0%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

9. PROFIT BEFORE INCOME TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of properties sold		**3,054,029**	1,186,772
Write-down of properties under development/ properties held for sale		**131,299**	–
Cost of inventories recognised in profit or loss		**3,185,328**	1,186,772
Staff costs, including directors' emoluments	*10*	**132,701**	102,344
Auditor's remuneration			
– current year		**1,206**	1,382
– non-audit services		**–**	548
Depreciation of property, plant and equipment	*16*	**13,460**	13,731
Less: Amount capitalised as properties under development	*22*	**(127)**	(139)
Depreciation charged to profit or loss		**13,333**	13,592
Amortisation of leasehold land	*16*	**3,407**	3,407
Depreciation and amortisation charged to profit or loss		**16,740**	16,999
Minimum lease payments under operating lease in respect of:			
– rented other premises		**1,136**	320
Unrealised exchange (gain)/loss		**(111,909)**	97,231
Impairment loss on trade and other receivables		**–**	167
Direct operating expenses arising from investment properties that generated rental income		**2,630**	2,475
Direct operating expenses arising from investment properties that did not generate rental income		**48**	234

10. STAFF COSTS

	2017 RMB'000	2016 RMB'000
Staff costs (including directors' emoluments) comprise:		
Basic salaries and other benefits	**105,444**	95,815
Bonuses	**62,281**	46,423
Equity-settled share-based payment expenses	**6,185**	9,596
Contributions to defined contribution pension plans	**6,165**	5,262
	180,075	157,096
Less: Amount capitalised as properties under development	**(47,374)**	(54,752)
Staff costs charged to profit or loss	**132,701**	102,344

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. DIRECTORS' EMOLUMENTS

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

	Fees	Salaries and other benefits	Bonuses	Equity-settled share-based payment expenses	Contributions to defined contribution pension plan	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note (a))	*(note (b))*			
2017						
Executive directors						
YU Pan	**–**	**2,228**	**691**	**–**	**16**	**2,935**
WEN Xiaobing	**104**	**1,747**	**913**	**809**	**73**	**3,646**
WONG Lok	**–**	**231**	**–**	**–**	**11**	**242**
JIANG Jing (resigned on 25 April 2017)	**35**	**238**	**–**	**–**	**23**	**296**
Non-executive director						
LI Weijing (appointed on 7 August 2017)	**–**	**–**	**–**	**–**	**–**	**–**
ZHONG Guoxing (resigned on 20 July 2017)	**–**	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors						
CHOY Shu Kwan	**209**	**–**	**–**	**52**	**–**	**261**
CHENG Wing Keung, Raymond	**209**	**–**	**–**	**52**	**–**	**261**
CHUNG Lai Fong	**209**	**–**	**–**	**52**	**–**	**261**
	766	**4,444**	**1,604**	**965**	**123**	**7,902**
2016						
Executive directors						
YU Pan	–	2,104	795	–	15	2,914
WEN Xiaobing	102	1,747	691	1,164	68	3,772
WONG Lok	–	226	–	–	11	237
JIANG Jing	102	755	63	–	68	988
Non-executive director						
ZHONG Guoxing	–	–	–	–	–	–
Independent non-executive directors						
CHOY Shu Kwan	205	–	–	133	–	338
CHENG Wing Keung, Raymond	205	–	–	133	–	338
CHUNG Lai Fong	205	–	–	133	–	338
	819	4,832	1,549	1,563	162	8,925

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. DIRECTORS' EMOLUMENTS (continued)

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

Notes:

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

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

(c) Mr. WEN Xiaobing acted as chief executive of Guangzhou head office and his emoluments for the year are not included in note 12 below.

(d) Equity-settled share-based payment represents the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share option is estimated according to the accounting policies for share-based payments as set out in Note 37 to the financial statements. Further details of the options granted are set out in Note 37.

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

12. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group during the year, one (2016: two) is/are Director whose emoluments is/are included in note 11 above. The emoluments of the remaining four (2016: three) are as follows:

	2017	2016
	RMB'000	*RMB'000*
Basic salaries and other benefits	**6,306**	4,412
Bonuses	**9,610**	2,966
Equity-settled share-based payment expenses	**2,137**	3,326
Contributions to defined contribution pension plans	**233**	152
	18,286	10,856

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. FIVE HIGHEST PAID INDIVIDUALS (continued)

Their emoluments are within the following bands:

	Number of individuals	
	2017	2016
RMB2,926,001 to RMB3,344,000 (equivalent to HK$3,500,001 to HK$4,000,000)	**1**	1
RMB3,344,001 to RMB3,762,000 (equivalent to HK$4,000,001 to HK$4,500,000)	**–**	2
RMB4,180,000 to RMB4,597,000 (equivalent to HK$5,000,001 to HK$5,500,000)	**1**	–
RMB5,015,001 to RMB5,433,000 (equivalent to HK$6,000,001 to HK$6,500,000)	**2**	–

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

	Number of senior management	
	2017	2016
RMBNil to RMB836,000 (equivalent to HK$Nil to HK$1,000,000)	**–**	1
RMB836,001 to RMB1,254,000 (equivalent to HK$1,000,001 to HK$1,500,000)	**–**	1
RMB1,254,001 to RMB1,672,000 (equivalent to HK$1,500,001 to HK$2,000,000)	**2**	2
RMB2,090,001 to RMB2,508,000 (equivalent to HK$2,500,001 to HK$3,000,000)	**–**	1
RMB2,926,001 to RMB3,344,000 (equivalent to HK$3,500,001 to HK$4,000,000)	**2**	1
RMB3,344,001 to RMB3,762,000 (equivalent to HK$4,000,001 to HK$4,500,000)	**–**	2
RMB4,180,001 to RMB4,597,000 (equivalent to HK$5,000,001 to HK$5,500,000)	**1**	–
RMB5,015,001 to RMB5,433,000 (equivalent to HK$6,000,001 to HK$6,500,000)	**1**	–
RMB5,433,001 to RMB5,851,000 (equivalent to HK$6,500,001 to HK$7,000,000)	**1**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. INCOME TAX EXPENSE

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

	2017	2016
	RMB'000	*RMB'000*
Current tax		
Hong Kong profits tax	**–**	–
PRC corporate tax		
– current year	**198,341**	60,228
PRC LAT		
– current year	**170,814**	4,902
	369,155	65,130
Deferred tax		
PRC corporate tax		
– current year	**122,077**	(55,612)
Total income tax expenses	**491,232**	9,518

No provision for Hong Kong profits tax has been made for the year ended 31 December 2017 (2016: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2016: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2016: 25%) of the estimated assessable profits and withholding tax on dividend declared by a PRC subsidiary.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. INCOME TAX EXPENSE (continued)

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

	2017	2016
	RMB'000	*RMB'000*
Profit before income tax	**1,038,504**	95,757
Tax calculated at the applicable income tax rate of 25% (2016: 25%)	**259,626**	23,939
Effect of different tax rates of entities operating in other jurisdictions	**10,309**	8,212
Tax effect of expenses not deductible for tax purposes	**107,536**	219,514
Tax effect of revenue not subject to tax	**(10,214)**	(277,515)
Tax effect of gain on disposal of a subsidiary	**–**	(24,321)
Tax effect of tax losses not recognised	**(41,857)**	43,900
Tax effect of LAT	**104,233**	4,902
Tax effect on withholding tax arising on undistributed profits of the PRC subsidiaries	**39,975**	–
Under-provision in respect of prior years	**3,650**	2,897
Tax effect of other temporary differences not recognised	**18,455**	8,776
Others	**(481)**	(786)
Income tax expense	**491,232**	9,518

14. EARNINGS PER SHARE

The calculation of basic earnings per share amounts for the years ended 31 December 2017 and 2016 is based on the profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue and participating equity instruments during the years.

The calculation of the diluted earnings per share amounts for the years ended 31 December 2017 and 2016 is based on the profit for the year attributable to equity holders of the Company and the weighted average number of ordinary shares after adjustment for the effect if deemed exercise of all dilutive potential ordinary shares at no consideration at the beginning of the periods.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share option (2015 Scheme) (note 37(a)) as the exercise price of those options is higher than the average market price for shares for the year ended 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. EARNINGS PER SHARE (continued)

The effect of the outstanding convertible bonds (note 33) was not included in the computation of diluted earnings per share for the years ended 31 December 2017 and 2016 as it was anti-dilutive.

	2017	2016
	RMB'000	*RMB'000*
Profit for the purposes of basic and diluted earnings per share	**550,460**	92,918
	Number of shares	
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,616,535**	2,444,946
Effect of dilutive potential ordinary shares from share options (2005 Scheme) (note 37)	**5,247**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**2,621,782**	2,444,946
Basic	**RMB0.210**	RMB0.038
Diluted	**RMB0.210**	RMB0.038

15. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Final dividend proposed after the end of the year of HK$0.04 (approximately RMB0.03) per ordinary share (2016: Nil)	**78,543**	–

At the meeting held on 26 March 2018, the directors proposed a final dividend of HK$0.04 (approximately RMB0.03) (2016: Nil) per ordinary share of the Company for the year ended 31 December 2017. This proposed final dividend, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting, is not reflected as a dividend payable in the consolidated financial statements for the year ended 31 December 2017, but will be reflected as an appropriation for the year ending 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost				
At 1 January 2016	273,757	12,436	9,522	295,715
Additions	–	1,112	771	1,883
Disposal of subsidiaries	–	(486)	(866)	(1,352)
Written off/disposals	–	(29)	–	(29)
Exchange differences	5,325	282	155	5,762
At 31 December 2016 and at 1 January 2017	**279,082**	**13,315**	**9,582**	**301,979**
Additions	**–**	**6,759**	**2,514**	**9,273**
Written off/disposals	**–**	**(33)**	**–**	**(33)**
Exchange differences	**(5,504)**	**(292)**	**(251)**	**(6,047)**
At 31 December 2017	**273,578**	**19,749**	**11,845**	**305,172**
Accumulated depreciation				
At 1 January 2016	22,309	5,788	4,893	32,990
Disposal of subsidiaries	–	(377)	(363)	(740)
Depreciation for the year	9,395	2,677	1,659	13,731
Amortisation for the year	3,407	–	–	3,407
Written off/disposals	–	(29)	–	(29)
Exchange differences	977	146	107	1,230
At 31 December 2016 and at 1 January 2017	**36,088**	**8,205**	**6,296**	**50,589**
Depreciation for the year	**9,458**	**2,476**	**1,526**	**13,460**
Amortisation for the year	**3,407**	**–**	**–**	**3,407**
Written off/disposals	**–**	**(33)**	**–**	**(33)**
Exchange differences	**(1,403)**	**(197)**	**(148)**	**(1,748)**
At 31 December 2017	**47,550**	**10,451**	**7,674**	**65,675**
Net book value				
At 31 December 2017	**226,028**	**9,298**	**4,171**	**239,497**
At 31 December 2016	242,994	5,110	3,286	251,390

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

17. INVESTMENT PROPERTIES

	2017 *RMB'000*	2016 *RMB'000*
At beginning of year	**588,370**	570,058
Transfer from properties held for sale	**125,649**	–
Gain on valuations	**353,351**	–
Changes in fair value	**35,701**	10,051
Exchange differences	**(8,671)**	8,261
At end of year	**1,094,400**	588,370

Details of assessment of the fair value are set out in Note 24.

