中國城市基礎設施集團有限公司

China City Infrastructure Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2349

2016 Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Chao Bo *(Chairman)*
(appointed on 31 March 2016)
Ms. Wang Wenxia
(Vice Chairman and Chief Executive Officer)
Mr. Ren Qian (resigned on 2 December 2016)

Non-executive Directors

Mr. Duan Chuan Liang *(Chairman)*
(resigned on 31 March 2016)
Mr. Zhou Kun (resigned on 2 December 2016)

Independent Non-executive Directors

Mr. Chan Pok Hiu
Mr. Wang Jian
Mr. Ng Chi Ho, Dennis (appointed on 16 March 2017)
Mr. Wong Chi Ming (resigned on 16 March 2017)

AUDIT COMMITTEE

Mr. Ng Chi Ho, Dennis *(Committee Chairman)*
(appointed on 16 March 2017)
Mr. Wong Chi Ming *(Committee Chairman)*
(resigned on 16 March 2017)
Mr. Chan Pok Hiu
Mr. Wang Jian

REMUNERATION COMMITTEE

Mr. Chan Pok Hiu *(Committee Chairman)*
Mr. Wang Jian
Mr. Ng Chi Ho, Dennis (appointed on 16 March 2017)
Mr. Wong Chi Ming (resigned on 16 March 2017)

NOMINATION COMMITTEE

Mr. Chan Pok Hiu *(Committee Chairman)*
Mr. Wang Jian
Mr. Ng Chi Ho, Dennis (appointed on 16 March 2017)
Mr. Wong Chi Ming (resigned on 16 March 2017)

COMPANY SECRETARY

Mr. Li Chi Chung
(appointed on 13 December 2016)
Mr. Cheung Sze Kan
(appointed on 5 April 2016
and resigned on 13 December 2016)
Mr. Yeung Tak Yip (resigned on 5 April 2016)

AUTHORISED REPRESENTATIVES

Mr. Li Chao Bo *(Chairman)*
(appointed on 31 March 2016)
Mr. Duan Chuan Liang
(resigned on 31 March 2016)
Ms. Wang Wenxia

AUDITOR

HLM CPA Limited
Certified Public Accountants

WEBSITE

www.city-infrastructure.com

REGISTERED OFFICE

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

PRINCIPAL BANKERS

Chiyu Banking Corporation Limited
No. 78 Des Voeux Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor, The Center
No. 99 Queen's Road Central
Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
Level 10, HSBC Main Building
No. 1 Queen's Road Central, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 6208, 62nd Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited (formerly
known as Codan Trust Company (Cayman) Limited)
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
No. 183 Queen's Road East
Hong Kong

CORPORATE PROFILE

China City Infrastructure Group Limited and its subsidiaries (collectively refer as the "Group") expands its business from property business into infrastructure industries. The Group is principally engaged in the property development and investment business, hotel business, property management business and infrastructure business, and looking forward to benefiting from the People's Republic of China ("PRC") vast market opportunities, rapid urbanisation, rising environmental requirements.

CHAIRMAN'S STATEMENT

On behalf of the board of Directors (the "Board"), I am pleased to present the annual results of China City Infrastructure Group Limited ("China City Infrastructure" or the "Group") and its subsidiaries for the year ended 31 December 2016.

Through years of development and expansion, the Group has successfully developed a diversified portfolio, including residential properties, shopping malls, office buildings, hotels and natural gas businesses. Such portfolio provides a stable cash inflow to the Group, facilitating its sustainable development and expansion in other high potential areas.

In 2016, with a slow global economic recovery and a slowdown in the growth of China's overall economic performance, there was larger downward pressure. There are still uncertain factors and complex domestic and international economic environment due to factors including China's deepening economic reform and international oil prices. Facing the changing and complex environment, regarding property business, the Group will strengthen the management and fading out of property related businesses, or making adjustment and planning depending on the market changes and market value of the property portfolio.

The Group started to develop natural gas business in 2015. Natural gas, as a sustainable and clean energy, enables to reduce emissions of carbon dioxide and nitrogen oxide significantly. Natural gas is a crucial factor in urban development. The Group currently owns four natural gas project companies in Hunan and Guangxi and is acquiring a natural gas company in Hunan.

The Group will develop infrastructure projects in a prudent manner based on domestic and foreign economic and investment opportunities. The Group will not only maintain a prudent financial management philosophy, a sound balance sheet and financial position, but also optimize the Group's capital structure and business portfolio for maximizing shareholders' interests. The Group will also capture investment opportunities and provide outstanding value to shareholders.

On behalf of the Board of Directors, I would like to thanks all shareholders, investors, customers, business partners and staffs for their continued support over the past year.

Li Chao Bo
Chairman

Hong Kong, 30 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

The Group started to dedicate to the infrastructure businesses, with primitive focus on infrastructure projects relating to environmental protection, clean energy, and urbanisation in PRC in late 2014. The Group is expanding in the above businesses, including natural gas sales and distribution, natural gas pipeline construction, solid waste treatment and waste to energy, etc. The Group is also engaged in property related businesses.

Up to now, the Group has acquired 4 natural gas project companies in Hunan Province and Guangxi, and are in the progress of acquiring 1 natural gas project companies in Hunan Province. The Group also signed non-binding acquisition memorandum of understanding and letter of intent of cooperation with a number of natural gas project companies. According to the due diligence works and Group's resources, the Group will expand the infrastructure business rapidly and continue to evaluate the investment opportunities in infrastructure projects relating to environmental protection, clean energy and urbanisation in PRC to grasp opportunities to increase market shares. Meanwhile, a healthy financial position will be maintained during the business transition. In order to devote more resources to meet the strategic direction of the Group's business, the Group may sell the whole or a portion of Group's property portfolio depending on the market and market value of the property portfolio.

RESULT SUMMARY

The consolidated revenue of the Group increased by 9% from approximately HK$481.9 million for the year ended 31 December 2015 to approximately HK$525.9 million for the year ended 31 December 2016. The revenues from properties sales were approximately HK$443.9 million mainly arising from sales of the Zhongshui Longyang Plaza in Wuhan, the revenues from property leasing, hotel business and property management business were approximately HK$14.7 million, HK$32.9 million and HK$5.0 million respectively. The revenues from natural gas business is approximately HK$29.4 million for the current year, which included connection fee income and sales and distribution of natural gas.

The overall gross profit decreased by 2% to approximately HK$62.0 million in 2016 from approximately HK$63.2 million in 2015, while the gross profit margin decreased to 12% in 2016 from 13% in 2015. The Group also had net fair value gains on revaluation of various investment properties of approximately HK$9.4 million for the year ended 31 December 2016. During current year, the Group incurred an impairment loss of goodwill of HK$42 million.

The loss attributable to owners of the Company was approximately HK$451.9 million for the year ended 31 December 2016 (For the year ended 31 December 2015: HK$179.3 million). Basic loss per share attributable to owners of the Company was HK20.75 cents (For the year ended 31 December 2015: HK8.77 cents). The Board does not propose any final dividend for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The PRC Natural Gas Business

The Group started its natural gas business during the current year, and foot printed 4 counties with substantial growth potential across 2 provinces including Hunan Province and Guangxi. The Group acquired these projects of exclusive city natural gas sales, distribution and construction rights, including residential, industrial and commercial users, L/CNG vehicle refilling gas stations.

Hunan Province

The Group has completed the acquisition of the two natural gas project companies in Yongxing and Rucheng counties in Chenzhou City in Hunan Province in second quarter of 2015 with an equity interest of 70%. The projects held exclusive rights commencing from 2009 and 2010 for 30 years, pursuant to which it is authorised to operate the business of natural gas distribution and sales and provide services to the industrial, residential and commercial users and vehicle refueling gas stations in Yongxing and Rucheng counties. Currently, the projects are in operation providing natural gas connection construction services and gas sales to users.

Guangxi

The Group has completed the acquisition of 2 natural gas project companies in Rongshui county and Xiangzhou county in Guangxi in third quarter of 2015 with an equity interest of 100%. The projects held exclusive rights commencing from 2012 and 2013 for 30 years, pursuant to which it is authorised to operate the business of natural gas distribution and sales and provide services to the industrial, residential and commercial users and vehicle refueling gas station. Currently, the projects are in operation providing natural gas connection construction services and natural gas sales to users. The projects are located in Guangxi where a growing demand in natural gas usage is expected and is benefit from an expected stable and sufficient supply of natural gas from both Sino Myanmar gas pipeline and Second West East Gas pipeline.

The PRC Property Development Business

During the year ended 31 December 2016, the Group's revenue from property development business amounted to approximately HK$443.9 million, representing an increase of approximately 12%, compared with approximately HK$397.9 million in 2015. Aggregate gross floor area (the "GFA") sold for the year was 35,104 square meters ("sq.m."), representing an increase of 60% from 21,886 sq.m. in 2015. Average selling price (the "ASP") was approximately HK$12,646 per sq.m. for the year.

With the adoption of new business strategy, the Group adopted flexible and balanced approach in controlling the progress of developing projects and keeps the Group in a healthy and sound position. The Group's development projects now include Zhongshui • Longyang Plaza in Wuhan and Mei Lai International Centre and Qiandao Lake Villa in Hangzhou.

MANAGEMENT DISCUSSION AND ANALYSIS

The PRC Property Investment Business

Wuhan Future City Commercial Property Management Company Limited* ("Commercial Company") was formed by the Group to operate the Future City Shopping Centre ("Future City") owned by the Group, which held its grand opening in late August 2011. The Future City is located at Luo Shi Road South within close proximity to the Luoyu Road shopping belt and the upcoming stations of metro line No. 2 and 7, in which line No. 2 was completed and in use since late 2012. The total leasable area of Future City is approximately 55,362 sq.m. with car park included. Future City is situated in the heart of business and commercial centre of Hongshan District in Wuhan City, convenient to East Lake, Wuhan University, Wuhan University of Technology and other landmarks. Future City now becomes a fashionable, dynamic and international shopping centre to cater the growing demand from the surrounding business centres and university region (more than twenty universities and tertiary education institutions including Wuhan University and Wuhan University of Technology) with 1,000,000 students and residential consumers. Since mid-2013, tenancy-mix optimisation project was initiated in order to further improve the earning efficiency of Future City. A decrease in both rental income and occupancy rate was noted while the project was carried out.

Hangzhou Mei Lai Commercial Property Management Company Limited* was formed by the Group to prepare the operation of the commercial part of Mei Lai International Centre in Yuhang district of Hangzhou. Mei Lai International Centre is completed its construction in late 2013. The commercial part has approximately 57,922 sq.m. with car park included. Mei Lai International Centre is located in new Central Business District in Yuhang district of Hangzhou and adjacent to the south station of Shanghai-Hangzhou High-Speed Railway and also the terminal of Hangzhou metro line No. 1, which is already in use since late 2012, it is expected Mei Lai International Centre can meet the increasing needs from residential and office customers nearby.

Zhongshui • Longyang Plaza was completed its construction in end of 2015. The commercial part has approximately 61,415 sq. m. with car park included. Respond to Group's business strategy and the market need, the Group made the commercial part of Zhongshui • Longyang Plaza available to sell and therefore it was transferred as inventory of properties in prior year.

As at 31 December 2016, the aggregate fair value of the investment properties held by the Group recorded approximately HK$2,028.1 million. During the year ended 31 December 2016, the rental income of the Group was approximately HK$14.7 million and the average occupancy rate is around 36%.

The PRC Hotel Business

Wuhan Future City Hotel Management Company Limited* ("Hotel Company"), an indirect wholly owned subsidiary of the Company, manages a business hotel ("Future City Hotel") with around 400 rooms, which is featured as one of the largest all suite business hotels in number of rooms in Central China. Easy access to the East Lake and universities and government authorities attracts travelers from different levels. Future City Hotel is well-equipped with function rooms and conference rooms to provide services of banquet and business conference and team of hospitality professionals was recruited to deliver personalised services to customers.

During the year ended 31 December 2016, the revenue arising from Future City Hotel was approximately HK$31.5 million and the average occupancy rate is around 86%.

MANAGEMENT DISCUSSION AND ANALYSIS

Chunan Yuehuzhuang Hotel Company Limited* was formed by the Group to operate 3 villas, the clubhouse and the yacht berths of Qiandao Lake Villa project as a featured hotel under the name “Yuehuzhuang Hotel”. During the year ended 31 December 2016, the hotel recorded a revenue of approximately HK$1.4 million.

The Group invested in the construction and operating right of a hotel in Hohai Project for thirty years. The project is located at Nangjing Gulou District No. 1 Xikang Road, next to the main campus entrance of Hohai University. As the Jiangsu Province government office is situated along Xikang Road, it is the political, economic and academic centre of Nanjing. The project has a total land site of 5,030 sq.m. and total planned GFA of approximately 34,759 sq.m. with five-star hotels, international meeting areas and commercial centres. The project is expected to be in operation in mid-2017.