18. GOODWILL

	2017 *RMB'000*	2016 *RMB'000*
Cost		
At beginning of year	**68,664**	68,664
At end of year	**68,664**	68,664
Accumulated impairment loss		
At beginning of year	**55,110**	55,110
At end of year	**55,110**	55,110
Net book value		
At end of year	**13,554**	13,554

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

Project	**Attributable CGU**	2017 *RMB'000*	2016 *RMB'000*
Zhoutouzui Project	Property development *(Note)*	**13,554**	13,554

Note: Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition in 2007. The carrying amount of property development costs in relation to the properties being under construction in Zhoutouzui Project is included in properties under development and properties held for sale (as disclosed in note 22 and 23).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. GOODWILL (continued)

Impairment test for goodwill

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

Key assumptions are as follows:

CGU	Discount rate	Pre-tax operating margin
2017		
Property development	**8.55%**	**48.75%**
2016		
Property development	8.00%	51.20%

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

No impairment loss is provided for the year ended 31 December 2017 (2016: Nil). The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates sufficient cashflow projection that justifies the carrying value of the goodwill. Hence, the management did not consider impairment of goodwill necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

19. AVAILABLE-FOR-SALE INVESTMENT

	2017	2016
	RMB'000	*RMB'000*
Investment funds, at fair value	**10,000**	10,000

The available-for-sale investment is denominated in RMB and there is no public market for the investments. The fair value is based on net asset value of the investment funds at the end of the reporting period. During the year ended 31 December 2017, no change in fair value was recognised in other comprehensive income and to be accumulated in the investment revaluation reserve.

20. JOINT ARRANGEMENT

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

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

Under the terms of the agreement entered into by the parties, (i) GZ Zhoutouzui is obligated for the investment of 100% of the capital of and provided financial support to GZ Yucheng; and (ii) another party, 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) ("**Port Authority**"), is entitled to 28% of the total gross floor area of the project upon completion of the development (being agreed to be the entire block of Tower A4 and certain residential units in Tower A5) and after then, Port Authority will not be entitled to any profit or loss generated by GZ Yucheng; and (iii) GZ Zhoutouzui is entitled to 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated or incurred by GZ Yucheng. GZ Zhoutouzui is also entitled to all assets other than the 28% properties to be allocated to Port Authority, and obliged to bear all the liabilities of GZ Yucheng under the arrangement.

In December 2017, Port Authority acknowledged the transfer of the rights of use of these property units in Tower A4 and delegated GZ Yucheng to sell the residential units in Tower A5.

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. CONSIDERATIONS RECEIVABLE

a. Disposal of Tianhe Project

	Gross consideration *RMB'000*	(Settled)/Paid *RMB'000*	**2017** ***RMB'000***	2016 *RMB'000*
Gross sale consideration for the equity interest and net assets of subsidiary disposed	1,128,273	(1,128,273)	–	140,000
Less: Development costs and finance costs borne by the Group	(20,000)	20,000	–	–
Amortised cost, amount due within one year	1,108,273	(1,108,273)	–	140,000

The receivable relates to the sale consideration receivable from the purchaser for the disposal of the equity interest in a subsidiary which is engaged in the development of Tianhe Project. The amount of approximately RMB140,000,000 represents the final instalment that is unsecured and interest-free and was fully settled in January 2017.

b. Disposal of Yongzhou Project

	Gross consideration *RMB'000*	(Settled)/Paid *RMB'000*	**2017** ***RMB'000***	2016 *RMB'000*
Gross sale consideration for the equity interest and net assets of Yongzhou Real Estate	277,223	(277,223)	–	137,401
Amortised cost, amount due within one year	277,223	(277,223)	–	137,401

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

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

22. PROPERTIES HELD FOR/UNDER DEVELOPMENT

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

	2017	2016
	RMB'000	*RMB'000*
Land use rights *(Note)*	**1,734,123**	2,205,151
Premium paid for the acquisition of the interest of the land, demolition and settlement costs	**170,403**	649,883
Construction costs	**1,770,152**	4,214,393
Others	**392,923**	1,062,760
	4,067,601	8,132,187
Less: Accumulated write-down in value	**(27,151)**	–
	4,040,450	8,132,187
Representing:		
Properties held for development	**488,072**	161,160
Properties under development	**3,552,378**	7,971,027
	4,040,450	8,132,187

Note:

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

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

	2017	2016
	RMB'000	*RMB'000*
At beginning of year	**8,132,187**	6,159,277
Additions		
– Capitalisation of depreciation of property, plant and equipment	**127**	139
– Capitalisation of finance costs	**295,539**	214,197
– Land and other development costs	**2,500,590**	2,298,695
	2,796,256	2,513,031
Completed properties transferred to properties held for sale	**(6,860,842)**	(540,121)
Write down of properties under development	**(27,151)**	–
At end of year	**4,040,450**	8,132,187

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. PROPERTIES HELD FOR SALE

	2017 RMB'000	2016 RMB'000
Completed properties held for sale	**3,984,040**	177,228
Less: Transfer to investments properties	**(125,649)**	–
Less: Write-down of properties held for sale	**(104,148)**	–
	3,754,243	177,228

All completed properties held for sale as at 31 December 2017 were located in the PRC.

Note:

Write down of the carrying values of RMB104,148,000 in respect of properties held for sale in Nanning Skyfame Garden Project to pre-agreed prices as contracted with local government for properties purchased by government for the resettlement of original occupants of the project site and residents in shanty dwellings nearby the project.

24. ANALYSIS OF PROPERTIES

(a) The analysis of the net book values of properties held for sale, leasehold land and building for self-use and fair value of investment properties is as follows:

	2017 RMB'000	2016 RMB'000
Land lease in the PRC and Hong Kong		
– Investment properties	**1,094,400**	588,370
– Leasehold land and building	**226,028**	242,994
– Properties held for sale	**3,754,243**	177,228
	5,074,671	1,008,592

(b) The Group's properties held for sale, investment properties and leasehold land and building were revalued as at 31 December 2017 and 31 December 2016. The valuations were carried out by Cushman & Wakefield International Properties Advisers (Guangzhou) Co., Ltd. and RHL Appraisal Limited, independent valuers who hold recognised and relevant professional qualifications and have relevant experience in the location and category of the completed properties being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(c) The Group's investment properties and leasehold land and building with carrying amounts as disclosed in note 43 are pledged to secure bank borrowings of the Group, as disclosed in note 33(a), at the end of the reporting period.

(d) For the year ended 31 December 2017, the rental income from investment properties amounted to RMB17,609,000 (2016: RMB16,514,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

24. ANALYSIS OF PROPERTIES (continued)

(e) Fair value

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

Nature	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
2017				
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalisation approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB417 sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.
2016				
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalisation approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB416/sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

24. ANALYSIS OF PROPERTIES (continued)

(e) Fair value (continued)

The fair value of investment properties in the PRC as at 31 December 2017 and 31 December 2016 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy.

Fair value measurements and valuation processes

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

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

	2017	2016
	RMB'000	*RMB'000*
Opening balance (level 3 recurring fair value)	**456,000**	448,000
Transfer from properties held for sale	**125,649**	–
Gains: included in other gains	**366,351**	8,000
Closing balance (level 3 recurring fair value)	**948,000**	456,000

25. LOAN TO NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

As at 31 December 2017, the balance is unsecured, interest bearing at floating rate referenced to 110% of the 1-year lending rate as quoted by the People's Bank of China and repayable in 2019 (2016: repayable in 2017).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

26. TRADE AND OTHER RECEIVABLES

	Notes	2017 RMB'000	2016 RMB'000
Current or less than 1 month		**1,370**	588
1 to 3 months		**380**	1,741
More than 3 months but less than 12 months		**542**	629
More than 1 year		**539**	387
Trade receivables from tenants and property occupants, net of impairment	*(a), (b)*	**2,831**	3,345
Refundable earnest money or payments made in project acquisitions		**–**	12,270
Receivable from district government for resettlement housing in a project		**52,272**	52,272
Sale proceeds kept by a monitoring governmental body		**195,910**	–
Unpaid up capital to be contributed by a non-controlling shareholder of a subsidiary		**38,689**	13,800
Refundable construction costs		**60,697**	57,730
Tender deposit in development project		**20,800**	20,800
Prepaid construction costs		**204,571**	240,032
Prepaid finance costs		**7,638**	9,750
Prepaid business taxes and surcharges		**315,918**	280,866
Maintenance funds paid on behalf of properties owners		**46,616**	45,943
Interest receivable on bank deposits/short-term investments		**–**	8,706
Other deposits, prepayments and other receivables	*(b)*	**254,850**	116,523
		1,200,792	862,037

Notes:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

26. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

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

	2017	2016
	RMB'000	*RMB'000*
1 to 3 months past due	**380**	1,741
More than 3 months but less than 12 months past due	**542**	629
More than 1 year past due	**539**	387
	1,461	2,757

The Group's trade receivables which are past due but not impaired relate to rent due by a number of tenants of the Group's properties for whom there is no recent history of default.

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

	2017	2016
	RMB'000	*RMB'000*
At beginning of year	**1,570**	1,403
Impairment loss recognised	–	167
At end of year	**1,570**	1,570

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

27. PREPAYMENTS/DEPOSITS FOR PROPOSED PROJECTS

The Group has entered into a number of contractual arrangements relating to remodelling certain old districts and other development projects. The balances are progress payments made on acquisition of projects, refundable earnest money or payments made in project acquisitions. These prepayments/deposits would be converted into properties under development upon the completion of the contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

28. SHORT-TERM INVESTMENTS

The Group invested in an insurance policy issued by a licensed insurance company on mainland China with investment value amounting to RMB100,000,000 as at 31 December 2017 which was used to secure a back-to-back letter of credit issued by a local bank in PRC to its overseas sub-branch. (2016: RMB NIL).

29. RESTRICTED AND PLEDGED DEPOSITS

	Notes	2017 RMB'000	2016 RMB'000
To secure for:			
– letter of credit issued by banks to guarantee repayment of money market loans	(a)	**456,511**	375,382
– the payment of construction cost of development projects	(b)	**856,520**	611,616
– others		**233**	292
		1,313,264	987,290

Notes:

(a) As at 31 December 2017, to secure a back-to-back letter of credit issued by a local bank in the PRC to an offshore bank to guarantee a subsidiary's repayment of the latter's money market loan facility HK$500,000,000 (approximately RMB418,049,000), a bank deposit of RMB456,511,000 was placed in the local bank in the PRC.

(b) The balance represents deposits received from buyers of pre-sold properties. These deposits are restricted to be used only to pay construction costs of the development projects and will be put for free use by the project companies upon completion of the relevant projects.

30. CASH AND CASH EQUIVALENTS

	2017 RMB'000	2016 RMB'000
Short-term bank deposits	**569,111**	437,473
Cash at bank and in hand	**3,727,952**	2,344,257
	4,297,063	2,781,730
Less: Restricted and pledged deposits *(Note 29)*	**(1,313,264)**	(987,290)
	2,983,799	1,794,440

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

31. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Current or less than 1 month	–	–
1 to 3 months	**628**	1,012
More than 3 months but less than 12 months	**736**	5
More than 12 months	**4**	2
Total trade payables	**1,368**	1,019
Construction costs payable	**1,081,148**	875,480
Tender receivable from the suppliers	**36,387**	49,287
Receipts in advance, rental and other deposits from buyers, customers and/or tenants	**27,140**	16,745
Receipts in advance from government on a project clearance	–	68,297
Resettlement payable	**15,726**	26,250
Accrued business taxes and surcharges	**47,696**	62,840
Other accrued expenses and other payables	**164,881**	90,607
	1,374,346	1,190,525

32. FINANCIAL GUARANTEE CONTRACT

(a) During the year ended 31 December 2017 and 31 December 2016, the Company provided corporate guarantees to secure for the repayment of a third party and subsidiaries' borrowings. The Directors consider that the exposure of these guarantees is minimal, and therefore no liabilities associated with the financial guarantee contracts are recognised as at 31 December 2017 and 31 December 2016.

(b) As at 31 December 2017, the Group provides guarantees to the extent of approximately RMB4,888,199,000 (2016: RMB3,406,943,000) in respect of credit facilities granted by certain banks relating to the mortgage loans arranged for some buyers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these buyers, the Group is responsible for repaying the outstanding mortgage principal, accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take legal action against the defaulted buyers for losses and take possession of the related properties from the defaulted buyers. Such guarantees shall terminate upon delivery of properties and issuance of relevant property ownership certificates to the property buyers. The management, with its assessment of the current and outlook of the market, perceives that the possibility of default in mortgage loans by home buyers is remote and, in the event of default, the liabilities caused to the Group will be minimal as the loss will be adequately mitigated by the proceeds recovered from the sales of the repossessed properties. Accordingly, no provision is made in the accounts for the financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

	Notes	2017 RMB'000	2016 RMB'000
Bank and other borrowings			
Secured bank borrowings:			
(i) term loans, revolving loans and construction loans	*(a)*	**1,710,527**	2,033,634
(ii) money market loans	*(b)*	**506,842**	375,905
Other secured borrowings:			
(i) trust loan	*(c)(i)(ii)*	**616,008**	–
(ii) secured loans	*(d)(i)(ii)*	**423,164**	486,209
(iii) secured bonds	*(d)*	**–**	35,455
Unsecured borrowings:			
(i) unsecured bonds	*(e)*	**1,018,754**	524,860
		4,275,294	3,456,063
At the end of the year, the maturity profile of the bank and other borrowings are as follows:			
On demand or within one year		**1,171,198**	1,067,634
More than one year, but not exceeding two years		**1,686,658**	685,891
More than two years, but not exceeding five years		**408,057**	1,153,908
After five years		**1,009,381**	548,630
		4,275,294	3,456,063
Amounts due within one year included in current liabilities		**(1,171,198)**	(1,067,634)
Amounts due after one year		**3,104,096**	2,388,429
Derivative financial asset			
– Company Redemption Rights on Unsecured Bonds	*(e)*	**(46,144)**	(9,022)
Derivative financial liabilities			
– Exchange Rights and Extension Rights on Secured Bonds	*(d)*	**–**	11,177
– Holder Redemption Rights on Unsecured Bonds	*(e)*	**12,333**	2,182
		12,333	13,359
Amounts due within one year included in current liabilities		**–**	(11,177)
Amounts due after one year		**12,333**	2,182

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Notes:

(a) At 31 December 2017, all the bank borrowings are secured by mortgages of ownership titles of properties under development and investment properties with an aggregate carrying amount of approximately RMB3,387,207,000 (2016: RMB2,785,621,000). The bank borrowings carry interest at variable market rates ranging from 2.50% to 8.5% per annum (2016: 2.50% to 6.50% per annum) as at 31 December 2017. In addition to mortgages, the Company also provides corporate guarantees to secure for the repayment of a term loans and a revolving loan with carrying values totaling approximately RMB153,018,000 (2016: RMB149,310,000), a term loans and construction loan of approximately RMB1,278,808,000 (2016: RMB1,223,400,000) are secured by the personal guarantee provided by Mr. YU Pan and/or his spouse.

In June 2016, a commercial bank loan from the Singapore branch of a foreign bank was drawn down by the Company in principal amount US$60,000,000 (approximately RMB392,052,000) which is secured by personal guarantee provided by Mr. YU Pan and a legal charge over 1,587,168,407 shares of the Company beneficially owned by Mr. YU Pan. The bank loan was amortised at the effective interest method by applying an effective interest rate at 13.81%. The loan was fully repaid on 8 September 2017 prior to its maturity.

Other than a term loan of approximately RMB61,180,000 (2016: RMB68,805,000) which is repayable by monthly instalments until 2033 and another term loan of RMB246,803,000 (2016: RMB269,076,000) which is payable by monthly instalments until 2026, other bank borrowings in an aggregate amount of approximately RMB1,402,544,000 (2016: RMB1,974,948,000) are repayable in the years between 2018 and 2019.

As at 31 December 2017, the carrying values of the aforesaid bank borrowings are RMB1,710,527,000 (2016: RMB2,033,634,000).

(b) As at 31 December 2017, the money market loans in aggregate of approximately RMB506,842,000 (2016: RMB375,905,000) extended by two banks in China were secured by bank deposits of RMB456,511,000 and carry fixed rate at 1.95% and 2.33% per annum (2016: fixed rate at 1.9% per annum) and short-term investment in an insurance policy of RMB100,000,000 that carries at 6-month Hibor plus 0.4% per annum, at 1.36% per annum.

(c) (i) As at 31 December 2017, some residential units developed in Zhoutouzui project with aggregate carrying amount of approximately RMB273,000,000 are mortgaged to a financial institution to secure a loan of principal amount RMB500,000,000 granted to a subsidiary by a trust company (the "**Trust Loan A**"). The Trust Loan A carries a fixed rate interest at 7% per annum and has a term of three years and is repayable on 29 August 2020.

(ii) As at 31 December 2017, trust loan of principal amount RMB114,000,000 (the "**Trust Loan B**") was provided by 四川信託有限公司 (Sichuan Trust Company Limited) to 徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited) ("**Xuzhou Yucheng**"), which is secured by the equity interest in Xuzhou Yucheng, the project company of Xuzhou Times City Project and some residential units developed in Nanning Skyfame Garden Project with aggregate carrrying amount of approximately RMB560,056,000. The Trust Loan B carries interest at rate of 11.0% per annum and has a term of one year, extendable for a maximum of two years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Notes: (continued)

(d) (i) A secured loan due 2019 in the principal amount of HK$500,000,000 (RMB417,950,000) (the "**Secured Loan A**") was drawn down on 25 July 2017. The Secured Loan A was amortised at the effective interest method by applying the effective interest rate of 11.39% per annum. The Secured Loan has a term of two years.

Pursuant to the share charge dated 27 July 2017, Fortunate Start Investments Limited, a wholly-owned subsidiary of the Company, holding 100% equity interest in Guangzhou Zhoutouzui Development Limited ("**GZ Zhoutouzui**"), the project company of Zhoutouzui project has charged all its rights, title and interest in GZ Zhoutouzui in favour of the lender to secure the repayment of the Secured Loan.

The Secured Loan is also secured by legal charge over 321,860,000 shares of the Company beneficially owned by Mr. Yu Pan and personal guarantee provided by Mr. Yu Pan and his spouse.

(ii) The term loan of HK$560,000,000 (RMB468,104,000) (the "**Loan**") drawn down and convertible bonds issued by the Company in principal amount of HK$40,000,000 (RMB33,436,000) (the "**Convertible Bonds**") in 2015 had been repaid and redeemed in full in 2017. The Loan bears interests at the rate of 10% per annum.