The PRC Property Management Business

Wuhan Future City Property Management Company Limited* (“Property Company”), an indirect wholly owned subsidiary of the Company, provides residents and tenants with safe, modern, comfortable and high quality property management services. During the year ended 31 December 2016, the revenue from property management was approximately HK$5.0 million.

GROUP PROJECTS

Property related business

Wuhan City, Hubei
Future City

Future City is a large-scale integrated composite development located at Luo Shi Road South within close proximity to the Luoyu Road shopping belt and the upcoming stations of metro line No. 2 and 7, in which line No. 2 was completed and in use since late 2012. Future City is situated in the heart of business and commercial centre of Hongshan District in Wuhan City, convenient to East Lake, Wuhan University, Wuhan University of Technology and other landmarks in the neighbourhood with 1,000,000 students and residential consumers. Future City covers a total site area of 19,191 sq.m. with a total GFA of approximately 145,273 sq.m. and comprises of five high-rise residential towers, a four-story premier shopping centre and parking spaces. The project is completed stepwisely in 2010 and 2011 and the Future City shopping centre held its grand opening in late August 2011.

Wuhan City, Hubei
Future Mansion

Future Mansion is located at a prime location at Wuluo Road in Hongshan District in Wuhan City, just 600 meters from Future City project. It is near the conjunction of metro line No. 2 and 7, in which line No. 2 was completed and in use in late 2012. It has a total site area of 5,852 sq.m. and been developed for a composite building of residential apartments and retail shops with GFA of approximately 42,149 sq.m.. The project is completed and under sale since second half year of 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Wuhan City, Hubei

Zhongshui • Longyang Plaza

Zhongshui • Longyang Plaza is strategically situated in the prime location between the Wangjiawan business area and national level Wuhan Economic & Technological Development Zone, delineated in the western Wuhan Middle Ring Road, next to the Hanyang bus terminal and adjacent to Longyang Avenue. The project has a land site of 30,625 sq.m. and is atop the Longyang Station of metro line No. 3 which is currently under construction. This integrated complex will be developed for splendorous shopping mall and luxurious office apartments with planned GFA of approximately 135,173 sq.m. The project is completed in 2015 and currently under sale.

Hangzhou City, Zhejiang

Mei Lai International Centre

Mei Lai International Centre is strategically located in Yuhang District, which is designated as part of the new Central Business Centre of Hangzhou City, delineated in the southern of intersection of Yingbin Road, Wengmei Road and Nanyuan Street. The integrated complex occupies a total site area of 16,448 sq.m. and is adjacent to the south station of Shanghai-Hangzhou High-Speed Railway and also the terminal of Hangzhou metro line No. 1, which is already in use in late 2012. The total GFA is approximately 114,610 sq.m.. The development comprises of one grade-A office block with work loft setting, two high-rise premium apartment towers and a premier shopping centre and parking spaces. The project is completed its construction and under sale since late 2013.

Hangzhou City, Zhejiang

Qiandao Lake Villa

This development occupies a site area of approximately 44,016 sq.m. in Qiandao Lake in Hangzhou City. It is a low-density lakefront precinct with 26 detached villas featuring luxurious settings, inclusive of lift, garage, swimming pool, yards and complemented by a full-facility clubhouse. The total planned GFA is approximately 33,493 sq.m.. The location enjoys spectacular unobstructed lake view and conveniently accessible to Hangzhou City, Shanghai and Mount Huang by either high-speed railway or expressway. The project will be completed in three phases, in which phase one is completed, and phases two and three are under construction.

Nanjing City, Jiangsu

Hohai Project

The project is located at Nanjing Gulou District No. 1 Xikang Road, next to the main campus entrance of Hohai University. As the Jiangsu province government office is situated along Xikang Road, it is the political, economic and academic centre of Nanjing. The project has a total land site of 5,030 sq.m. and total planned GFA of approximately 34,759 sq.m.with five-star hotels, international meeting are as and commercial centres. The hotel is soft opened in the first quarter of 2017. A subsidiary who hold the project became an associate of the Group on 23 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table set forth an overview of the Group's property projects at 31 December 2016:

Project	City	Equity Interest in the Project	Site Area	Total GFA/ Planned GFA
			sq.m.	*sq.m.*
Completed Projects				
Future City	Wuhan	100%	19,191	145,273
Future Mansion	Wuhan	100%	5,852	42,149
Zhongshui • Longyang Plaza	Wuhan	100%	30,625	135,173
Qiandao Lake Villa (Phase I)	Hangzhou	60%	13,100	6,578
Mei Lai International Centre	Hangzhou	100%	16,448	114,610
Subtotal			85,216	443,783
Projects under development				
Qiandao Lake Villa (Phase II & III)	Hangzhou	60%	30,916	26,915
Hohai Project	Nanjing	34.79%	5,030	34,759
Subtotal			35,946	61,674

FINANCIAL REVIEW

Revenue

Revenue of the Group for the year increased to approximately HK$525.9 million from approximately HK$481.9 million, an increase of 9% compared with last year. The revenue of property development increased from approximately HK$397.9 million in 2015 to approximately HK$443.9 million in 2016. The increase was mainly due to an increase in revenue from sales of properties, in which the total GFA recognised during the year was 35,104 sq.m., representing an increase of 60%, compared with the total GFA of 21,886 sq.m. recognised in last year.

The revenue from property leasing, hotel business and property management business decreased from approximately HK$19.2 million in 2015 to approximately HK$14.7 million in 2016, from approximately HK$41.6 million in 2015 to approximately HK$32.9 million in 2016 and from approximately HK$5.4 million in 2015 to approximately HK$5.0 million in 2016 respectively.

During current year, revenue of approximately HK$29.4 million was contributed by the natural gas business, an increase of 64% compared with approximately HK$17.9 million of last year. As the Group started its natural gas business since 2015, the natural gas business is expanding rapidly.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

The cost of sales increased from approximately HK$418.7 million in 2015 to approximately HK$463.9 million in 2016, primarily due to the increase in total GFA recognised in 2016, where the cost of properties sold including development costs, land costs and borrowing costs.

During the year, the Group's cost of sales was also attributable by property investment segment of approximately HK$2.3 million, a decrease of approximately HK$1.3 million compared with 2015, and by hotel business and property management business of approximately HK$38.2 million and approximately HK$2.9 million respectively, a decrease of approximately HK$6.4 million and remain the same compared with 2015 respectively.

During the current year, the natural gas business contributed approximately HK$17.0 million in cost of sales, an increase of approximately HK$2.6 million compared with 2015, where mainly represented cost of natural gas and depreciation of property, plant and equipment and amortisation of intangible assets.

Gross Profit and Gross Profit Margin

The gross profit decreased slightly by approximately HK$1.2 million from approximately HK$63.2 million in 2015 to approximately HK$62.0 million in 2016. The Group has a gross profit margin of 12% in 2016, as compared with 13% in 2015.

Other Operating Income

Other operating income was approximately HK$12.6 million in 2016 from approximately HK$21.7 million in 2015. This decrease was primarily due to the one off gain of approximately HK$18.0 arising from the termination of a Qianmen in 2015. The other operating income represented bank interest income and exchange gain of approximately HK$2.9 million and HK$5.0 million respectively.

Other Operating Expenses

Other operating expenses decreased to approximately HK$42.7 million in 2016 from approximately HK$119.2 million in 2015. This decrease was primarily due to the one-off non-cash share-based payment of approximately HK$57.6 million and certain impairment loss recognised in respect to property projects development cost of HK$34.1 million in 2015. There is an impairment loss on goodwill of property development business of approximately HK$42 million in 2016.

Change in Fair Value of the Investment Properties

There was a net gain of approximately HK$9.4 million in 2016 arising from change in fair value of the investment property portfolio in the PRC held by the Group.

Selling and Distribution Expenses

The selling and distribution expenses increased by 59% to approximately HK$53.9 million in 2016 from approximately HK$33.8 million in 2015, primarily due to increased expenses of advertising, promotion and related expenses for properties sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

The administrative expenses increased by 48% to approximately HK$138.9 million in 2016 from approximately HK$94.1 million in 2015, primarily because the Group is at the growing stage of city infrastructure business, which result in cost increased.

Finance Costs

The finance costs increased to approximately HK$237.3 million in 2016 from approximately HK$84.1 million in 2015, there were an increase in amount due to related parties and other borrowings meanwhile, the number of Group's property development projects decreased, the interest capitalised decreased leading to therefore finance costs increased.

Income Tax Expense

The income tax increased by 82% to approximately HK$64.9 million in 2016 from approximately HK$35.6 million in 2015. The increase was primarily attributable to the income tax which was contributed mainly by the increase in profit arising from the properties sold and the fair value change arising from investment properties during the year.

Loss Attributable to Owners of the Company

The loss attributable to owners of the Company increased from approximately HK$179.3 million in 2015 to approximately HK$451.9 million in 2016.

Liquidity, Financial and Capital Resources

Cash Position

As at 31 December 2016, total bank deposits and cash (including pledged bank deposits) of the Group amounted to approximately HK$72.4 million (31 December 2015: approximately HK$104.1 million), representing a decrease of HK$31.7 million as compared to that as at 31 December 2015.

Borrowings and Charges on the Group's Assets

At 31 December 2016, the Group's total debts included borrowings and convertible notes, in which the borrowings of approximately HK$1,104.1 million (31 December 2015: approximately HK$1,232.3 million) and liability component of convertible notes of approximately HK$138.5 million (31 December 2015: approximately HK$75.3 million). Amongst the borrowings, approximately HK$791.4 million (31 December 2015: approximately HK$773.3 million) will be repayable within one year and approximately HK$312.7 million (31 December 2015: approximately HK$459.0 million) will be repayable after one year. The current and non-current convertible notes are due in November 2017 and June 2019 respectively.

At 31 December 2016, certain bank deposits, certain property, plant and equipment, inventory of properties together with relevant land use rights, certain investment properties and certain intangible assets with an aggregate carrying amount of approximately HK$2,668.4 million were pledged as security for certain banking facilities granted to the Group.

In addition, the Group has also pledged its rights to receive income of a subsidiary in favour of bank to secure a borrowing granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing Ratio

The gearing ratio was 78% as at 31 December 2016 (31 December 2015: 94%). The gearing ratio was measured by net debt (aggregated borrowings, senior notes and convertible notes net of bank balances and cash and pledged bank deposits) over the total equity. The current ratio (current assets divided by current liabilities) was 1.14 (31 December 2015: 1.04).

Contingent Liabilities and Commitments

(a) At 31 December 2016, the Group had capital commitments in respect of its construction of properties, contracted but not provided in the consolidated financial statements, amounting to approximately HK$17.8 million (2015: approximately HK$21.4 million).

(b) The Group has not recognised any deferred income for the guarantees given in respect of borrowing and other banking facilities as their fair value cannot be reliably measured and transaction was minimal.

(c) As at 31 December 2016, the Group had provided guarantees to banks for loans of approximately HK$108.4 million (2015: approximately HK$48.7 million) in respect of the mortgage loans provided by the banks to purchasers of the properties the Group developed and sold. The guarantees are issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates.

(d) As at 31 December 2016, a subsidiary was exposed to litigation in relation to joint and several guarantee provided to certain financial institutions and independent third parties regarding loan and the interest thereon totaling approximately RMB45,271,000 (equivalent to approximately HK$50,866,000) granted to certain independent third parties. The guarantee will be released after the full repayment of the loan and interest thereon.

    One of the guarantors ("guarantor") committed to bear the loan and the interest in written. Moreover, the subsidiary also due approximately RMB47,449,000 (equivalent to approximately HK$53,314,000) to the guarantor as at 31 December 2016. Once the guarantor has not fulfilled his commitment, the payable amount can be set off with the loan principal together with accrued interest. Therefore, the directors consider the risk to the Company is remote and does not affect the operation of the group.

The directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 31 December 2016 and 2015.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the total number of employees stood at approximately 410. Total staff costs for the year under review was approximately HK$50.4 million (including non-cash share option expenses). The Group offers its workforce comprehensive remuneration and employees' benefits packages.

OUTLOOK AND FUTURE PLAN

The Group is principally engaged in the property related business and started to dedicate to the infrastructure businesses in late 2014, and looking forward to benefiting from China's vast market opportunities, rapid urbanisation, rising environmental requirements. The Group will give special priority to environmental protection, clean energy and urbanisation development and other infrastructure-related projects.

MANAGEMENT DISCUSSION AND ANALYSIS

Property business

The Group will strengthen the management and fading out of the property business. The group will adjust the progress and planning depending on the market changes and market value of the property portfolio.

Operation of concession right in natural gas business

Operation of concession right in natural gas business is the first infrastructure sector that the Group entered. So far, the Group acquired four natural gas companies, two in Hunan Province, and two in Guangxi, whose scale are increasing and, is in the progress of acquiring 1 natural gas project company in Hunan Province.

Natural gas, as a sustainable development clean energy, not only can significantly reduce sulfur dioxide and nitrogen oxide emissions, but also the important elements of urbanization development and improvement of people's livelihood, having obvious environmental benefits and social benefits. Recently, the natural gas selling price adjustment promote enterprise healthy competition, provides a broad space for natural gas business development and increases the demand of quality clean natural gas, it is advantageous to the stable development of the natural gas industry.

The PRC government has launched a series supportive policies, with the increasing demand of natural gas and improve the natural gas supply, natural gas in PRC will be widely used further, the natural gas industry will usher in a new round of rapid growth in the future and entered into a new stage in a faster and broader way. The Group will seize the opportunity, and leverage their strengths, and is actively seeking acquisition opportunities in the regions of huge development potential through a number of channels and networks, so that the Group's natural gas business grows considerably.

Other environmental and clean energy businesses (such as solid waste treatment and waste to energy)

In future, with the deepening of reform and social development in PRC, the rapid development of urbanisation, growing public awareness of environmental issues, to promote the development of environmental protection industry and use of clean energy has become a trend, environmental protection and clean energy policy of the PRC government launched will benefit the Group and provide the Group's related infrastructure businesses a broad and bright development future.

With years of extensive experience in its infrastructure and in the field of environmental protection industry, the Group's management will put its business strategy into practice and competitive advantage to enhance the share in the PRC market. According to business development strategy, the Group continues to expand its footprint in PRC, contribute to PRC infrastructure and environmental management, while bringing exceptional value to our shareholders. The Group will continue to explore infrastructure projects relating to environmental protection, clean energy and urbanisation of PRC and seize the opportunities to enhance the market share in the PRC market.

China City Infrastructure will adhere its prudent financial management concepts, to maintain a healthy balance sheet and financial position, and will optimise the capital structure of the Group's business portfolio and broaden the sources of financing, to maximise shareholder value.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

MR. LI CHAO BO ("MR. LI")

— Chairman and Executive Director

Mr. Li, aged 42, was appointed as the Chairman and an Executive Director of the Company with effect from 31 March 2016 and is currently a director and the sole beneficial owner of Linkway Investment Holdings Limited. Linkway Investment Holdings Limited is a company incorporated in the British Virgin Islands with limited liabilities. Mr. Li is currently a chairman of the number of the investment and property investment development company which is registered in the PRC. Mr. Li currently holds a master degree from Hong Kong Baptist University and a degree from Central South University. Mr. Li is experienced in brand operation, property development and financial investment.

The register of substantial shareholders maintained under section 336 of the SFO show that at 31 December 2016, Linkway Investment Holdings Limited holds 668,912,000 issued Shares of the Company (each a "Share"), representing approximately 28.99% of the total issued share capital of the Company.

MR. DUAN CHUAN LIANG ("MR. DUAN")

— Chairman and Non-executive Director

Mr. Duan, aged 53, was appointed as Chairman and Non-executive Director on 25 October 2010. Mr. Duan was graduated from the North China College of Water Conservancy and Hydro Power with a bachelor degree, majoring in irrigation and water conservancy works. Mr. Duan had been working for the Ministry of Water Resources of the PRC for more than 10 years. Mr. Duan has over 20 years experience in water conservancy management, real estate development experience.

Mr. Duan is the chairman and the executive director of China Water Affairs and director of numerous other enterprises in the PRC. The register of substantial shareholders maintained under Section 336 of the SFO show that at 31 December 2016, China Water Affairs holds 209,231,135 issued Shares of the Company (each a "Share"), representing approximately 9.07% of the total issued share capital of the Company. Mr. Duan has resigned as Chairman and Non-executive Director of the Company on 31 March 2016.

MS. WANG WENXIA ("MS. WANG")

— Vice Chairman, Executive Director and Chief Executive Officer

Ms. Wang, aged 57, was appointed as Vice Chairman, an Executive Director and Chief Executive Officer of the Company. Ms. Wang is responsible for the overall strategic development, making decisions for investment projects and determining the direction of development of the Group. Ms. Wang holds a master degree in finance from Dongbei University of Finance and Economics. Ms. Wang currently holds senior management positions in various unlisted companies incorporated in the PRC, and has active experience at the management level in structured finance and real estate for over 20 years, including investment, mergers and acquisitions and asset management services.

Ms. Wang was the chairman, the executive director and the chief executive officer of China Financial International Investments Limited (Stock Code: 721), a company listed on the main board of the Stock Exchange.

The English translation of Chinese names or words in this biography is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

MR. REN QIAN ("MR. REN")

— Executive Director

Mr. Ren, aged 56, was appointed as Executive Director on 30 July 2009. He is responsible for strategic development and properties management of the Group. Mr. Ren graduated from the North China University of Water Conservancy and Electronic Power majoring in agricultural water in 1983 and obtained his Master of Business Administration degree from Beijing Normal University in 2001. He has over 30 years experience in the water resources management, housing and urban-rural development and the real estate industries in the PRC. Mr. Ren was the secretary of the office minister of The Ministry of Water Resources of the PRC and The Ministry of Housing and Urban-Rural Development of the PRC, respectively. Mr. Ren was also the deputy mayor of The People's Government of Hebei Province, Langfang City and the deputy general manager of The Housing and Urban-Rural Development Huatong Real Estate Limited#. Prior to joining the Group, Mr. Ren was the senior adviser of the chairman of the board of Beijing Yinghe Real Property Company#. Mr. Ren has resigned as Executive Director of the Company on 2 December 2016.

MR. ZHOU KUN ("MR. ZHOU")

— Non-executive Director

Mr. Zhou, aged 49, was appointed as Non-executive Director on 30 July 2009. He graduated from the Xian Institute of Industry# majoring in fine arts technology in 1987. He has over 20 years experience in media, advertising and real estate industries in Shenzhen. Mr. Zhou was the art director of Shenzhen Legal System Newspaper# and the general manager of Shenzhen Xinli Chuanren Advertising Limited#. Mr. Zhou has resigned as Non-executive Director of the Company on 2 December 2016.

MR. CHAN POK HIU ("MR. CHAN")

— Independent Non-executive Director

Mr. Chan, aged 49, was appointed as Independent Non-executive Director on 16 August 2010. He is an experienced investment banker with more than 18 years of experience holding many senior positions in various famous international banks. While he has mainly focused his efforts on PRC dealmaking in recent years, he has accumulated extensive experience in back office support, business management and risk control functions.

Mr. Chan has worked in Standard Bank Group for six years, and was a core member of Asia Originations Team at Standard Bank Asia Limited where he was responsible for originating, structuring and executing investment banking, global markets, resources banking and private equity transactions. Before joining Standard Bank, Mr. Chan was the operations director and alternate chief executive for Fleet National Bank, Hong Kong Branch (now part of Bank of America), responsible for the overall policy-making, direction, co-ordination, planning and control of the Branch. Previously, Mr. Chan had been with Merrill Lynch (Asia Pacific) Limited, responsible for supporting equities derivatives. Prior to Merrill Lynch, he had been with UBS as an analyst. Mr. Chan started his professional career at Chase Manhattan Bank headquarters in New York, acting as internal auditor. Mr. Chan holds BBA and MBA degrees from Baruch College of City University of New York.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

MR. WONG CHI MING ("MR. WONG")

— Independent Non-executive Director

Mr. Wong, aged 40, was appointed as Independent Non-executive Director on 16 August 2010. He graduated from the Hong Kong Polytechnic University with a Bachelor of Arts Degree in Accountancy. He has over 10 years extensive experience in the fields of audit, accounting, taxation and corporate finance. He is a member of the Hong Kong Institute of Certified Public Accountants. He is currently a practicing director of a Hong Kong based medium-sized certified public accountants firm. Mr. Wong has resigned as Independent Non-executive Director on 16 March 2017.

MR. WANG JIAN ("MR. WANG")

— Independent Non-executive Director

Mr. Wang, aged 47, was appointed as Independent Non-executive Director on 21 April 2011. Chinese, Bachelor of Economics. Mr. Wang is currently managing director of Shenzhen City Jin Ruige Investment Management Company Limited#. He has served as a branch credit manager of Industrial and Commercial Bank of China, vice president of Hua Li Property Group Company Limited#, vice general manager of Shenzhen Zhong Ke Zhi Investment Guarantee Company Limited# and executive vice president of Shenzhen City Jin Ruige Investment Management Company Limited#. He has extensive experience in enterprise funds operations, investment and financing of real estate projects and corporate operational management.

MR. NG CHI HO, DENNIS ("MR. NG")

— Independent Non-executive Director

Mr. Ng, aged 58, was appointed as Independent Non-executive Director on 16 March 2017. Mr. Ng holds a Bachelor of Commerce degree from The University of New South Wales, Australia and is a chartered accountant of The Chartered Accountants Australia and New Zealand and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is also a practising certified public accountant and has extensive experience in auditing, accounting, financial management and corporate affairs. Mr. Ng is currently the chief financial officer and company secretary of Celebrate International Holdings Limited, the company secretary of MEIGU Technology Holding Group Limited, and an independent non-executive director of Kirin Group Holdings Limited and Media Asia Group Holdings Limited. Mr. Ng was an independent non-executive director of Sunrise (China) Technology Group Limited (from June 2014 to May 2015).

SENIOR MANAGEMENT

The abovementioned Directors of the Company are members of senior management of the Group.

The English translation of Chinese names or words in this biography is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

DIRECTORS' REPORT

The directors of the Company (each a "Director") present their annual report and the audited consolidated financial statements of China City Infrastructure Group Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in Note 43 to the consolidated financial statements.

BUSINESS REVIEW

The business review, analysis using financial key performance indicators and future development in the Company's business of the Group for the year ended 31 December 2016 are set out in the section headed "Management Discussion and Analysis" on pages 5 to 14 of this annual report.

The environmental policies and performance, compliance with relevant laws and regulations and relationships with employees are also discussed under section headed "Environmental, Social and Governance Report" on pages 29 to 32.

Review and outlook of the business of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance are disclosed in the Chairman's Statement, Notes to the Financial Statements and Group Financial Summary of this annual report, which form part of this report. There are no significant events affecting the Group which have occurred since the end of the financial year.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 52 of this report.

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

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The Group is committed to maintaining close relationship with our employees, providing quality services to customers and strengthening the cooperation with our business partners.

DIRECTORS' REPORT

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group committed to enhancing governance, promoting employee benefits and development, protecting the environment and giving back to society in order to fulfill social responsibility and achieve sustainable growth.

As the major businesses of the Group are infrastructure business and property related businesses in the PRC, the Group evaluate, manage and mitigate from time to time environmental issues within the context of the Group's business activities and objectives for the conservation of energy and other natural resources, and devise environmental policies and measures for the Group so as to keep them in line with the standards required under the applicable laws, rules and regulations to the extent practicable. To name a few, for the Group's hotel in Wuhan, all guest rooms have room card insert energy saving switches to reduce energy waste. In the office, the Group encourages the reduction in paper and energy usage.

The Group started its natural gas business in 2015. With the construction of a city-gas distribution network, the Group continues to encourage commercial customers and residential households to replace high-polluting coal with clean energy, such as natural gas. To reduce pollutants emission, the "coal-to-gas" project was facilitated with great efforts, so as to reduce exhaust emissions to provide urban clean energy.

During the year under review, there had been no record of material breach or violation by the Group of applicable environmental laws, rules or regulations.

FIVE-YEAR 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 145 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in Note 15 to the consolidated financial statements. Further details of the Group's major properties are set out on page 146 of this report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 33 to the consolidated financial statements.

DIRECTORS' REPORT

CONVERTIBLE NOTES

Details of the movements in convertible notes during the year are disclosed in Note 31 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity from pages 56 to 57 of this report and Note 44 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

Distributable reserves of the Company is HK$540 million as at 31 December 2016, which comply with the Companies Law of the Cayman Islands.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles of Association", each an "Article"), or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FINAL DIVIDEND

The Board resolved that the Company would not declare the payment of a dividend for the year ended 31 December 2016 (2015: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's ordinary shares during the year ended 31 December 2016.

DIRECTORS

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

Executive Directors

Mr. Li Chao Bo *(Chairman)* (appointed on 31 March 2016)
Ms. Wang Wenxia *(Vice Chairman and Chief Executive Officer)*
Mr. Ren Qian (resigned on 2 December 2016)

Non-executive Directors

Mr. Duan Chuan Liang *(Chairman)* (resigned on 31 March 2016)
Mr. Zhou Kun (resigned on 2 December 2016)

Independent Non-executive Directors

Mr. Chan Pok Hiu
Mr. Wang Jian
Mr. Ng Chi Ho, Dennis (appointed on 16 March 2017)
Mr. Wong Chi Ming (resigned on 16 March 2017)

DIRECTORS' REPORT

In accordance with Article 108 of the Articles of Association, Mr. Chan Pok Hiu and Mr. Wang Jian shall retire from their office by rotation at the forthcoming annual general meeting. Being eligible, Mr. Wang Jian will offer himself for re-election as Independent Non-executive Director at the forthcoming annual general meeting.