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

The movements of the Loan and Convertible Bonds are as follows:

	Loan *RMB'000*	Convertible Bonds *RMB'000*	**Total** ***RMB'000***
At 31 December 2016 and 1 January 2017	486,209	35,455	**521,664**
Accrued interest expense	23,045	2,953	**25,998**
Loss on . repayment	8,543	–	**8,543**
Early repayment on 25 April 2017	(497,168)	–	**(497,168)**
Repayment on 22 July 2017	–	(34,716)	**(34,716)**
Interest paid	(16,998)	(2,643)	**(19,641)**
Exchange differences	(3,631)	(1,049)	**(4,680)**
At 31 December 2017	–	–	**–**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Notes: (continued)

(e) As at 31 December 2017, the Company has issued to some professional investors unsecured bonds respectively with the principal amounts in aggregate of HK$290,000,000 (RMB242,411,000) due on 12 September 2024 (the "**2024 Bonds**"), HK$80,000,000 (RMB66,872,000) due on 12 September 2025 (the "**2025 Bonds**"), HK$100,000,000 (RMB83,590,000) due on 12 September 2026 (the "**2026 Bonds**"), HK$10,000,000 (RMB8,359,000) due on 15 May 2027 (the "**2027 Bonds**"), HK$570,000,000 (RMB476,463,000) due on 14 November 2031 (the "**2031 Bonds**"), HK$960,000,000 (RMB802,464,000) due on 14 November 2032 (the "**2032 Bonds**"), HK$1,300,000,000 (RMB1,086,670,000) due on 14 November 2033 (the "**2033 Bonds**"), and HK$1,220,000,000 (RMB1,019,798,000) due on 16 June 2034 (the "**2034 Bonds**"). The 2024 Bonds, 2025 Bonds, 2026 Bonds and 2027 Bonds carry coupon interests at 7.5%, whilst the 2031 Bonds, 2032 Bonds, 2033 Bonds and 2034 Bonds carry coupon interests at 8.0% per annum. Interests chargeable on the bonds were payable in advance upon the issue of the bonds. In addition to the coupon interests, the bonds are subject to an annual interest of 0.1% per annum payable annually on 14 October (for the 2024 Bonds, 2025 Bonds and 2026 Bonds), 16 June (for the 2027 Bonds), 14 November (for the 2031 Bonds, 2032 Bonds and 2033 Bonds) and 16 June (for the 2034 Bonds) until maturity. The bonds were amortised at the effective interest method by applying the effective interest rates ranging from 10.92% to 13.14% per annum.

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

In 2016, the Company issued unsecured bonds in an aggregate principal amount of HK$100,000,000 (RMB83,590,000) due on 4 July 2019 (the "**2019 Bonds**"). The 2019 Bonds carry interest at the actual rate of 10% per annum, which are payable quarterly in arrears, and mature in 2019. The 2019 Bonds were amortised at the effective interest method by applying the effective interest rate of 11.46% per annum.

During the year, the Company has issued the unsecured bonds in an aggregate principal amount of HK$200,000,000 (approximately RMB167,180,000) ("**2019/2020 Bonds**"). The 2019/2020 Bonds carry interests at the actual rate of 5% per annum, payable quarterly in arrears, and will mature in 2019 and 2020. The 2019/2020 Bonds were amortised at the effective interest method by applying the effective interest rate from 13.69 to 14.07% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Notes: (continued)

(e) (continued)

On 15 December 2017, the Company entered into an agreement to appoint a financial institution as an agent to place bonds issued by the Company in an aggregate principal amount up to HK$300 million. The bonds bear a term of three years at an annualised amortization rate of 12.11%. Up to 31 December 2017, no bonds have been issued pursuant to the placing agreement.

The movements of the bonds are as follows:

	2016 Bonds	2019 Bonds	2019/2020 Bonds	2024 Bonds	2025 Bonds	2026 Bonds	2027 Bonds	2031 Bonds	2032 Bonds	2033 Bonds	2034 Bonds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nominal value	**–**	**100,000**	**200,000**	**290,000**	**80,000**	**100,000**	**10,000**	**570,000**	**960,000**	**1,300,000**	**1,220,000**	**4,830,000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Nominal value	**–**	**83,590**	**167,180**	**242,411**	**66,872**	**83,590**	**8,359**	**476,463**	**802,464**	**1,086,670**	**1,019,798**	**4,037,397**
Liability component of carrying amount												
At 31 December 2015 and 1 January 2016	83,092	–	–	86,157	–	–	–	79,462	2,474	–	–	251,185
Issue of the bonds, net of transaction costs	–	76,597	33,819	–	64,374	25,294	–	–	760,682	211,869	–	1,172,635
Repayment	(83,982)	–	–	–	–	–	–	–	–	–	–	(83,982)
Discounts and interest paid	(3,152)	(2,170)	–	(248)	(40,753)	(16,856)	–	(498)	(635,189)	(179,952)	–	(878,818)
Accrued interest expense	3,844	5,495	440	11,336	1,016	3	–	9,988	5,432	10	–	37,564
Exchange differences	198	3,618	862	6,306	1,549	215	–	5,793	7,333	402	–	26,276
At 31 December 2016 and 1 January 2017	**–**	**83,540**	**35,121**	**103,551**	**26,186**	**8,656**	**–**	**94,745**	**140,732**	**32,329**	**–**	**524,860**
Reclassified		**6,970**	**3,399**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10,369**
Issue of the bonds, net of transaction costs	**–**	**–**	**106,144**	**–**	**–**	**59,423**	**8,718**	**–**	**–**	**981,602**	**1,190,198**	**2,346,085**
Repayment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Discounts and interest paid	**–**	**(8,749)**	**(2,361)**	**(246)**	**(68)**	**(38,568)**	**(5,823)**	**(485)**	**(817)**	**(825,851)**	**(1,005,560)**	**(1,888,528)**
Accrued interest expense	**–**	**8,458**	**8,311**	**12,819**	**3,141**	**2,656**	**86**	**11,206**	**16,780**	**15,040**	**3,136**	**81,633**
Exchange differences	**–**	**(5,815)**	**(6,385)**	**(7,200)**	**(1,818)**	**(1,827)**	**(109)**	**(6,566)**	**(9,757)**	**(11,414)**	**(4,774)**	**(55,665)**
At 31 December 2017	**–**	**84,404**	**144,229**	**108,924**	**27,441**	**30,340**	**2,872**	**98,900**	**146,938**	**191,706**	**183,000**	**1,018,754**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

34. DEFERRED TAX ASSETS/LIABILITIES

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

				Revaluation of properties			
	Land appreciation tax	Tax losses	Withholding tax	Leasehold land and building	Investment properties	Properties under development	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	–	–	–	6,296	85,877	76,608	168,781
Charged to profit or loss	(20,727)	(36,626)	–	(259)	2,000	–	(55,612)
At 31 December 2016 and at 1 January 2017	**(20,727)**	**(36,626)**	**–**	**6,037**	**87,877**	**76,608**	**113,169**
(Credit)/charged to profit or loss	**2,585**	**36,626**	**39,975**	**(259)**	**91,588**	**(48,438)**	**122,077**
At 31 December 2017	**(18,142)**	**–**	**39,975**	**5,778**	**179,465**	**28,170**	**235,246**

As at 31 December 2017, the Group have estimated unutilised tax losses of approximately RMB122,577,000 (2016: RMB321,486,000) for offsetting against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses include a balance of RMB77,048,000 (2016: RMB140,778,000) which may be carried forward indefinitely, and the remaining balance of RMB45,529,000 (2016: RMB180,708,000) will expire in five years.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profits of the PRC subsidiaries as the Group considered the temporary differences will reverse in the foreseeable future upon declaration of dividends of subsidiaries and associates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. SHARE CAPITAL

(a) Authorised and issued share capital

	Notes	Number of shares Ordinary share capital of HK$0.01 each '000	Nominal value Ordinary share capital of HK$0.01 each *HK$'000*	Equivalent nominal value of ordinary share capital of HK$0.01 each *RMB'000*
Authorised:				
At 31 December 2016 and 2017		**30,000,000**	**300,000**	**311,316**
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At 1 January 2016		2,216,531	22,165	21,068
Issue and allotment of placing shares	*(i)*	400,000	4,000	3,388
At 31 December 2016 and 1 January 2017		**2,616,531**	**26,165**	**24,456**
Shares issued under share option scheme	*(ii)*	**1,566**	**16**	**13**
At 31 December 2017		**2,618,097**	**26,181**	**24,469**

Note:

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

(ii) During the year ended 31 December 2017, 1,556,000 options with exercise price of HK$1.082 were exercised to subscribe for 1,566,000 ordinary shares in the Company at a consideration of HK$1,684,000 (equivalent to approximately RMB1,448,000) of which RMB13,000 was credited to share capital and the balance of RMB1,435,000 was credited to share premium. RMB727,000 transferred from the share-based payment reserve to the share premium account in accordance with policy set out in note 4.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. SHARE CAPITAL (continued)

(b) Capital management policy

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

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

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

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

	2017	2016
	RMB'000	*RMB'000*
Total debt	**4,287,627**	3,469,422
Less: restricted bank deposits backing up the money market loans	**(456,511)**	(375,382)
Less: cash and cash equivalents	**(2,983,799)**	(1,794,440)
Net debt	**847,317**	1,299,600
Equity attributable to owners	**2,326,029**	1,765,109
Capital plus net debt	**3,173,346**	3,064,709
Gearing ratio (Net debt/Capital plus net debt)	**26.7%**	42.4%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RESERVES

	Share premium	Contributed surplus reserve	Share-based payment reserve	Property revaluation reserve	Merger reserve	Statutory reserves	Foreign exchange reserve	Other/ capital reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	1,507,182	16,116	10,576	34,499	(293,095)	6,471	(1,303)	743	201,683	1,482,872
Issue of shares: Share placing	159,217	–	–	–	–	–	–	–	–	159,217
Share issue expenses	(3,812)	–	–	–	–	–	–	–	–	(3,812)
Recognition of equity-settled share-based payment expenses	–	–	9,596	–	–	–	–	–	–	9,596
Reallocation of lapsed options from share-based payment reserve to retained profits	–	–	(994)	–	–	–	–	–	994	–
Exchange differences arising on foreign operations	–	–	–	–	–	–	(138)	–	–	(138)
Transfer among reserves	–	–	–	(34,499)	–	–	–	–	34,499	–
Profit for the year	–	–	–	–	–	–	–	–	92,918	92,918
As at 31 December 2016 and at 1 January 2017	**1,662,587**	**16,116**	**19,178**	**–**	**(293,095)**	**6,471**	**(1,441)**	**743**	**330,094**	**1,740,653**
Issue of shares: Exercise of share options	**2,162**	**–**	**(727)**	**–**	**–**	**–**	**–**	**–**	**–**	**1,435**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**6,185**	**–**	**–**	**–**	**–**	**–**	**–**	**6,185**
Exchange differences arising on foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**2,827**	**–**	**–**	**2,827**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**550,460**	**550,460**
At 31 December 2017	**1,664,749**	**16,116**	**24,636**	**–**	**(293,095)**	**6,471**	**1,386**	**743**	**880,554**	**2,301,560**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RESERVES (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(a) 2005 Scheme