Mr. Chan Pok Hiu will not offer himself for re-election as independent non-executive Director. Mr. Chan Pok Hiu confirms that he has no claims whatsoever against the Company for fees, compensation for loss of office, remuneration, severance payments, pension, expenses or otherwise and there is no disagreement with the Board and there are no matters relating to his retirement that need to be brought to the attention of the Shareholders or the Stock Exchange.

According to Article 112, a Director so appointed either to fill a casual vacancy or as an additional Director by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. In accordance with Article 112, Mr. Ng Chi Ho, Dennis shall retire from his office by rotation at the AGM and being eligible, Mr. Ng Chi Ho, Dennis shall offer himself for re-election as Independent Non-executive Director.

DIRECTORS' SERVICE CONTRACTS

Ms. Wang Wenxia ("Ms. Wang") has been re-appointed as the Chief Executive Officer of the Company with effect from 17 January 2017 and Ms. Wang has also entered into the new service contract with the Company on 17 January 2017. The term of the service contract will be for three years commencing from the date of the service contract subject to compliance with the relevant provisions of the Listing Rules.

Ms. Wang entitled to a salary of HK$300,000 per month, with housing allowance of not more than HK$50,000 per month, together with discretionary management bonus and such share options which are granted under the share option scheme adopted by the Company to be determined by the Board. Ms. Wang's emolument is reviewed by the remuneration committee of the Company.

Mr. Li Chao Bo ("Mr. Li") has been appointed as the executive Director of the Company with effect from 31 March 2016 and Mr. Li has entered into the service contract with the Company on 31 March 2017. The term of the service contract will be for three years commencing from the date of the service contract subject to compliance with the relevant provisions of the Listing Rules. Mr. Li entitled to a salary of HK$250,000 per month, with housing allowance of not more than HK$50,000 per month, together with discretionary management bonus by the Company to be determined by the Board. Mr. Li's emolument is reviewed by the remuneration committee of the Company.

Mr. Chan Pok Hiu as the Independent Non-executive Director, has entered into new service contract with the Company for a term of three years which commence on 16 August 2016.

Mr. Ng Chi Ho, Dennis has been appointed as the Independent Non-executive Director, has entered into service contract with the Company for a term of two years which commence on 16 March 2017.

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

DIRECTORS' REPORT

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the Independent Non-executive Directors, namely Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian for the year ended 31 December 2016 and as at the date of this report, the Company considers the Independent Non-executive Directors to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out from pages 15 to 17 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND THE UNDERLYING SHARES OF THE COMPANY AND ANY ASSOCIATED CORPORATIONS

At 31 December 2016, the interests and short positions of each Director and the chief executives of the Company in the shares and the underlying shares of the Company and any associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(i) Long positions in shares at 31 December 2016

Name of Director	Capacity	Notes	Number of underlying shares	Approximate percentage of shareholding
Mr. Li Chao Bo	Beneficial owner	(1)	678,592,000	29.42%
Ms. Wang Wenxia	Beneficial owner	(2)	1,231,440	0.05%
Mr. Ren Qian	Beneficial owner	(3)	680,400	0.03%

(ii) Long positions in underlying shares at 31 December 2016

Name of Director	Capacity	Notes	Number of underlying shares	Approximate percentage of shareholding
Ms. Wang Wenxia	Beneficial owner	(4)	12,795,263	0.55%
		(5)	18,087,228	0.78%
		(6)	54,261,684	2.35%
			85,144,175	**3.68%**
Mr. Ren Qian	Beneficial owner	(5)	1,500,000	0.07%
		(6)	1,500,000	0.07%
			3,000,000	**0.14%**
Mr. Zhou Kun	Beneficial owner	(5)	1,500,000	0.07%
		(6)	1,500,000	0.07%
			3,000,000	**0.14%**
Mr. Chan Pok Hiu	Beneficial owner	(5)	700,000	0.03%
		(6)	700,000	0.03%
			1,400,000	**0.06%**
Mr. Wong Chi Ming	Beneficial owner	(5)	700,000	0.03%
		(6)	700,000	0.03%
			1,400,000	**0.06%**
Mr. Wang Jian	Beneficial owner	(5)	700,000	0.03%
		(6)	700,000	0.03%
			1,400,000	**0.06%**

Notes:

(1) Mr. Li Chao Bo is the sole beneficial owner of Linkway Investment Holdings Limited and Asia Unite Limited which in turn owns 668,912,000 shares and 9,680,000 shares of the Company respectively. Mr. Li Chao Bo was appointed as the Chairman and an Executive Director of the Company with effect from 31 March 2016.

(2) The personal interests of Ms. Wang Wenxia comprise 1,231,440 ordinary shares and 85,144,175 outstanding share options.

(3) The personal interests of Mr. Ren Qian comprise 680,400 ordinary shares and 3,000,000 outstanding share options.

DIRECTORS' REPORT

(4) These share options were granted on 3 November 2010 at an exercise price of HK$0.1004 per share of the Company with exercise period from 3 November 2010 to 2 November 2020.

Pursuant to the terms of the share option scheme, the exercise price of the share options and the number of Shares to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding share options were adjusted as a result of the completion of the open offer on 24 October 2011. Adjusted number of outstanding share options as 25,590,526 and adjusted exercise price per share in respect of the outstanding share options as HK$0.9602 per share.

(5) These share options were granted on 29 May 2013 at an exercise price of HK$0.64 per share of the Company with exercise period from 29 May 2013 to 28 May 2023.

(6) These share options were granted on 22 January 2015 at an exercise price of HK$0.668 per share of the Company with exercise period from 22 January 2015 to 21 January 2025.

Save as disclosed above, at 31 December 2016, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

The following table discloses movements in the Company's share options during the year.

				Number of share options					
Category	**Date of grant**	**Exercise price** *(HK$)*	**Exercise period**	**As at 1 January 2016**	**Granted during the year**	**Exercised during the year**	**Expired during the year**	**Lapsed during the year**	**As at 31 December 2016**
Directors	03/11/2010	0.9602	03/11/2010 to 02/11/2020	25,590,526	–	–	–	(12,795,263)	12,795,263
Directors	23/04/2013	0.598	23/04/2013 to 22/04/2023	54,262,000	–	–	–	(54,262,000)	–
Directors/ Employees/ Consultants	29/05/2013	0.64	29/05/2013 to 28/05/2023	42,787,228	–	–	–	(16,600,000)	26,187,228
Directors/ Employees/ Consultants	22/01/2015	0.668	22/01/2015 to 21/01/2025	180,872,286	–	–	–	(121,510,602)	59,361,684
Employees/ Consultants	16/06/2015	0.88	16/06/2015 to 15/06/2025	60,000,000	–	–	–	(55,000,000)	5,000,000
Consultant	25/06/2015	0.91	25/06/2015 to 24/06/2025	20,445,948	–	–	–	–	20,445,948
				383,957,988	–	–	–	(260,167,865)	123,790,123

Saved as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' REPORT

On 18 June 2013, the shareholders of the Company at the annual general meeting approved the adoption of a new share option scheme (the "New Scheme") and the termination of the old share option scheme (the "Old Scheme") which has been adopted by the Company on 3 June 2003. The New Scheme will expire on 17 June 2023. Option granted under the Old Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of the Old Scheme.

Under the current refreshed Scheme mandate limit, the share options carrying the rights to subscribe for 204,459,486 shares (representing approximately 10% of issued share capital of the Company as at 3 June 2016 (the date of annual general meeting)) were available for granting by the Company as at 31 December 2016.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and the related parties or other companies in which the Directors had beneficial interest are set out in Note 42 to the consolidated financial statements.

Saved as disclosed above, no contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders (other than Directors and chief executives) maintained under Section 336 of the SFO shows that at 31 December 2016, the Company had been notified of the following substantial shareholders' interests and short positions in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital.

(i) Long positions in the shares at 31 December 2016

Name of substantial Shareholder	Notes	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
Linkway Investment Holdings Limited ("LIHL")	(1)	Beneficial owner and interest of controlled corporation	668,912,000	28.99%
China Water Affairs Group Limited	(2)	Beneficial owner and interest of controlled corporation	209,231,135	9.07%
China Financial International Investments Limited ("CFIIL")	(3)	Beneficial owner	458,735,429	19.89%
China Financial International Investments and Managements Limited	(4)	Investment manager	196,735,429	8.53%
Capital Focus Asset Management Limited	(4)	Investment manager	196,735,429	8.53%

DIRECTORS' REPORT

(ii) Long positions in the underlying shares at 31 December 2016

Name of substantial Shareholder	Note	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
China Water Affairs Group Limited	(5)	Interest of controlled corporation	215,683,681	9.35%
CFIIL	(6)	Beneficial owner	146,000,000	6.33%

Notes:

(1) These Shares were held by LIHL. Mr. Li Chao Bo ("Mr. Li") is the sole beneficial owner of LIHL. Therefore, Mr. Li has beneficially interested in the said Shares.

(2) These shares (the "Shares") of the Company held by Sharp Profit Investments Limited ("Sharp Profit") and Good Outlook Investments Limited ("Good Outlook") which are wholly owned subsidiaries of China Water Affairs Group Limited ("China Water Affairs"). Therefore, China Water Affairs was deemed to be beneficially interested in the said Shares held by Sharp Profit and Good Outlook for the purposes of the SFO.

(3) These Shares were held by CFIIL (Stock Code: 721). Therefore, CFIIL have beneficially interested in the said Shares.

(4) These Shares were held by CFIIL. China Financial International Investments and Managements Limited ("CFIIM") is 51% owned by Capital Focus Asset Management Limited ("Capital Focus") and 29% by owned CFIIL. Accordingly, for the purposes of the SFO, CFIIM and Capital Focus are deemed to have the same interests in the Company as CFIIL, being in the capacity of investment manager of CFIIL.

(5) Convertible notes in the principal amount of HK$81,550,000 carrying the rights to subscribe for Shares at conversion price of HK$0.045 per share was issued by the Company to Good Outlook on 13 November 2007 to satisfy part of the consideration of the acquisition of the entire issued share capital of China Environmental Water Holdings Limited. If the conversion rights attached to the convertible notes had been fully exercised, 1,812,222,222 Shares would be issued at the conversion price of HK$0.045 per share.

Pursuant to the terms of the convertible notes, the conversion price of the outstanding convertible notes were adjusted as a result of the completion of the one consolidated share for every ten shares and the open offer in the proportion of two offer shares for every five consolidated shares on 24 October 2011. Adjusted conversion price as HK$0.3781 in respect of the outstanding principal amount of HK$81,550,000, an aggregate of approximately 215,683,681 Shares will be issued and allotted upon full conversion of the convertible notes. China Water Affairs is deemed to be interested in the said underlying shares by virtue of its wholly owned interest in Good Outlook.

(6) Convertible notes in the principal amount of HK$73,000,000 carrying the rights to subscribe for Shares at conversion price of HK$0.50 per share was issued by the Company to CFIIL on 28 June 2016. If the conversion rights attached to the convertible notes had been fully exercised, 146,000,000 Shares would be issued at the conversion price of HK$0.50 per share.

Save as disclosed above, the Company has not been notified by any persons or corporations, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO at 31 December 2016.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of the significant related party transactions or continuing connected transactions undertaken by the Group during the year in the ordinary course of business or on normal commercial terms are set out in Note 42 to the consolidated financial statements. Certain details of which had been disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The audit committee is accountable to the Board and the primary duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls. During the year ended 31 December 2016, the Audit Committee comprised Mr. Wong Chi Ming, Mr. Chan Pok Hiu and Mr. Wang Jian, who are the independent non-executive Directors. On 16 March 2017, Mr. Wong Chi Ming resigned as an independent non-executive Director and the Chairman of the Audit Committee. On 16 March 2017, Mr. Ng Chi Ho, Dennis was appointed as an independent non-executive Director and the Chairman of the Audit Committee.

The audit committee has reviewed the audited consolidated results and the risk management and internal control system of the Group for the year ended 31 December 2016.

The Group's annual results for the year ended 31 December 2016 have been reviewed by the audit committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

MAJOR CUSTOMERS AND SUPPLIERS

The top five suppliers in aggregate and the single largest supplier of the Group accounted for approximately 49% and 16.7% for the Group's total purchases for the year ended 31 December 2016 respectively.

The aggregate sales attributable to the five largest customers of the Group accounted for less than 30% of the Group's total sales for the year ended 31 December 2016.

At no time during the year did a Director, an associate of a Director, within the meaning of the Listing Rules, or a Shareholder which to the knowledge of the Directors owns more than 5% of the Company's share capital, have any interest in the Group's five largest suppliers and five largest customers.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has complied with the public float requirements of the Listing Rules.

DIRECTORS' REPORT

MANAGEMENT CONTRACT

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

DIRECTOR'S INTEREST IN COMPETING BUSINESS

As at 31 December 2016, none of the Directors of the Company had any interest in business which competes or may constitute competition directly or indirectly with the business of the Group.

PERMITTED INDEMNITY PROVISIONS

At no time during the financial year and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company or an associated company.

The Company has taken out and maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover for the certain legal actions brought against its directors and officers.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint HLM CPA Limited as auditor of the Company.

On behalf of the Board
Li Chao Bo
Chairman

Hong Kong, 30 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance ("ESG") Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide ("ESG Guide") published by the Stock Exchange.

The Group is an investment holding company with principal activities in liquefied natural gas ("LNG") supply, property development, property investment, hotel and property management services.

The Group is committed to becoming an enterprise with high level of social responsibility. For years, the Group has constantly delivered positive information to the major stakeholders and take into account their interests. For instance, it pursues rewarding Shareholders with better value, provision of high quality products and services to customers and provision of adequate and competitive benefits for employees. All of these make the Group an open, transparent and fair enterprise with due performance of social responsibility, which enables the public to have a more profound understanding on the Group.

The Group has been working towards achieving long-term sustainable growth of its business while safeguarding stakeholders' interests, and addressing social and environmental concerns.

A. ENVIRONMENTAL

A1. Emissions

The Group's principal activities are LNG storage and distribution, property development and investment, hotel and property management services. All their operation processes do not generate any hazardous or greenhouse emissions, except indirect carbon dioxide (CO_2) emission through the use of electricity.

The Group's principal activities do not generate any hazardous or non-hazardous waste. The head office, LNG plants, hotel and property management offices only generate living waste water and living waste. The living waste water is discharged into the city waste water network. For living waste, they are collected by the city rubbish handling units on a daily basis. We paid all the fees for the living waste water discharge and living waste collection.

A2. Use of Resources

Our LNG plants, head office, hotel and property management offices use electricity, LNG and water for general operational purposes only. LNG, as a raw material and product of sale for our LNG plants, is considered as a clean form of energy to replace the conventional coal fire generated energy in the cities we are operating.

The Group has adopted measures to encourage employees to work together on reducing energy consumption as a means to save costs and to reduce indirect "CO_2" emission. In our offices, we request employees to use energy wisely such as:

- Switching off lights and systems, when they are not in use;
- Using natural ventilation instead of air-conditioning in summer and setting office temperatures to 24°C in summer;
- Computer monitors are automated to switch off after inactivity of more than 20 minutes.

Additionally, we have installed some of our LNG plants and offices with energy saving appliances and equipment such as LED light and solar energy system to provide heated water.

For our property and hotel management service operations, we have issued and posted "energy saving" request notices to our commercial and residential residents, and visiting guests. We normally set hotel room temperatures at 24°C. We have also installed energy saving LED light and solar energy system into the managed properties and hotels.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's offices and plants use water supplied from the respective cities' water supply network for living purposes only. We encourage our employees to use water wisely in order to reduce consumption.

In our property management service operation, we have issued circulars to the resident units to encourage the use of treated water for toiletry purposes. In our hotel management services operation, we have posted "water saving" request notices to guests not to waste water and try to reuse towels to assist in conserving water consumption.

The Group's activities and operations do not consume significant amounts of packaging materials. In our hotel management service operation, we have stopped the use of environmentally-unfriendly materials, and replaced plastic with recycled paper for our bags and food containers.

A3. The Environment and Natural Resources

The Group's activities and operations do not generate any environmentally unfriendly emissions and waste, and do not consume significant amounts of the world's scarce resources especially water, paper and packaging materials. The Group is aware of its social obligations and has introduced measures to encourage and to educate employees to practice green and to use fewer natural resources. Our property and hotel management service operations have also introduced measures to educate, guide and request the commercial and residential occupants and guests to save energy and water.

The Group's offices, LNG plants and operations, property and hotel management services operations have passed all local environmental inspections, and discharged the waste and emissions according to the local laws. No violation of relevant laws, rules and regulations by the Group and its subsidiaries was reported. The Group will continue its consistent strategies and policies of "safe and environmentally friendly practices" by communicating more effectively to our employees and our customers to reduce pollution and consumption of resources.

B. SOCIAL EMPLOYMENT AND LABOUR PRACTICES

B1. Employment

The Group works genuinely on providing a safe and pleasant working environment to our employees. The Group adopts human resources policies under the principle of transparency and fairness with equal opportunities for all without discrimination in hiring, promotion, remuneration, benefits, training, dismissal and other aspects of employment. Owing to the diversity of the Group's activities and operational bases, the subsidiaries have been instructed to follow the Group's human resources policies and to apply the employment and labor practices as required by the local laws.

The Human Resources Department in the Headquarter office reviews and approves the human resources policies, employees' handbooks and contracts, while the local subsidiaries' human resources managers will implement the measures in accordance with the local practices. The local human resources units will specify the requirements of local positions and jobs. Employment contracts and employees' handbooks are written according to the local labour laws, stating clearly the clauses that bind both the employer and the employee without any unfair or hidden clauses. All employees are required to sign employment contracts with the Group and/or its subsidiaries.

The recruitment process of the Group is transparent. Vacant positions will be advertised and applications or referrals will go through the standard selection process. To ensure an equitable and harmonious working environment, the Group has committed to provide equal opportunities to all employees on all qualified job applications, transfers and promotions and will consider applicants without discrimination on age, race, religion, sex and disability basis.

In accordance with the Hong Kong employment ordinances, the Group provides and maintains statutory benefits to all qualified employees including but not limited to mandatory provident fund and medical and injury insurance. For our employees in China, the Group has paid all the required social and medical insurance and unemployment fund to the central government.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B2. Health and Safety

The health and safety of the Company's employees is a top priority and the Company constantly improves the occupational safety and health management system in order to reduce risks and create a safe working environment. The Company requires all employees to strictly comply with the health and safety policies.

The Group has also invested to ensure all the safety equipment are in place and are operating efficiently. All the LNG plants including safety equipment and operations have passed the annual safety inspections and have complied with all the safety rules and regulations in 2016. To strengthen the safety awareness, the LNG plants have organized regular emergency safety demonstrations to all employees in order to prevent and prepare for unforeseen accidents.

Regarding our hotel and property management service operations and head offices, they have also complied with the local safety rules and regulations, and have been equipped with all the safety facilities. Employees have been constantly reminded to perform their tasks under safety conditions, and to observe all of its health and safety policies and directives.

The Group has covered all its employees with medical insurance according to the local rules and regulations.

B3. Development and Training

The Group supports its employees to continue learning and enhance their job skills. Individual employees can apply for further development and training and the Group will sponsor or allow paid leave for employees to attend job related training programs. The Group has sponsored the employees of the SAFETY DIVISION of the LNG plants, property and hotel management service operations to attend regular safety training courses organized by the local safety departments.

B4. Labour standards

The Group's head office in Hong Kong and its subsidiaries in China have complied all the employment, safety and health laws, rules and regulations, and have honored all their obligations under the signed employment contracts and the terms and conditions written in employees' handbooks. For 2016, the Group paid all salaries, wages, benefits, compensations in a timely manner, and maintained a fair, safe and healthy working environment in which no labor disputes or major casualties or injuries were reported. Moreover, the Group did not employ any child labor or forced labor.

B5. Supply Chain Management

The Company has been continuously improving its supply chain management, not only ensuring the stable supply of production materials and services, but also managing the suppliers to be in line with the Company's core values to uphold the environmental and social standards. The Group has a variety of activities and in terms of supply chain management, each type of activity has its own unique form.

For LNG operation, the subsidiaries do not produce LNG themselves and only purchase the finished product from the few state-owned LNG suppliers who have nearly monopolized supply. The purchase and supply under a standardized and transparent process will be on long term basis by signing standardized contracts to ensure stable supplies.

For property and hotel management operations, there are many types of purchases including raw materials, utensils and consumables such as stationery, tools, cleaning detergent, towels, appliances; food and beverage products, repair and maintenance, project construction materials and contract services. The purchase policies and processes have been established according to the local laws to eliminate any bribery, corruption and malpractice incidents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B6. Product Responsibilities

The Group is the sole provider of LNG to household and industrial users in the cities where the LNG plants are operated. The quality of the LNG has been guaranteed by state-owned suppliers. The price of the LNG has also been fixed by the central government with adjustment made according to local government approvals. The Group has invested substantially on the equipment and operation, and the establishment of a service team in each unit to provide 24 hour technical services to ensure safe and stable supplies of LNG to users.

The property management services are provided to the Group's own properties. The employees have been trained to provide services and solutions according to written rules and regulations and practices with responsibility and passion. The quality of the services can be reviewed by the number of complaints received.

The hotel management services are provided to the Group's invested and owned hotel including a 400-suites hotel in Wuhan and a resort in Hangzhou. The Group has trained the hotel employees to service the "guests" with a smile and genuine attitude. The quality of the services can also be reviewed by the number of complaints received.

To ensure delivery of quality services to residents, lessees and visiting guests, the General Manager of the respective operation units are responsible to handle complaints received, to find solutions and to give explanations to the headquarter.

B7. Anti-corruption

The Group incorporated anti-corruption and bribery clauses into the Employee Handbook and employment contracts, and encourages employees to work under the highest Code of Conduct. The Group has also introduced detailed purchase and sales control policies and processes to minimize bribery and corruption acts. No bribery, corruption or malpractice charges were recorded in 2016.

B8. Community Investment

The Group encourages and supports employees to provide voluntary services to the community. Paid leave will be granted on application. The Board is reviewing the establishment of an "EMPLOYEE EMERGENCY SUPPORT FUND" for the purpose to help the emergency needs of employees. The fund will be available to all permanent employees on application and approval by discretion of the General Manager of the operation units.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value. The board of directors (the "Board") reviews its corporate governance system from time to time in order to meet the rising expectations of shareholders and comply with the increasingly tightened regulatory requirements.

BOARD OF DIRECTORS

1. The Board

The Company is managed through the Board which currently comprises five Directors, comprising Mr. Li Chao Bo (Chairman) and Ms. Wang Wenxia (Vice Chairman and Chief Executive Officer) as Executive Directors and Mr. Chan Pok Hiu, Mr. Wang Jian, Mr. Ng Chi Ho, Dennis (appointed on 16 March 2017) and Mr. Wong Chi Ming (resigned on 16 March 2017) as Independent Non-executive Directors. Independent Non-executive Directors comprise 60% of the Board. The Company has compiled with the Listing Rules requirement of Independent Non-executive Directors representing at least one-third of the Board on or before 31 December 2016. The names and biographical details of the Directors of the Company, and the relationship amongst them, if any, are set out on pages 15 to 17 of this annual report.

The Board is responsible for setting the strategic direction and policies of the Group and supervising the management. Some functions including, inter alia, the monitoring and approval of material transactions, matters involving a conflict of interest for a substantial shareholder or Director of the Company, the approval of the interim and final results, other disclosures to the public or regulators and the internal control system are reserved by the Board and the decisions relating to such matter shall be subject to the decision of the Board. Matters not specifically reserved to the Board and necessary for the daily operations of the Company are delegated to the management under the supervision of the respective Directors and the leadership of the chief executive officer.

There are agreed procedures for the Directors, upon reasonable request, to seek independent professional advice at the Company's expense in appropriate circumstances.

The Board conducts scheduled meetings on a regular basis. Ad-hoc meetings are convened when circumstances require; the Board had met thirteen times for the year ended 31 December 2016 and considered, reviewed and approved significant matters including the 2015 annual results, the 2016 interim results, appointment of new chairman, proposed disposal of 100% equity interest of a wholly owned subsidiary, signing of conditional subscription agreement, deemed disposal of a non-wholly owned subsidiary and refreshment of general mandate.

Non-executive Directors and Independent Non-executive Directors are selected with the necessary skills and experience to provide strong independent element on the Board and to exercise independent judgement. At least one of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise as provided under Rule 3.10 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

To enhance the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established an audit committee, a remuneration committee and a nomination committee. Detailed descriptions of each of these committees are set out below. All of these committees adopt, as far as practicable, the principles, procedures and arrangements of the Board in relation to the scheduling and proceeding of meetings, notice of meetings and inclusion of agenda items, records and availability of minutes.