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(a) 2005 Scheme (continued)

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

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

(b) 2015 Scheme

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(b) 2015 Scheme (continued)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(b) 2015 Scheme (continued)

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

				During the year ended 31 December 2016				During the year ended 31 December 2017			
Date of grant	Exercise period	Adjusted exercise price per share	Number of options outstanding at 1 January 2016	Options granted	Options exercised	Options lapsed/ cancelled	Number of options outstanding at 31 December 2016 and 1 January 2017	Options granted	Options exercised	Options lapsed	Number of options outstanding at 31 December 2017
								(Note)			
11 August 2011	11 August 2012 to 10 August 2021	HK$0.6714	5,942,929	–	–	–	5,942,929	–	–	–	**5,942,929**
11 August 2011	11 August 2015 to 10 August 2021	HK$0.6714	5,942,930	–	–	–	5,942,930	–	–	–	**5,942,930**
11 August 2011	11 August 2018 to 10 August 2021	HK$0.6714	5,942,932	–	–	–	5,942,932	–	–	–	**5,942,932**
			17,828,791	–	–	–	17,828,791	–	–	–	**17,828,791**
26 June 2015	26 June 2016 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	(786,500)	–	**8,622,900**
26 June 2015	26 June 2017 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	(779,500)	–	**8,629,900**
26 June 2015	26 June 2018 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	–	–	**9,409,400**
26 June 2015	26 June 2019 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	–	–	**9,409,400**
26 June 2015	26 June 2020 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	–	–	**9,409,400**
26 June 2015	26 June 2021 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	–	–	**9,409,400**
26 June 2015	26 June 2022 to 25 June 2025	HK$1.0820	10,224,000	–	–	(880,400)	9,343,600	–	–	–	**9,343,600**
			72,000,000	–	–	(6,200,000)	65,800,000	–	(1,566,000)	–	**64,234,000**
			89,828,791	–	–	(6,200,000)	83,628,791	–	(1,566,000)	–	**82,062,791**
Weighted average exercise price			HK$1.0005	–	–	HK$1.0820	HK$0.9945	–	HK$1.0820	–	**HK$0.9928**
Analysis by category:											
Directors			16,213,097	–	–	–	16,213,097	–	–	–	**16,213,097**
Other employees			73,615,694	–	–	(6,200,000)	67,415,694	–	(1,566,000)	–	**65,849,694**
			89,828,791	–	–	(6,200,000)	83,628,791	–	(1,566,000)	–	**82,062,791**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

The estimated fair value of each option granted on 11 August 2011 and 26 June 2015 were HK$0.42 and HK$0.58 respectively. The following information is relevant in the determination of the fair value of options granted during the year under the 2005 Scheme and the 2015 Scheme:

	2005 Scheme
Option pricing model	Binomial Model
Date of grant	11 August 2011
Closing share price at the date of grant	HK$0.67
Exercise price per share	HK$0.70
Annual risk-free rate	1.84%
Expected volatility	74%
Life of the option	10 years
Expected dividend yield	NIL

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

The share options granted on 11 August 2011 and 26 June 2015 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	2005 Scheme Number of share options exercisable
From 11/8/2012 to 10/8/2021	33%
From 11/8/2015 to 10/8/2021	33%
From 11/8/2018 to 10/8/2021	34%
	100%

Option Exercise Period	2015 Scheme Number of share options exercisable
From 26/6/2016 to 25/6/2025	14.30%
From 26/6/2017 to 25/6/2025	14.30%
From 26/6/2018 to 25/6/2025	14.30%
From 26/6/2019 to 25/6/2025	14.30%
From 26/6/2020 to 25/6/2025	14.30%
From 26/6/2021 to 25/6/2025	14.30%
From 26/6/2022 to 25/6/2025	14.20%
	100.00%

The fair value of share options granted is recognised as employee costs with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods. The Group recognised RMB6,185,000 (2016: RMB9,596,000) (as disclosed in note 10), as equity-settled share-based payment expenses for the year ended 31 December 2017 in relation to share options granted by the Company.

The exercise price of options outstanding at the end of the year ranged between HK$0.9928 to HK$1.0820. During the year, 1,566,000share options were exercised, the weighted average share price at the date of exercise of option is HK$1.0820. The weighted average fair value of each option granted during the year was HK$0.53 (2016: HK$0.53).

The number of exercisable options as at 31 December 2017 is 29,138,659 (2016: 21,295,259) (granted in 2011 and 2015). The weighted average remaining contractual life of the outstanding options as at 31 December 2017 is 5.96 years (2016: 8.20 years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	2017 RMB'000	2016 RMB'000
Profit before income tax		**1,038,504**	95,757
Adjustments for:			
Finance costs		**33,088**	3,051
Finance income		**(36,483)**	(32,771)
Equity-settled share-based payment expenses		**6,185**	9,596
Depreciation of property, plant and equipment		**13,333**	13,592
Amortisation of leasehold land		**3,407**	3,407
Exchange loss, net		**(130,873)**	107,090
Fair value changes in financial derivative asset/ liabilities		**(13,080)**	(11,121)
Loss on early repayment of term loan		**23,418**	–
Impairment loss on trade and other receivables		**–**	167
Gain on disposal of subsidiaries	*38(c)*	**–**	(97,285)
Fair value changes in investment properties		**(35,701)**	(10,051)
Gain on properties valuation		**(353,351)**	–
Write-down of properties under development/ properties held for sale		**131,299**	–
Operating profit before working capital changes		**679,746**	81,432
Decrease in properties under Tianhe Project		**–**	786,168
Decrease/(increase) in properties under development		**4,619,167**	(2,392,906)
(Increase)/decrease in properties held for sale		**(3,806,812)**	359,460
Increase in trade and other receivables		**(1,116,372)**	(981,448)
Decrease/(increase) in consideration receivables from disposal of Tianhe Project and Yongzhou Project		**277,401**	(1,094,602)
(Decrease)/increase in trade and other payables		**(73,099)**	112,108
Increase in properties pre-sale deposits		**531,079**	3,595,842
Cash generated from operations		**1,111,110**	466,054
Income tax paid		**(138,596)**	(87,671)
Net cash from operating activities		**972,514**	378,383

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows from financing activities.

	Bank loans and other borrowings *(note 33)* *RMB'000*	**Derivative financial liabilities** *(note 33)* *RMB'000*
At 1 January 2017	3,456,063	13,359
Changes from cash flows:		
Addition	5,400,050	30,306
Repayment/Settlement	(2,587,677)	(16,197)
Interest paid	(1,935,918)	–
Other borrowing costs paid	(101,558)	–
Total changes from financing cash flows:	774,897	14,109
Exchange adjustments:	(146,075)	(816)
Changes in fair value:	–	(14,319)
Other changes:		
Interest expenses	166,991	–
Loss on early repayment of term loans	23,418	–
Total other changes	190,409	–
At 31 December 2017	4,275,294	12,333

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(c) Disposal of a subsidiary

Disposal of 70% interest in the Yongzhou Project

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

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

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

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

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

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

39. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

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

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

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

40. OPERATING LEASE COMMITMENTS

Lessee

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

	2017	2016
	RMB'000	*RMB'000*
Within one year	**2,062**	390

Lessor

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

	2017	2016
	RMB'000	*RMB'000*
Within one year	**12,806**	12,333
Later than one year but within five years	**28,409**	33,950
Later than five years	**–**	13,667
	41,215	59,950

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. COMMITMENTS

	2017	2016
	RMB'000	*RMB'000*
Expenditure contracted but not provided for in respect of		
– Property construction and development costs	**2,318,950**	2,246,094

42. CONTINGENT LIABILITIES

The Group had no other material contingent liabilities as at 31 December 2017 (2016: Nil).

43. PLEDGE OF ASSETS

As at 31 December 2017, the Group's assets with carrying amounts included in the following categories in the consolidated statement of financial position were pledged to secure credit facilities granted to the Group as disclosed in note 33:

	2017	2016
	RMB'000	*RMB'000*
Leasehold land and building	**190,409**	205,778
Investment properties	**615,400**	588,370
Properties under development	**2,847,096**	1,991,473
Properties held for sale	**567,658**	–
Short-term investments	**100,000**	–
Pledged deposits	**456,511**	375,382
	4,777,074	3,161,003

In addition, at the 31 December 2017, shares in certain subsidiaries of the Company were charged to secure the certain loan facilities were secured by corporate guarantees provided by the Company, personal guarantee provided by Mr. YU Pan and legal charge over shares beneficially owned by Mr. YU Pan, as disclosed in notes 33(a) and 33(d).

44. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties:

(a) Material transactions with related parties

Related party relationship	Type of transaction	2017 *RMB'000* Transaction amount	2016 *RMB'000*
Companies beneficially owned by Mr. YU Pan and his spouse	(i) Rental income received from office leasing	**111**	111
	(ii) Management fee paid to a related company	**(200)**	(200)
	(iii) Consideration received from disposal of Yongzhou Project	**137,401**	139,822

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

44. RELATED PARTY TRANSACTION (continued)

(b) Personal guarantee by the Chairman

As at 31 December 2017, Mr. YU Pan and a company controlled by him have provided personal guarantee and corporate guarantee to banks in respect of the loan facilities extended to some Company's subsidiaries as disclosed in notes 33(a) and 33(d)(i).

(c) Compensation of key management personnel

The remuneration of members of senior management, including Directors' emoluments as disclosed in note 11, incurred during the year is as follows:

	2017	2016
	RMB'000	*RMB'000*
Short-term benefits	**28,735**	20,908
Other long-term benefits	**566**	549
Equity-settled share-based payment expenses	**3,355**	5,249
	32,656	26,706

Members of senior management are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial assets of the Group mainly include available-for-sale investment, cash and cash equivalents, restricted and pledged deposits, consideration receivable, trade and other receivables, derivative financial asset, short-term investments and loan to a non-controlling shareholder of a subsidiary. Financial liabilities of the Group include bank and other borrowings, derivative financial liabilities and trade and other payables. The Group does not hold any financial instruments for trading purposes at the end of the reporting period.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(a) Foreign currency risk

The Group and the Company have transactional currency exposures. Such exposures arise from financing and operating activities of the group entities conducted in currencies other than the functional currency.

The carrying amounts of the Group's monetary assets/(liabilities) which are denominated in currencies other than the functional currencies of the respective group entities at the end of the reporting period are as follows:

	2017	2016
	RMB'000	*RMB'000*
Derivative financial asset		
– HK$	**46,144**	9,022
Cash and cash equivalents		
– US$	**69,072**	1,339
– HK$	**136,069**	15,706
Bank and other borrowings		
– US$	**–**	(391,849)
– HK$	**(2,102,053)**	(1,571,738)
Derivative financial liabilities		
– HK$	**(12,333)**	(13,359)

The following table demonstrates the effect of sensitivity to reasonably possible changes in US$ and HK$ exchange rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2017		2016	
	Change in exchange rate	**Increase (decrease) in loss after income tax**	Change in exchange rate	Increase (decrease) in loss after income tax
	%	***RMB'000***	%	*RMB'000*
If United States dollar weakens against Renminbi	**4%**	**(2,763)**	4%	15,620
If United States dollar strengthens against Renminbi	**4%**	**2,763**	4%	(15,620)
If Hong Kong dollar weakens against Renminbi	**4%**	**77,287**	4%	62,415
If Hong Kong dollar strengthens against Renminbi	**4%**	**(77,287)**	4%	(62,415)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk

The following table details the interest rate profile of the Group's financial assets and liabilities as at the end of the reporting period based upon which the Company's management evaluates the interest rate risk:

	2017		2016	
	Effective interest rate	**Amount**	Effective interest rate	Amount
	(% per annum)	***RMB'000***	*(% per annum)*	*RMB'000*
The Group				
Financial assets				
Fixed rate receivables				
– Available-for-sale investment	**8.00%**	**10,000**	8.00%	10,000
– Short term investments	**3.30%**	**100,000**	–	–
– Restricted and pledged deposits	**1.95% to 2.33%**	**456,511**	1.90%	375,382
Floating rate receivables				
– Loan to a non-controlling shareholder of a subsidiary	**4.79%**	**52,900**	4.79%	52,900
– Restricted and pledged deposits	**0.35%**	**856,753**	0.35%	611,908
– Other cash at bank	**0.01% to 0.35%**	**2,983,799**	0.01% to 0.35%	1,827,759
Financial liabilities				
Fixed rate borrowings				
– Other borrowings	**7.00% to 11.00%**	**2,057,926**	10.75% to 16.13%	1,438,373
Floating rate borrowings				
– Bank borrowings	**2.10% to 8.50%**	**2,217,368**	1.90% to 8.50%	2,017,690

The Group's exposure to interest rate risk for changes in interest rates primarily relates to the Group's restricted and pledged deposits, loan to a non-controlling shareholder of a subsidiary, cash at bank included in cash and cash equivalents and floating rate bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk of the Group's borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2017		2016	
	Increase/ (decrease) in basis points	**(Decrease)/ increase in loss after income tax** *RMB'000*	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax *RMB'000*
Floating rate financial assets				
Increase in floating rate	**100**	**38,814**	100	24,926
Decrease in floating rate	**(100)**	**(38,814)**	(100)	(24,926)
Floating rate financial liabilities				
Increase in floating rate	**500**	**(110,868)**	500	(100,885)
Decrease in floating rate	**(500)**	**110,868**	(500)	100,885

(c) Credit risk

The Group's exposure to credit risk arises from the considerations receivable and trade and other receivables. Management has performed in-depth due diligence reviews of the financial background and creditability of the counterparties who owe debts to the Group. All considerations receivable for the disposal of interests in Tianhe Project and Yongzhou Project were fully settled in due course pursuant to the disposal agreements.

Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount. At the end of the reporting period, there is no significant concentration of credit risk in trade and other receivables.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and restricted and pledged deposits, arises from possible default of the counterparty is low. At the end of the reporting period, the Group has placed these deposits with banks and financial institutions of high credit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(d) Liquidity risk

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

	Total undiscounted cashflow							
	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2017								
Trade and other payables	**9,105**	**139,123**	**1,226,118**	**–**	**–**	**–**	**1,374,346**	**1,374,346**
Bank and other borrowings	**153,018**	**161,719**	**1,086,993**	**1,911,904**	**524,237**	**3,940,451**	**7,778,322**	**4,275,294**
Guarantee for property mortgage	**4,888,199**	**–**	**–**	**–**	**–**	**–**	**4,888,199**	**–**
	5,050,322	**300,842**	**2,313,111**	**1,911,904**	**524,237**	**3,940,451**	**14,040,867**	**5,649,640**
2016								
Trade and other payables	3,578	236,218	950,729	–	–	–	1,190,525	1,190,525
Bank and other borrowings	149,310	416,694	695,074	839,102	1,255,881	2,116,422	5,472,483	3,456,063
Guarantee for property mortgage	3,406,943	–	–	–	–	–	3,406,943	–
	3,559,831	652,912	1,645,803	839,102	1,255,881	2,116,422	10,069,951	4,646,588

Note: As at 31 December 2017, the bank borrowings of the Group of approximately RMB506,842,000 (2016: RMB375,905,000), were secured by standby letters of credit issued by bank that were secured by the Group's bank deposits of RMB456,511,000 (2016: RMB375,382,000) and short-term investments of HK$100,000,000 maturing at the same time of the bank borrowing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The following table shows the carrying amount and fair value of financial assets and liabilities of the Group and the Company at the end of the reporting period:

	2017		2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivable				
– Trade and other receivables	**1,200,792**	***(Note)***	862,037	*(Note)*
– Deposits for proposed projects	**1,385,269**	***(Note)***	614,093	*(Note)*
– Available-for-sale investment	**10,000**	***(Note)***	10,000	*(Note)*
– Short-term investments	**100,000**	**(Note)**	–	–
– Loan to a non-controlling shareholder of a subsidiary	**52,900**	***(Note)***	52,900	*(Note)*
– Restricted and pledged deposits	**1,313,264**	***(Note)***	987,290	*(Note)*
– Cash and cash equivalents	**2,983,799**	***(Note)***	1,794,440	*(Note)*
Fair value through profit or loss				
– Derivative financial assets	**46,144**	**46,144**	9,022	9,022
Financial liabilities				
Financial liabilities at amortised costs				
– Trade and other payables	**1,374,346**	***(Note)***	1,190,525	*(Note)*
– Bank and other borrowings:				
the Secured Loans	**423,164**	***(Note)***	486,209	500,917
the Secured Bonds	**–**	**–**	35,455	36,355
the Unsecured Bonds	**1,018,754**	**914,527**	524,860	524,311
bank and other borrowings	**2,833,376**	***(Note)***	2,409,539	*(Note)*
Fair value through profit or loss				
– Derivative financial liabilities	**12,333**	**12,333**	13,359	13,359

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Note:

Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, deposits for proposed projects, available-for-sale investment, short-term investments, loan to a non-controlling shareholder of a subsidiary, restricted and pledged deposits, cash and cash equivalents, trade and other payables and bank and other borrowings.

The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at the end of the reporting period.

The fair value of bank and other borrowings issued for disclosure purposes has been determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions.

Financial instruments measured at fair value

The fair value of derivative financial assets/liabilities, are calculated using quoted prices. Where such prices are not available, option pricing models are used for option derivatives.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the liability that are not based on observable market data (unobservable inputs).

	2017	2016
	Level 3	Level 3
	RMB'000	*RMB'000*
Financial asset at fair value through profit or loss		
– Derivative	**46,144**	9,022
Financial liabilities at fair value through profit or loss		
– Derivatives	**12,333**	13,359

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Note: (continued)

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	Financial asset *RMB'000*	Financial liabilities *RMB'000*	**2017** ***RMB'000***	2016 *RMB'000*
At 1 January	(9,022)	13,359	**4,337**	12,536
Issue of the Secured/Unsecured Bonds	(41,289)	14,109	**(27,180)**	2,000
Total gains or losses:				
– Changes in fair value recognised in profit or loss during the year	1,239	(14,319)	**(13,080)**	(11,121)
– Exchange differences	2,928	(816)	**2,112**	922
At 31 December	(46,144)	12,333	**(33,811)**	4,337

During the year ended 31 December 2017, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Liabilities for which fair value are disclosed

	Valuation technique	Significant inputs	**2017 Level 3** ***RMB'000***	2016 Level 3 *RMB'000*
Bank and other borrowings				
– the Secured Loans	The hull-white trinomial tree	Discount rate and short-term volatility parameter	–	500,917
– the Secured Bonds	Discounted cash flow	Discount rate and bond yield	–	36,355
– the Unsecured Bonds	The hull-white trinomial tree	Discount rate and short-term volatility parameter	**914,527**	524,311

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Financial asset/ liabilities	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs *(Note)*	Relationship of unobservable inputs to fair value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Holder Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher discount rate, higher the holder redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the holder redemption rights
Financial assets at fair value through profit or loss	Derivative financial assets – Company Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher the discount rate, lower the company redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the company redemption rights

Note:

If the discount rate is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities/assets (Holder Redemption Rights and Company Redemption Rights) would decrease/increase by approximately RMB28,631,000 and RMB29,998,000 respectively as at 31 December 2017 (2016: RMB15,765,000 and RMB17,764,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Interests in subsidiaries		**2,962,429**	3,090,174
Derivative financial asset		**46,144**	9,022
		3,008,573	3,099,196
Current assets			
Amounts due from subsidiaries		**24,513**	24,090
Prepayments and other receivables		**21,492**	14,478
Cash and cash equivalents		**149,350**	4,697
		195,355	43,265
Current liabilities			
Accruals and other payables		**2,287**	1,933
Amounts due to subsidiaries		**–**	302,743
Bank and other borrowings – current portion		**506,842**	521,664
Derivative financial liabilities – current portion		**–**	11,177
Income tax payable		**55,830**	55,830
		564,959	893,347
Net current liabilities		**(369,604)**	(850,082)
Total assets less current liabilities		**2,638,969**	2,249,114
Non-current liabilities			
Other borrowings – non-current portion		**1,441,918**	916,709
Derivative financial liabilities – non-current portion		**12,333**	2,182
		1,454,251	918,891
Net assets		**1,184,718**	1,330,223
Capital and reserves			
Share capital		**24,469**	24,456
Reserves	*48*	**1,160,249**	1,305,767
Total equity		**1,184,718**	1,330,223