2. Appointment, Re-election and Removal of Directors

At each annual general meeting of the Company ("AGM"), one-third of the Directors are required to retire from office by rotation. At 31 December 2016, all Independent Non-executive Directors are appointed for a fixed term not exceeding three years and all Non-executive Directors (except for chairman) are subject to the requirements of retirement by rotation and re-election by Shareholders at the AGM in accordance with the Company's articles of association (the "Articles").

The names and biographical details of the Directors who will offer themselves for election or re-election at the forthcoming AGM are set out in the circular to Shareholders to assist Shareholders in making an informed decision on their elections.

The Company establishes a nomination committee participating in the appointment of new Directors. In evaluating whether an applicant is suitable to act as a Director, the nomination committee will consider the experience and skills of the applicant, as well as personal ethics, integrity and the willingness to commit time in the affairs of the Group. Where the applicant is appointed as an Independent Non-executive Director, the Board will also consider his independence. During the year ended 31 December 2016, the Board had also reviewed and made recommendations in respect of the re-appointments of retiring Directors, which were approved by the Shareholders at the last AGM.

Newly appointed Director(s) will be given an induction on the information of the Group and a manual on the duties and responsibilities as a director of a listed company both under the Listing Rules and applicable laws. The Company has arranged appropriate insurance cover in respect of legal action against the Directors and officers.

3. Chairman and Chief Executive Officer

The Group is committed to achieving high standards of corporate governance. Throughout the year ended 31 December 2016, the Company had applied the principles and complied with the requirements set out in the CG Code in Appendix 14 of the Listing Rules.

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The chairman of the Company (the "Chairman") is Mr. Li Chao Bo and the chief executive officer of the Company is Ms. Wang Wenxia. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues at the Board meetings.

CORPORATE GOVERNANCE REPORT

Ms. Wang Wenxia focuses on implementing objectives, policies and strategies approved and delegated by the Board. She is in charge of the Company's management and operating businesses. She is also responsible for developing strategic plans and formulating the Company practices and procedures, business objectives, and risk assessment for the Board's approval.

BOARD COMMITTEES

1. Audit Committee ("AC")

During the year ended 31 December 2016, the AC comprised three Independent Non-executive Directors, namely Mr. Wong Chi Ming (AC Chairman), Mr. Chan Pok Hiu and Mr. Wang Jian. On 16 March 2017, Mr. Wong Chi Ming resigned as Independent Non-executive Director and AC Chairman. On 16 March 2017, Mr. Ng Chi Ho, Dennis was appointed as Independent Non-executive Director and the Chairman of AC. The company secretary (the "Company Secretary") of the Company serves as the secretary of the AC and minutes of the meetings are sent to the members of the AC within a reasonable time after the meetings. The quorum necessary for the transaction of business by the AC is two.

At least one of the members of the AC has appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. None of the members of the AC was a former partner of the Company's existing external auditor within one year immediately prior to the dates of their respective appointments. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of the Company.

The Board expects the members of the AC to exercise independent judgement and delegates the responsibilities of the corporate governance functions to the AC in order to comply with the requirement of the CG Code. In December 2015, the Board adopted a revised terms of reference of the AC which include the amendments in line with the requirements of the CG Code. The revised terms of reference setting out the AC's authority and its duties and responsibilities are available on the Company's website and on the Stock Exchange website.

Under its revised terms of reference, the AC has been delegated the corporate governance functions of the Board to monitor, procure and manage corporate compliance within the Group.

The operations of the AC are regulated by its terms of reference. The main duties of the AC include:

- to review and supervise the Group's financial reporting process including the review of interim and annual results of the Group;
- to review the external auditors' appointment, remuneration and any matters relating to resignation or termination;
- to examine the effectiveness of the Group's internal control which involves regular review in various corporate structures and business process; and
- to realise corporate objective and strategy by taking into account the potential risk and the nature of its urgency in order to ensure the effectiveness of the Group's business operations. The scope of such reviews includes finance, operations, regulatory compliance and risk management.

CORPORATE GOVERNANCE REPORT

Works performed during the year included:

(i) considered and approved the terms of engagement of the external auditor and their remuneration;

(ii) reviewed the annual financial statements for the year ended 31 December 2015 and the interim financial statements for the six months ended 30 June 2016;

(iii) reviewed the Group's risk management and internal control system; and

(iv) reviewed the Company's policies and practices on corporate governance.

The revised terms of reference setting out the AC's authority and its duties and responsibilities are available on the Company's website and on the Stock Exchange website.

The AC met two times during the year ended 31 December 2016 with an attendance rate of 100% and reviewed the annual results of the Group for the year ended 31 December 2015 and the interim results of the Group for the six months ended 30 June 2016. The Company Secretary keeps all the minutes of the AC meeting.

2. Remuneration Committee ("RC")

During the year ended 31 December 2016, the RC comprised three Independent Non-executive Directors namely Mr. Chan Pok Hiu (RC Chairman), Mr. Wong Chi Ming and Mr. Wang Jian. On 16 March 2017, Mr. Wong Chi Ming resigned as Independent Non-executive Director and the committee member of RC. On 16 March 2017, Mr. Ng Chi Ho, Dennis was appointed as Independent Non-executive Director and the committee member of RC. The Company Secretary serves as the secretary of the RC and minutes of the meetings are sent to the members of the RC within a reasonable time after the meetings. The quorum necessary for the transaction of business by the RC is two.

In February 2015, the Board adopted a revised terms of reference of the RC which include the amendments in line with the requirements of the CG Code. The revised terms of reference setting out the RC's authority and its duties and responsibilities are available on the Company's website and on the Stock Exchange website.

The RC has adopted the model that it will review the proposals made by the management on the remuneration of Executive Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the RC.

Major responsibilities and functions of the RC are:

- to make recommendations to the Board on the issuer's policy and structure for all remuneration of Directors and senior management;

- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

- to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the issuer;

CORPORATE GOVERNANCE REPORT

- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

- to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board.

Works performed during the year included:

(i) reviewed and approved the remuneration of all Executive Directors of the Company for the year of 2016;

(ii) reviewed the level of Directors' fees and made recommendations on the Directors' fees for the year ended 31 December 2016; and

(iii) reviewed and proposed Directors' fees and salary for a newly appointed Executive Director.

The RC met two times during the year ended 31 December 2016 with an attendance rate of 100% and reviewed its terms of reference, the remuneration policy of the Group and the remuneration packages of Directors and senior management. The fees of the Directors are subject to the Shareholders' approval at general meetings of the Company. Other emoluments are reviewed by the RC with reference to Directors' duties, responsibilities and performance and the results of the Group. Details of the remuneration payable to the Directors are set out in Note 9 to consolidated financial statements.

3. Nomination Committee ("NC")

During the year ended 31 December 2016, the NC comprised three Independent Non-executive Directors namely Mr. Chan Pok Hiu (NC Chairman), Mr. Wong Chi Ming and Mr. Wang Jian. On 16 March 2017, Mr. Wong Chi Ming resigned as Independent Non-executive Director and the committee member of NC. On 16 March 2017, Mr. Ng Chi Ho, Dennis was appointed as Independent Non-executive Director and the committee member of NC. The Company Secretary serves as the secretary of the NC and minutes of the meeting is sent to the members of the NC within a reasonable time after the meeting. The quorum necessary for the transaction of business by the NC is two.

The operations of the NC are regulated by its terms of reference. The main duties of the NC include:

- to implement the nomination policy laid down by the Board;

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for directors in particular the Chairman and the Chief Executive Officer; and

- to report to the Board the findings and recommendations of the committee at the next meeting of the Board following each NC meeting.

CORPORATE GOVERNANCE REPORT

Works performed during the year included:

(i) to make recommendations to the Board in respect of the re-appointment and re-election of retiring Directors at 2016 AGM; and

(ii) reviewed and proposed appointment of an Executive Director.

In February 2015, the Board adopted a revised terms of reference of the NC which include the amendments in line with the requirements of the CG Code. The revised terms of reference setting out the NC's authority and its duties and responsibilities are available on the Company's website and on the Stock Exchange website.

The NC met two times during the year ended 31 December 2016 with an attendance rate of 100%. To review its terms of reference and re-election of retiring Directors, the nomination procedures basically follow the Article 111 which empowers the Board from time to time and at any time to appoint any person as director either to fill a casual vacancy or as an addition to the Board.

ATTENDANCE AT MEETINGS

During the year under review, the attendance records of the Directors at Board Meetings, Audit Committee Meetings, Remuneration Committee Meeting, Nomination Committee Meeting, the 2016 AGM and extraordinary general meeting ("EGM") are as follows:

	Numbers of meetings attended/held					
	Board Meetings	**Audit Committee Meetings**	**Remuneration Committee Meetings**	**Nomination Committee Meeting**	**2016 AGM**	**EGM**
Attendance/Number of meetings held						
Executive Directors						
Ms. Wang Wenxia	13/13	N/A	N/A	N/A	1/1	1/1
Mr. Ren Qian	9/12[(1)]	N/A	N/A	N/A	0/1	0/1
Mr. Li Chao Bo	10/10[(2)]	N/A	N/A	N/A	0/1	0/1
Non-executive Directors						
Mr. Duan Chuan Liang	3/3	N/A	N/A	N/A	N/A	N/A
Mr. Zhou Kun	9/12[(1)]	N/A	N/A	N/A	0/1	0/1
Independent non-executive Directors						
Mr. Chan Pok Hiu *(RC and NC Chairman)*	13/13	2/2	2/2	2/2	1/1	1/1
Mr. Wong Chi Ming *(AC Chairman)*	10/13	2/2	2/2	2/2	1/1	1/1
Mr. Wang Jian	13/13	2/2	2/2	2/2	1/1	1/1

Notes:

1. Mr Ren Qian and Mr. Zhou Kun resigned as directors on 2 December 2016.

2. Mr. Li Chao Bo joined the Board on 31 March 2016 and there were ten meetings of the Board following that date.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2016, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarised as below:

(1) Code Provision A.1.3

Under this code provision A.1.3, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given. Although the ad-hoc meetings of the Board had convened when the circumstances required, which has given the sufficient notice to all directors and validly convened pursuant to the articles of association (the "Articles") of the Company.

(2) Code Provision A.4.2

Under this code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to Articles, at each annual general meeting, one third of the Directors shall retire from office by rotation provided that notwithstanding anything therein, the chairman (the "Chairman") of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of Directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the role of the chairman provides the Group with strong and consistent leadership and allows more effective planning and execution of long-term business strategy. As such, the Board is of the view that the Chairman should not be subject to retirement by rotation.

(3) Code Provision A.6.7

Under this code provision A.6.7 of the CG Code, it stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Due to other business engagements, two executive Directors and one non-executive Director could not attend the extraordinary general meeting of the Company held on 18 November 2016 (the "EGM"), and two executive Directors and one non-executive Director could not attend the annual general meeting of the Company held on 3 June 2016 (the "AGM"). However, at the respective general meeting of the Company, the remaining Directors were present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company (the "Shareholders").

CORPORATE GOVERNANCE REPORT

(4) Code Provision E.1.2

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting and also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

Due to another business engagement, Mr. Li Chao Bo, the Chairman of the Board, was unable to attend the AGM. However, Ms. Wang Wenxia, the Vice Chairman and executive Director of the Company, took the chair of the meeting, and all independent non-executive Directors, being the delegate of the audit, remuneration and nomination committees of the Company, were present thereat to be available to answer any question to ensure effective communication with the Shareholders.

Except as stated above, the Company has continued to comply with the applicable code provisions of the CG Code.

INDUCTION PROGRAMME AND TRAINING FOR BOARD MEMBERS

Each newly appointed Director receives a comprehensive and formal induction to ensure that he/she has an appropriate understanding of (i) the business and operations of the Group; (ii) his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements; (iii) the corporate governance code of the Company and (iv) the Model Code for Securities Transactions by Directors of Listed Issuers.

The Directors are committed to complying with code provision A.6.5 of the CG Code on Directors' training effective from 1 April 2012. All Directors confirmed that they have participated in continuous professional development to develop and refresh their knowledge and skills during the year.

COMPANY SECRETARY

The Company Secretary, Mr. Yeung Tak Yip, Mr. Cheung Sze Kan and Mr. Li Chi Chung, are responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. They are also responsible for ensuring that the Board is fully appraised of the relevant legislative, regulatory and corporate governance developments relating to the Group and facilitating the induction and professional development of Directors. Mr. Yeung Tak Yip has resigned and Mr. Cheung Sze Kan has been appointed as the Company Secretary with effect from 5 April 2016, and Mr. Cheung Sze Kan has resigned and Mr. Li Chi Chung has been appointed as the Company Secretary with effect from 13 December 2016.

The Company Secretary reports to the Chairman and the Chief Executive Officer, plays an essential role in the relationship between the Company and its shareholders, and assists the Board in discharging its obligations to shareholders pursuant to the Listing Rules.