On behalf of the Board

Yu Pan
Director

Wen Xiaobing
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

48. RESERVES OF THE COMPANY

	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	1,507,182	16,116	10,576	(385,807)	1,148,067
Issue of shares: Share placing	159,217	–	–	–	159,217
Share issue expenses	(3,812)	–	–	–	(3,812)
Recognition of equity-settled share-based payment expenses	–	–	9,596	–	9,596
Reallocation of lapsed options from share-based payment reserve to accumulated losses	–	–	(994)	994	–
Loss for the year	–	–	–	(7,301)	(7,301)
As at 31 December 2016 and at 1 January 2017	**1,662,587**	**16,116**	**19,178**	**(392,114)**	**1,305,767**
Issue of shares: Exercise of share options	**2,162**	**–**	**(727)**	**–**	**1,435**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**6,185**	**–**	**6,185**
Loss for the year	**–**	**–**	**–**	**(153,138)**	**(153,138)**
At 31 December 2017	**1,664,749**	**16,116**	**24,636**	**(545,252)**	**1,160,249**

49. PRINCIPAL SUBSIDIARIES

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
Interests in subsidiaries – non-current portion			
Unlisted investments, at cost	*(a), (c)*	**2,962,429**	3,090,174
Amounts due from subsidiaries – current portion			
Amounts due from subsidiaries	*(b)*	**42,499**	42,076
Less: Provision for impairment loss		**(17,986)**	(17,986)
		24,513	24,090
		2,986,942	3,114,264
Amounts due to subsidiaries	*(b)*	**–**	(302,743)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

49. PRINCIPAL SUBSIDIARIES (continued)

Notes:

(a) Details of the Company's principal operating subsidiaries as at 31 December 2017 are as follows:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares / paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
廣州市創豪譽投資管理諮詢有限公司 (前稱廣州市創譽房地產有限公司) Guangzhou Chuanghaoyu Investment Management Consulting Company Limited* ("**Chuanghaoyu**")	PRC	United States dollar ("**US$**") 6,000,000	–	100%	Investment holding and property leasing
廣州市豪浚置業有限公司 (Guangzhou Haojun Realty Company Limited)*	PRC	RMB50,000,000	–	100%	Investment holding
廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)*	PRC	RMB53,000,000	–	100%	Property management services
廣州市天譽科技創新投資有限公司 (Guangzhou Tianyu Technology Innovative Company Limited)*	PRC	RMB50,000,000	–	70%	Provision of innovative technology operating services
廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited)* ("**GZ Yu Jun**")	PRC	HK$5,000,000	–	100%	Investment holding and provision of property development project management services in the PRC
Guangzhou Zhoutouzui Development Limited	Hong Kong	HK$100	–	100%	Investment holding
南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited)* ("**Nanning Jucheng**")	PRC	RMB50,000,000	–	80%	Property development in the PRC
南寧天譽巨榮置業有限公司 Nanning Tianyu Jurong Realty Company Limited)*	PRC	RMB50,000,000	–	100%	Property development in the PRC
南寧天譽譽浚投資有限公司 (Nanning Tianyu Yujun Investment Company Limited)*	PRC	RMB50,000,000	–	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

49. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(a) (continued)

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares / paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
Skyfame Management Services Limited	Hong Kong	HK$1	100%	–	Provision of management services to group entities
Trenco Holdings Limited	Hong Kong	HK$10,000	–	100%	Investment holding
Waymax Investments Limited	Hong Kong	HK$1	–	100%	Property investment
Winprofit Investments Limited	BVI	US$100	100%	–	Investment holding
徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited)* (“**Xuzhou Yucheng**”)	PRC	RMB138,000,000	–	90%	Property development in the PRC
徐州建譽置業有限公司 (Xuzhou Jianyu Realty Company Limited)* (“**Xuzhou Jianyu**”)	PRC	RMB311,500,000	–	92%	Property development in the PRC

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

Chuanghaoyu and GZ Yu Jun are wholly foreign-owned enterprises established with limited liability in the PRC.

Xuzhou Yucheng is a sino-foreign joint venture company established in PRC.

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

* *English name is for identification purpose only.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

49. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	Nanning Jucheng As at 31 December		YZ Tianyu Tourism As at 31 December		Xuzhou Yucheng As at 31 December		Xuzhou Jianyu As at 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Current								
Assets	**3,995,632**	4,572,035	**98,396**	98,811	**1,034,548**	181,456	**722,068**	–
Liabilities	**(4,058,387)**	(4,617,069)	**(350)**	(3)	**(615,392)**	–	**(411,474)**	–
	(62,755)	(45,034)	**98,046**	98,808	**419,156**	181,456	**310,594**	–
Non-current								
Assets	**610**	1,061	**4**	4	**439**	–	**–**	–
Liabilities	**–**	–	**–**	–	**(291,390)**	(43,506)	**–**	–
	610	1,061	**4**	4	**(290,951)**	(43,506)	**–**	–
Net assets/(liabilities)	**(62,145)**	(43,973)	**98,050**	98,812	**128,205**	137,950	**310,594**	–
Accumulated non-controlling interests	**(12,429)**	(8,794)	**29,414**	29,643	**12,821**	13,795	**24,816**	–

Summarised statement of profit or loss and other comprehensive income

	Nanning Jucheng For the year ended 31 December		YZ Tianyu Tourism For the year ended 31 December		Xuzhou Yucheng For the year ended 31 December		Xuzhou Jianyu For the year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**766,222**	276,265	**–**	–	**–**	–	**–**	–
Loss before income tax	**(16,606)**	(44,313)	**(4)**	(5)	**(24,350)**	(47)	**(906)**	–
Income tax credit/(expense)	**(12,305)**	–	**–**	–	**1,922**	–	**–**	–
Loss after tax and total comprehensive income	**(28,911)**	(44,313)	**(4)**	(5)	**(22,428)**	(47)	**(906)**	–
Loss allocated to non-controlling interests	**(5,781)**	(8,862)	**(1)**	(2)	**(2,243)**	(5)	**(72)**	–
Dividends paid to non-controlling interests	**(4,601)**	–	**–**	–	**–**	–	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

49. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

Summarised statement of cash flows

	Nanning Jucheng For the year ended 31 December		YZ Tianyu Tourism For the year ended 31 December		Xuzhou Yucheng For the year ended 31 December		Xuzhou Jianyu For the year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash flows from operating activities								
Cash generated from(used in)/from operations	**(593,212)**	744,208	**6,633**	7,609	**69,688**	(168,503)	**(631,395)**	–
Income tax paid	**(4,929)**	(33,122)	**–**	–	**(10,907)**	–	**–**	–
Other borrowing costs paid	**–**	–	**–**	–	**–**	–	**–**	–
Interest paid	**–**	(4,005)	**–**	–	**(3,986)**	–	**–**	–
Net cash from/(used in) from operating activities	**(598,141)**	707,081	**6,633**	7,609	**54,795**	(168,503)	**(631,395)**	–
Cash flows from investing activities								
Interest received	**3,134**	2,323	**1**	–	**270**	–	**4**	–
Disposal of a subsidiary, net of cash disposed of	**–**	–	**–**	–	**–**	–	**–**	–
Purchase of property, plant and equipment	**–**	(311)	**–**	–	**(528)**	–	**–**	–
Acquisitions of available-for-sale investment	**–**	(10,000)	**–**	–				
Acquisitions of short-term investments	**–**	–	**–**	–	**–**	–	**–**	–
Disposal of short term investments	**–**	–	**–**	–	**–**	–	**–**	–
Increase in restricted and pledged deposits	**46,902**	(78,610)	**–**	–	**–**	–	**–**	–
Net cash from/(used in) investing activities	**50,036**	(86,598)	**1**	–	**(258)**	–	**4**	–
Cash flows from financing activities								
New bank and other borrowings	**–**	–	**–**	–	**114,000**	–	**–**	–
Repayment of bank and other borrowings	**–**	–	**–**	–	**–**	–	**–**	–
Advance from/(repayment to) intermediate/ immediate holding company or fellow subsidiaries	**592,770**	(446,732)	**(6,622)**	(7,619)	**80,083**	43,486	**698,258**	–
Loan to shareholders	**–**	(162,500)	**–**	–	**–**	–	**–**	–
Capital contribution from shareholders	**–**	–	**–**	–	**–**	125,317	**–**	–
Net cash from/(used in) financing activities	**592,770**	(609,232)	**(6,622)**	(7,619)	**194,083**	168,803	**698,258**	–
Net increase/(decrease) in cash and cash equivalents	**44,665**	11,251	**12**	(10)	**248,620**	300	**66,867**	–
Cash and cash equivalents at beginning of year	**69,735**	58,484	**5**	15	**300**	–	**–**	–
Cash and cash equivalents at the end of year	**114,400**	69,735	**17**	5	**248,920**	300	**66,867**	–

The information above is the amount before inter-company eliminations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

50. SUBSEQUENT EVENT

1. On 13 March 2018, 廣州創富置業有限公司 (Guangzhou Chuangfu Realty Company Limited*) ("**GZ Chuangfu**"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with the vendor for the acquisition of 79% of equity interest in 重慶核盛房地產開發有限公司 (Chongqing Hesheng Real Estate Development Company Limited*) ("**CQ Hesheng**"), a company incorporated in the PRC ("**Acquisition 1**"). CQ Hesheng is currently engaged in the development of two parcels of land under six land use right certificates covering an aggregate GFA of 1,204,000 sq.m situate in a central district in the city of Chongqing (the "**Chongqing Project**"). The detailed terms of the acquisition are set out in a framework agreement, dated 25 January 2018, entered into with the vendor and others which are to be completed in two phrases (the "**Framework Agreement**"). The total consideration in Acquisition 1 amounted to RMB4,677,338,900, being RMB434,500,000 for the acquisition of 79% equity interest in CQ Hesheng and settlement of a shareholder's loan due to the vendor by GZ Chuangfu at a principal value of RMB4,074,760,000 and outstanding interests of RMB168,078,900 accrued up to 20 December 2017 (subject to an adjustment to accrue additional interests up to the date of full repayment of the shareholder's loan), payable in cash by five tranches, the last one taking place on 180 days after the completion of Acquisition. The completion of the Framework Agreement is subject to the fulfillment of certain conditions, whereupon GZ Chuangfu will commence the process of a step-up acquisition for the remaining 1% equity interest in CQ Hesheng at a consideration of RMB5,500,000. On the date of this annual report, a payment of RMB434,500,000 was paid to the vendor as the consideration for the 79% equity interest.