During the year under review, Mr. Yeung Tak Yip, Mr. Cheung Sze Kan and Mr. Li Chi Chung have attended relevant professional seminars to update their skills and knowledge. They have complied with the Listing Rules to take no less than 15 hours of relevant professional training in each financial year.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring sound and effective internal control systems and risk management to safeguard the Shareholders' interests and the Company's assets. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment.

1. Risk Management

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

- *Evaluation:* Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted in 2016, no significant risk was identified.

2. Internal Control

The Group's has outsourced the internal control systems auditing function. The outsourced internal auditor reports directly to the Audit Committee and is responsible for conducting regular audits on the major activities of the Group. The Audit Committee has received a report from the outsourced internal auditor summarizing audits concluded in the year. The Audit Committee has reviewed the findings and recommendations made by the outsourced internal auditor and have ensured that any issues arising from the audit are appropriately resolved by management in an efficient and timely manner.

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of the Listing Rules (as amended from time to time by the Stock Exchange) as its own code of conduct for regulating securities transactions by Directors.

Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2016.

ACCOUNTABILITY AND AUDIT

1. Financial Reporting

The Board acknowledges its responsibility for preparing the Group's accounts which give a true and fair view of the state of affairs of the Group on a going concern basis, with supporting assumptions or qualification as necessary.

In preparing the accounts for the year ended 31 December 2016, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable.

The management provides explanation and information to the Board to enable the Board to make informed assessments of the financial and other information put before the Board for approval.

The Board endeavours to ensure the making of balanced, clear and understandable assessments of the Group's position and prospects and extending the coverage of such information to include annual reports, interim reports, price-sensitive announcements and financial disclosures as required under the Listing Rules, reports to regulators as well as any information that is required to be disclosed pursuant to statutory requirements.

2. Auditor and their Remuneration

For the year ended 31 December 2016, the total remuneration in respect of audit service paid and payable to the Company's auditor, HLM CPA Limited, amounted to HK$1,335,000. Non-audit service fee in relation to financial reporting review and tax service for the year paid amounted to HK$245,000.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

The Company strives to convey to Shareholders pertinent information in a clear, detailed, timely manner and on a regular basis and to take into consideration their views and inputs, and to address the Shareholders concerned. Their views are communicated to the Board comprehensively.

1. Disclosure of information on Company's website

The Company communicates with the Shareholders through the publication of annual, interim reports, circulars, results announcements and press releases. All communications to Shareholders are also available on the Company's website at www.city-infrastructure.com.

2. General meetings

The Company had provided sufficient notice for Shareholders on all general meetings of the Company. The AGM provides a useful platform for Shareholders to exchange views with the Board. The Chairman and the Board members are available to answer Shareholders' questions.

3. Voting by poll

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

All votes of the Shareholders at a general meeting must be taken by poll according to the Listing Rules. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the AGM pursuant to the Article.

COMMUNICATION WITH INVESTORS

The Board recognises that effective communication with investors is the key to establish investor confidence and to attract new investors.

1. Results announcement

Annual reports and interim reports are prepared and issued to all Shareholders within the prescribed period stipulated by the Listing Rules. All results announcements and reports are posted on the Company's website and the Stock Exchange's website. The Company can still provide the Shareholders and investors with an adequate degree of transparency and information of the financial position of the Company.

2. Regular release of corporate information

The Group regularly releases corporate information such as the latest news of the Group's developments on its Company's website. The public are welcome to give their comments and make their enquiries through the Company's website and the management will give their prompt response.

INDEPENDENT AUDITOR'S REPORT

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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2-12 Queen's Road West, Hong Kong.
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To the members of China City Infrastructure Group Limited
中國城市基礎設施集團有限公司
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China City Infrastructure Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 52 to 144, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF 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 year. 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

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill Refer to note 16 to the consolidated financial statements. Impairment of goodwill is considered to be a key audit matter due to the significant management's judgment and estimation required in assessing the inputs to the valuation models supporting management's assessment of impairment. The significant judgments that affect the management's assessment of impairment of the Group's goodwill include forecast cash flows, discount rates applied, and the assumptions underlying forecast growth.	**Our procedures in relation to the impairment of goodwill included:** • Assessing management's determination of the Group's CGUs based on our understanding of the nature of the Group's business and the operating models. • Analysing the internal reporting of the Group to assess how operating performance is monitored and reported. • Performing a sensitivity analysis over key assumptions such as discount rates, forecast growth rates and terminal growth rates to identify those CGUs at higher risk of impairment and further challenging management's assumptions and estimates. • Comparing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance to test the accuracy of management's projections. We found the key assumptions used by the management were comparable with historical performance and the expected future outlook, and were reasonable and appropriate in the circumstances.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of property trading Refer to note 7 to the consolidated financial statement. The Group recognised revenue from property trading of HK$444 million for the year ended 31 December 2016. Revenue from property trading is recognised when effective control of ownership is transferred to the buyers, which is dependent on the contractual arrangements for the sale and the laws in the relevant jurisdiction and require significant management's judgement. Apart from the foregoings, the revenue from property trading is identified as a key audit matter also due to its significant financial impact to the consolidated financial statement.	**Our procedures in relation to revenue recognition:** We selected a sample of property trading transactions. Our procedures in relation to these transactions included: • Assessing the appropriateness of the Group's revenue recognition accounting policy in line with HKFRS. • Obtaining evidence regarding the transfer of effective control of ownership (including, where relevant, completion certificates, occupation permits, and assignments); • Reading the signed sales and purchase agreements to identify contractual arrangements; • Reconciliation of the monetary amounts to the signed sales and purchase agreements; and • Agreeing the deposits and final payments to the bank statements. We found that the amount and timing of the revenue recorded were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties Refer to note 15 to the consolidated financial statement. Management has estimated the fair value of the Group's investment properties to be HK$2,028,090,000 with a revaluation gain amounting to HK$9,351,000 for the year recorded in the consolidated statement of profit or loss. The management made the valuation based on independent external valuations. Due to the significant financial impacts of the valuation and the valuations are dependent on certain key assumptions and inputs that require significant management's judgement and estimation, we identified the valuation of investment properties as a key audit matter.	**Our procedures in relation to valuation of investment properties included:** • Assessing the independent external valuers' competence, capabilities, independence and objectivity. • Assessing the valuation methodologies used and the appropriateness of the key assumptions and data adopted in the valuation based on our knowledge of the property industry. • Evaluating, on a sample basis, the reasonableness of the input data used in the valuation. • Discussing the valuation with the external valuer and management and challenging key estimates and inputs adopted in the valuation. • Conducting site visit to all investment properties. We consider that the key assumptions and estimates adopted in the valuation were supported by the available evidence and reasonable.
Valuation of inventory of properties Refer to note 22 to the consolidated financial statement. We identified the assessment of whether the inventory of properties totaling HK$1,714,654,000 were stated at the lower of cost as a key audit matter due to the significance of the balance to the consolidated financial statements and the assessment requires significant management's judgement and estimation. The Group's inventory of properties are stated at the lower of cost. As at 31 December 2016, the Group's inventory of properties represented 76% of the Group's current assets.	**Our procedures in relation to valuation of inventory of properties included:** • Testing the effectiveness of the internal control over the movements and balances of inventory of properties and the valuation of the inventory of properties; • Assessing the valuation methodology used and challenge the appropriateness of the key assumptions based on our knowledge of the property industry. • Evaluating the estimated sales price by comparing it with the recent sales price and recently available public sales information of neighbouring properties. • Evaluating the construction costs and selling expenses incurred by reference to information such as sales contracts, historical sales information and payment records. We consider that the management's judgement and estimates in respect of the valuation of the inventory of properties was reasonable.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Legal matters Refer to Note 41 in the Consolidated Financial Statements. Provisions are recognised for legal matters when it is probable that a material outflow of resources will be required. When a material outflow of resources is not probable, the matter is disclosed unless the probability of outflow of resources is remote. A subsidiary of the Group was exposed to potential litigation in relation to joint guarantee provided to independent third parties. The Group has approached one of the other joint guarantors ("the guarantor") and the guarantor has committed to bear full responsibility of the joint and several liabilities. The Directors are of the opinion that material outflow of resources is not probable due to the commitment by the guarantor, no provision has been made.	**Our procedures on management's assessment of legal matters included:** • Reviewing the Group's significant legal matters and contractual claims; • Obtaining legal opinion from external legal counsel on potential claims arising from the joint guarantee; • Obtaining written agreement from the guarantor for the commitment to the potential joint and several liabilities; • Considering management's assessment of those matters that provision are not recognised as the probability of material outflow is considered to be remote; and • Reviewing the adequacy and completeness of the Group's disclosures. Based on the work performed, we found the provisions recorded and disclosures made are supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit address the key audit matter
Valuation of an interest bearing loan receivable Refer to notes 23 to the consolidated financial statements. As at 31 December 2016, the Group had a loan receivable of approximately HK$168,669,000 bearing interest at 9% p.a. from an independent third party. We identified that the valuation of the interest bearing loan receivable as a key audit matter due to its significant financial impact to the consolidated financial statement and the valuation of the interest bearing loan receivable involve significant management's judgement and estimation.	**Our procedures in relation to the valuation of the interest bearing loan receivable included:** • Evaluating the management's process of collectability assessment in respect of loan receivables and assessing the operating effectiveness of the relevant internal control in determining the provision for impairment; • Examining the payment record and obtaining confirmation from the borrower to confirm the existence of the loan receivable. • Examining the loan agreement to assess the payment terms and making corroborative enquires. Based on the work performed, we consider that the management's judgements made in relation to the recoverability of the interest bearing loan receivable was reasonable.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the 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.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- 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.

We also provide those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year 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.

HLM CPA Limited
Certified Public Accountants
Ng Fai Fiona
Practicing Certificate Number P04986

Hong Kong, 30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	NOTES	**2016** **HK$'000**	2015 HK$'000
Revenue	7a	**525,907**	481,935
Cost of sales		**(463,866)**	(418,708)
Gross profit		**62,041**	63,227
Fair value gain in respect of investment properties revaluation	15	**9,351**	100,237
Other operating income	7b	**12,601**	21,745
Other operating expenses		**(42,746)**	(119,152)
Selling and distribution expenses		**(53,933)**	(33,845)
Administrative expenses		**(138,852)**	(94,139)
Finance costs	8	**(237,273)**	(84,143)
Share of result of an associate		**–**	–
Loss before tax		**(388,811)**	(146,070)
Income tax expense	10	**(64,911)**	(35,570)
Loss for the year	11	**(453,722)**	(181,640)
Loss for the year attributable to:			
Owners of the Company		**(451,854)**	(179,294)
Non-controlling interests		**(1,868)**	(2,346)
Loss for the year		**(453,722)**	(181,640)
		HK Cents	*HK Cents*
Loss per share	13		
Basic		**(20.75)**	(8.77)
Diluted		**(20.75)**	(8.77)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Loss for the year	**(453,722)**	(181,640)
Other comprehensive expense for the year:		
Items that are reclassified or may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(83,456)**	(109,506)
Release of translation reserve upon disposal of a subsidiary	**184**	–
Release of translation reserve upon deemed disposal of a subsidiary	**1,205**	–
Total comprehensive expense for the year (net of tax)	**(535,789)**	(291,146)
Total comprehensive expense attributable to:		
Owners of the Company	**(533,102)**	(287,079)
Non-controlling interests	**(2,687)**	(4,067)
	(535,789)	(291,146)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**193,413**	207,946
Investment properties	15	**2,028,090**	2,140,477
Goodwill	16	**168,516**	219,313
Intangible assets	17	**120,571**	213,725
Interest in an associate	18	**129,999**	–
Prepayment for acquisition of an intangible asset	19	**–**	348,870
Deposit paid for acquisition of a subsidiary	20	**13,422**	–
		2,654,011	3,130,331
Current assets			
Inventories	21	**4,347**	7,647
Inventory of properties	22	**1,714,654**	2,109,881
Trade and other receivables	23	**469,069**	313,283
Available-for-sale investments	24	**–**	25,000
Pledged bank deposits	25	**13,483**	14,286
Bank balances and cash	25	**58,890**	89,846
		2,260,443	2,559,943
TOTAL ASSETS		**4,914,454**	5,690,274
EQUITY AND LIABILITIES			
EQUITY			
Capital and reserves			
Share capital	33	**230,659**	204,459
Reserves		**1,140,540**	1,551,994
Equity attributable to owners of the Company		**1,371,199**	1,756,453
Non-controlling interests		**129,637**	142,363
TOTAL EQUITY		**1,500,836**	1,898,816