   Retrospectively on 7 January 2018, GZ Chuangfu also entered into agreement with another vendor to acquire 20% equity interest in CQ Hesheng at a total consideration of RMB160,000,000. The acquisition transaction is to be completed and consideration payable by three phases. The first phase of acquisition of 1% equity is payable at a consideration of RMB5,500,000, the second phase for 11% equity at RMB60,500,000 and the last phase for 8% at RMB94,000,000. On the date of this annual report, a total amount of RMB66,000,000 has been paid by GZ Chuangfu of which RMB5,500,000 was paid for the 1% equity interest and the related transaction has been completed on 29 January 2018. The other RMB60,500,000 has been paid into a bank account co-managed by the vendor and GZ Chuangfu, and the 11% equity interest of CQ Hesheng are pledged in favour of GZ Chuangfu. The fund will be released as consideration for the 11% equity interest transfer upon the completion of Acquisition 1. The last payment of RMB94,000,000 is due 300 days after the completion of Acquisition 1. When all the acquisitions are completed, the total consideration of the acquisitions for the entire equity interest in CQ Hesheng and shareholder's loan totaling RMB4,842,838,900, subject to an adjustment of additional interest on the shareholder's loan. We expect the acquisition of the entire interest in CQ Hesheng and the shareholder's loan will be completed in the 2nd quarter of 2019.

   Details of the status of the development of Chongqing Project are set out in the "Property Portfolio" in the Management, Discussion and Analysis section of this annual report.

* *English name is for identification purpose only.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

50. SUBSEQUENT EVENT (continued)

2. Further to the placing agreement entered into by the Company and a financial institution acting as an arranger for the issue of medium-term bonds that are in issue, detail of which are shown in note 33 to the financial statements, on 8 January 2018, the Company agreed with the arranger to extend the size of the medium-term bond programme from HK$1,500,000,000 to HK$2,500,000,000.

51. COMPARATIVE FIGURES

Prepayments/deposits for proposed projects were previously included in trade and other receivables in the consolidated statement of financial position. To conform to current year's presentation, the above amount as at 31 December 2016 have been separated in the consolidated statement of financial position to facilitate a better presentation.

52. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 26 March 2018.

FIVE YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group:

	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
For the year ended 31 December					
Revenue	**4,080,514**	1,507,971	306,321	157,870	675,706
Profit/(loss) before income tax	**1,038,504**	95,757	(208,483)	(168,326)	140,911
Income tax (expense)/credit	**(491,232)**	(9,518)	(23,781)	8,346	(28,238)
Profit/(loss) before income tax	**547,272**	86,239	(232,264)	(159,980)	112,673
Attributable to					
– Owners of the Company	**550,460**	92,918	(211,769)	(141,252)	63,989
– Non-controlling interests	**(3,188)**	(6,679)	(20,495)	(18,728)	48,684
	547,272	86,239	(232,264)	(159,980)	112,673
FINANCIAL POSITION					
At 31 December					
Total assets	**16,252,454**	13,920,633	10,357,027	6,924,966	5,007,247
Total liabilities	**(13,873,827)**	(12,120,665)	(8,848,022)	(5,189,352)	(3,081,598)
Net assets	**2,378,627**	1,799,968	1,509,005	1,735,614	1,925,649
Non-controlling interests	**(52,598)**	(34,859)	(5,065)	(25,560)	(75,668)
Equity attributable to owners of the Company	**2,326,029**	1,765,109	1,503,940	1,710,054	1,849,981

PARTICULARS OF PROPERTY PORTFOLIO

Location	Lease period	Site area *(sq.m.)*	Development type	Gross floor area (GFA) *(sq.m. approx.)*	Effective equity interest % held	Stage of development	Anticipated completion of construction	Market value in existing state *RMB'000*	Market value attributable to the Group *RMB'000*	Carrying book value *RMB'000*	Carrying book value attributable to the Group *RMB'000*
(A) Details of the Group's properties under development/held for sale at 31 December 2017 are as follows:											
1. Zhoutouzui Project:	2009 to	43,609	**Above ground:**		100%	Completed/	2017	**4,106,000**	**4,106,000**	1,587,323	1,587,323
Skyfame Byland, the north of	2049/		Residential	148,552		Construction	to 2018	*(Note 1)*	*(Note 2)*		
Machong, west of Hongde Road,	2059/		Hotel/Serviced apartment	8,275		in progress					
south and east of Pearl River,	2079		Office	26,067							
Haizhu District, Guangzhou,			Commercial	3,069							
Guangdong Province, the PRC.			Refuge floor, open floor and municipal facilities	24,820							
			Kindergarten	2,881							
				213,664							
			Reserved building	5,904							
				219,568							
			Underground:								
			Commercial (Club house)	1,225							
			Carparks (2,093 lots)	79,654							
			Utility rooms and others	18,643							
				99,522							
			Sub-total	319,090							
			Area sold and delivered	(84,938)							
			Area transferred to investment property	(9,600)							
			Total	224,552							
2. Nanning ASEAN Maker Town Project:	2015 to	194,221	Shopping arcade	76,013	100%	Construction	2018	**5,708,000**	**5,708,000**	2,076,832	2,076,832
North of Wuxiang Avenue,	2055/		Shopping mall	2,689		in progress	to 2022	*(Note 1)*			
Wuxiang New District, Nanning,	2065/		Office in landmark tower	183,000							
Guangxi Zhuang Autonomous District,	2085		Hotel in landmark tower	48,450							
the PRC.			Hotel facilities building	8,826							
			Side tower	50,648							
			High-rise office	161,197							
			High-rise residential	523,349							
			Public facilities	8,065							
			Basement								
			– Carparks (5,879 lots)	285,971							
			– Shopping arcade	17,319							
			– Public facilities	1,016							
			Total	1,366,543							
3. Nanning Skyfame Garden Project:	2014 to	231,563	**Commodity portion**		80%	Completed/	2016	**3,979,000**	**3,183,200**	3,191,426	2,553,141
Liangxing Road, Wuxiang New District,	2054/		Residential	630,277		Construction	to 2018	*(Note 1)*			
Nanning, Guangxi Zhuang	2084		Commercial	31,028		in progress					
Autonomous District, the PRC.			Public facilities & podium	38,672							
			Primary School	12,030							
			Carparks	206,467							
				918,474							
			Resettlement portion								
			Residential	175,009							
			Commercial	56,542							
			Public facilities & podium	19,201							
			Carparks	43,070							
				293,822							
			Sub-total	1,212,296							
			Area sold and delivered	(183,215)							
			Total	1,029,081							
4. Xuzhou Time City Project:	2016 to	172,764	Residential	357,761	90%	Construction	2018	**919,000**	**827,100**	451,040	405,936
South of the Times Avenue, west of	2056/		Commercial	20,000		in progress	to 2019	*(Note 1)*			
the XuFeng Highway,	2086		Carparks (2,068 lots)	24,816							
Quanshan District,											
Xuzhou,Jiangsu Province, the PRC				402,577							
				3,022,753				14,712,000	13,824,300	7,306,621	6,623,232
(B) Details of the Group's properties held for development at 31 December 2017 are as follows:											
1. Xuzhou Maker Town Project:	2017 to	73,823	Residential	143,500	92%	Under	Under	**490,000**	**450,800**	488,072	449,075
East of the XuFeng Highway,	2057/		Commercial	4,100		designing	designing	*(Note 1)*			
north of MaoJiaXian,	2087		Carparks	36,500		stage	stage				
Quanshan District,											
Xuzhou,				184,100				490,000	450,800		
Jiangsu Province, the PRC											

PARTICULARS OF PROPERTY PORTFOLIO

Location	Lease period	Usage	Gross floor area (GFA) *(sq.m. approx.)*	Effective equity interest % held	Market value in existing state *RMB'000*	Market value attributable to the Group *RMB'000*
(C) Details of the Group's investment properties at 31 December 2017 are as follows:						
1. Retail units on 2/F and 5/F, 22 units on mezzanine floor and room 403 of 4/F, Tianyu Garden Phase 2, situated at 136 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2000 to 2040	Office/retail	17,343	100%	**469,000** *(Note 1)*	**469,000**
2. 800 Units of carparks at Skyfame Byland, the north of Machong, west of Hongde Road, south and east of Pearl River, Haizhu District, Guangzhou, Guangdong Province, the PRC.	2009 to 2049	Carpark	9,600	100%	**479,000** *(Note 1)*	**479,000**
3. Unit 02-05, 14th Floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong.	1928 to 2027	Office	813	100%	**146,400** *(Note 3)*	**146,400**
			27,756		**1,094,400**	**1,094,400**
(D) Details of the Group's leasehold land and building at 31 December 2017 are as follows:						
1. Office units on levels 32 and 33 of HNA Tower, suited at 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province the PRC	2001 to 2051	Office	4,126	100%	**161,000** *(Note 1)*	**161,000**
2. Retail units on 6/F of the commercial podium, Tianyu Garden Phase 2, situated at 138 and 146 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2000 to 2040	Office/retail	2,448	100%	**46,000** *(Note 1)*	**46,000**
3. Unit 01, 14th Floor and Car Parking Space Nos.307 and 308 on 3rd Floor, Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong.	1928 to 2027	Office/car parking	534	100%	**100,191** *(Note 3)*	**100,191**
			7,108		**307,191**	**307,191**
Total (A to D)					**16,603,591**	**15,676,691**

Notes:

1. The properties under development/held for sales and completed properties were revalued on an open market value basis by an independent firm of professional valuers, Cushman & Wakefield International Properties Advisers (Guangzhou) Co., Ltd., Chartered Surveyors, as at 31 December 2017. Valuation of properties under development is based on the assumptions that the properties will be developed and completed in accordance with the Group's latest development proposal, and that all consents, approvals and licences from relevant government authorities have been obtained without onerous condition or delay.

2. The open market value has already reflected the entitlement of 28% interest over the completed properties in the development by a Chinese co-operative joint venture partner.

3. The properties were revalued on an open market value basis by an independent firm of professional valuers, RHL Appraisal Limited, Chartered Surveyors, as at 31 December 2017.