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	35	**404,945**	440,380
Borrowings – due after one year	30	**312,697**	459,026
Amounts due to related parties			
– due after one year	29	**648,017**	357,143
Convertible notes – due after one year	31	**60,020**	75,286
Deposits received for sale and lease of properties			
– non-current portion	27	**1,461**	1,667
		1,427,140	1,333,502
Current liabilities			
Trade and other payables	26	**584,764**	621,751
Deposits received for sale and lease of properties			
– current portion	27	**83,548**	59,239
Tax payable		**130,747**	121,960
Amounts due to non-controlling shareholders of subsidiaries	28	**1,221**	32,253
Amounts due to related parties – due within one year	29	**315,966**	264,581
Borrowings – due within one year	30	**791,441**	773,304
Convertible notes – due within one year	31	**78,466**	–
Senior notes	32	**–**	584,724
Deferred income – current portion		**325**	144
		1,986,478	2,457,956
TOTAL LIABILITIES		**3,413,618**	3,791,458
TOTAL EQUITY AND LIABILITIES		**4,914,454**	5,690,274
NET CURRENT ASSETS		**273,965**	101,987
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,927,976**	3,232,318

The consolidated financial statements on pages 52 to 144 were approved and authorised for issue by the board of directors on 30 March 2017 and are signed on its behalf by:

Li Chao Bo
DIRECTOR

Wang Wenxia
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital	Share premium	Convertible notes equity reserve	Share options reserve	Special reserve (note a)	Capital reserve (note b)	PRC statutory reserve (note c)	Translations reserve	Accumulated profits/(losses)	Attributable to owners of the Company	Non-controlling interests	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
1 January 2015	204,459	1,300,114	25,434	32,897	(184)	–	25,565	93,973	258,469	1,940,727	259,639	2,200,366
Loss for the year	–	–	–	–	–	–	–	–	(179,294)	(179,294)	(2,346)	(181,640)
Translation exchange differences	–	–	–	–	–	–	–	(107,785)	–	(107,785)	(1,721)	(109,506)
Total comprehensive expense for the year	–	–	–	–	–	–	–	(107,785)	(179,294)	(287,079)	(4,067)	(291,146)
Equity settled share based payment	–	–	–	57,581	–	–	–	–	–	57,581	–	57,581
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	26,294	26,294
Acquisition of additional interests in subsidiaries	–	–	–	–	–	45,224	–	–	–	45,224	(139,503)	(94,279)
At 31 December 2015 and 1 January 2016	204,459	1,300,114	25,434	90,478	(184)	45,224	25,565	(13,812)	79,175	1,756,453	142,363	1,898,816
Loss for the year	–	–	–	–	–	–	–	–	(451,854)	(451,854)	(1,868)	(453,722)
Release of translation reserve upon disposal of a subsidiary	–	–	–	–	–	–	–	184	–	184	–	184
Release of translation reserve upon deemed disposal of a subsidiary	–	–	–	–	–	–	–	1,205	–	1,205	–	1,205
Translation exchange differences	–	–	–	–	–	–	–	(82,637)	–	(82,637)	(819)	(83,456)
Total comprehensive expense for the year	–	–	–	–	–	–	–	(81,248)	(451,854)	(533,102)	(2,687)	(535,789)
Issue of shares	26,200	104,800	–	–	–	–	–	–	–	131,000	–	131,000
Share issue expenses	–	(252)	–	–	–	–	–	–	–	(252)	–	(252)
Share options lapsed	–	–	–	(58,971)	–	–	–	–	58,971	–	–	–
Recognition of equity component of convertible notes	–	–	17,100	–	–	–	–	–	–	17,100	–	17,100
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	(7,930)	(7,930)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	(2,109)	(2,109)
At 31 December 2016	230,659	1,404,662	42,534	31,507	(184)	45,224	25,565	(95,060)	(313,708)	1,371,199	129,637	1,500,836

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Notes:

(a) The special reserve represents:

(i) the difference between the nominal value of the share capital issued by Wah Yuen Foods International Limited, a subsidiary of the Company, and the nominal value of the share capital of the subsidiaries acquired in a previous group reorganisation; and

(ii) the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired in a previous group reorganisation.

(b) The Group accounted for the acquisition of additional interests in a subsidiary as equity transactions and the difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid was recognised in capital reserve.

(c) The People's Republic of China (the "PRC") statutory reserves consist of a reserve fund and an expansion fund provided in accordance with the articles of association of the PRC subsidiaries. Laws and regulations in the PRC allow foreign investment enterprises to appropriate from profit after taxation, prepared in accordance with the PRC rules and regulations, an annual amount to the reserve fund and the expansion fund according to the decision of the board or the articles of association.

The reserve fund is to be used to expand the working capital of the PRC subsidiaries. When the PRC subsidiaries suffer losses, the reserve fund may be used to make up for the accumulated losses under special circumstances.

The expansion fund is to be used for business expansion and, if approved, can also be used to increase the capital of the PRC subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES		
Loss before tax	(388,811)	(146,070)
Adjustments for:		
Interest expenses	237,273	84,143
Interest income	(2,879)	(938)
Depreciation of property, plant and equipment	18,000	13,878
Loss (gain) on disposals of property, plant and equipment	746	(236)
Amortisation of prepaid lease payments	–	14,063
Amortisation of intangible assets	6,980	5,530
Equity-settled share-based payment	–	57,581
Impairment of available-for-sale investment	–	12,500
Impairment of other receivables	–	879
Impairment of development cost for property project	–	34,129
Impairment loss on goodwill	42,000	–
Gain on termination of a lease	–	(17,969)
Gain on deemed disposal of a subsidiary	(1,343)	–
Gain on deemed disposal of an associate	(885)	–
Fair value gain in respect of investment properties revaluation	(9,351)	(100,237)
Gain on disposal of a subsidiary	(1,817)	–
Write-off of property, plant and equipment	29	–
Operating cash flows before movements in working capital	(100,058)	(42,747)
Decrease (increase) in inventories	2,306	(1,534)
Decrease in inventory of properties	326,899	224,040
Increase in trade and other receivables	(160,783)	(58,505)
Decrease in trade and other payables	(186,314)	(174,668)
Increase (decrease) in deposits received for sale and lease of properties	24,103	(58,114)
Increase (decrease) in deferred income	183	(164)
Cash used in operations	(93,664)	(111,692)
Interest paid	(182,124)	(217,313)
Income tax paid	(66,276)	(21,218)
NET CASH USED IN OPERATING ACTIVITIES	(342,064)	(350,223)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
INVESTING ACTIVITIES			
Acquisition of subsidiaries (net of cash and cash equivalents acquired)		–	(167,340)
Additions of prepayment for acquisition of an intangible asset		–	(43,469)
Addition of prepayment		(10,756)	–
Additions of investment properties		–	(29,872)
Deposits paid for acquisition of a subsidiary		(13,422)	–
Deposits received in respect of proposed disposal of subsidiaries		200,000	–
Net of cash inflow on disposal of a subsidiary	37(b)	3,071	–
Net of cash outflow on deemed disposal of a subsidiary	37(a)	(6,296)	–
Increase in amount due from an associate		(1,648)	–
Increase in pledged bank deposits		–	(14,286)
Purchase of property, plant and equipment		(18,982)	(12,066)
Proceeds from termination of a lease		–	44,255
Redemption of available-for-sale investments		25,000	12,000
Interest received		2,879	938
Proceed from disposals of property, plant and equipment		589	454
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		180,435	(209,386)
FINANCING ACTIVITIES			
Advances from related parties		528,867	529,227
New borrowings raised		469,259	420,575
Advances from non-controlling shareholders of subsidiaries		295	29,800
Repayment of borrowings		(509,274)	(768,603)
Repayment of senior notes		(600,000)	–
Proceeds from issue of new shares		130,748	–
Proceeds from issue of convertible notes		73,000	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		92,895	210,999
NET DECREASE IN CASH AND CASH EQUIVALENTS		(68,734)	(348,610)
Effect of foreign exchange rate changes		37,778	(11,044)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		89,846	449,500
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		58,890	89,846
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		58,890	89,846
		58,890	89,846

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

China City Infrastructure Group Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 October 2002.

The shares of the Company are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 June 2003. The Directors of the Company consider that Linkway Investment Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, is the substantial shareholder of the Company.

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively, the "Group") are infrastructure businesses, property investment, property development, hotel business and property management in the People's Republic of China ("PRC").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9, Financial Instruments with HKFRS 4, Insurance Contracts[2]
HKFRS 9 (2014)	Financial Instruments[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[2]
HKFRS 16	Leases[3]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

1 Effective for annual periods beginning on or after 1 January 2017, earlier application is permitted.
2 Effective for annual periods beginning on or after 1 January 2018, earlier application is permitted.
3 Effective for annual periods beginning on or after 1 January 2019, earlier application is permitted.
4 Effective for annual periods beginning on or after a date to be determined.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

The Group has not early adopted the new and amendments HKFRSs, which have been issued but are not yet effective for the current year. The Group has commenced an assessment of the related impact, but is not yet in a position to state whether any substantial changes to the Group's accounting policies and presentation of the financial information will be resulted.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing rule") and by the Hong Kong Companies Ordinance ("CO").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation

As at 31 December 2016, the Company and its subsidiaries (collectively referred to as the "Group") recorded borrowing due within one year of approximately HK$791,441,000 and convertible note due within one year of approximately HK$78,466,000. In view of these circumstances, the directors of the Company have given consideration to the future liquidity of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The directors of the Company believe that the Group has adequate resources, including:

(a) The Group is able to generate cash inflows from future sales of properties.

(b) One of the substantial shareholders has confirmed that she will provide financial support to the Group to meet its financial obligations as they fall due and, if required, not to demand repayment of the amounts due to her and due to companies controlled by her until the Group is in a position to do so.

(c) The Group is currently actively negotiating with several banks in both Hong Kong and the PRC for renewal of banking facilities.

The directors of the Company therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability as if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Property, Plant and Equipment.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. A subsidiary is an entity over which the Group has control. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from Group's equity attributable to owners of the Company therein.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, 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, a gain or loss is recognised in profit or loss and 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 carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

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

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

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangement of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment at the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 Financial Instruments: Recognition and Measurement are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 Impairment of Assets to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Service concession arrangements

Service concession arrangements are accounted for as follows if:

(i) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and

(ii) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group's rights over the infrastructure

Infrastructure constructed by the Group under service concession arrangements is not recognised as property, plant and equipment of the Group because the contractual service arrangement does not convey the right to control the use of the infrastructure to the Group. The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

Consideration received or receivable by the Group for the construction services

Consideration received or receivable by the Group for the construction services rendered under service concession arrangement are recognised at their fair value as a financial asset or an intangible asset.

A financial asset (loan and receivable) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received from users of the public services and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure to be constructed meets specified quality of efficiency requirements. The financial asset (loan and receivable) is accounted for in accordance with the policy set out in "Financial instruments".

An intangible asset (concession intangible asset) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (concession intangible asset) is accounted for in accordance with the policy set out in "Intangible assets (other than goodwill)".

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components are recognised initially at fair value of the consideration received or receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out in "Construction contracts".

Operating services

Revenue relating to operating services are accounted for in accordance with the policy set out in "Revenue recognition".

Intangible assets (other than goodwill)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy set out in "Impairment losses on tangible and intangible assets").

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy set out in "Impairment losses on tangible and intangible assets").

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from sales of natural gas and gas appliances are recognised when the gas or goods are delivered and title has passed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Connection revenue generated from gas pipeline connection is recognised when the outcome of a contract can be estimated reliably and the stage of completion at the end of the reporting period can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the proportion of contract cost incurred for work performed to date bear to the estimated total contract costs. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Revenue from sales of properties is recognised when the risks and rewards of the properties transferred to the purchaser, which is when the construction of the relevant properties have been completed and properties have been delivered to the purchaser pursuant to the sale agreements, and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in current liabilities.

Rental income from operating lease is recognised in the consolidated statement of profit or loss on a straight-line basis over the terms of the relevant lease.

Hotel operation income is recognised upon the provision of services and the utilisation of the hotel facilities by guests.

Management service income is recognised when management services are provided.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts for variation orders, claims and incentive payments. Contract costs comprise direct materials, costs of subcontracting, direct labour and an appropriate portion of variable and fixed construction overheads.

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of reporting period.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts (continued)

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Deferred income

Receipts in advance from long-term leases are credited to a deferred income account and are credited to the profit or loss on a straight-line basis over the period of the leases.

Investment in 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.

Property, plant and equipment

Property, plant and equipment including buildings and leasehold improvement for hotel operation held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss and is not depreciated. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

The Group transfers a property from inventories to investment property when there is a change of intention to hold the property to earns rentals or land for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognised in profit or loss.

The Group transfers a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the Statement of Financial Position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

Prepaid lease payments

Prepaid lease payments represent up-front prepayments made for the land use rights and are expensed in the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

A prepaid lease payment is derecognised upon termination. Any gain or loss arising on the termination of the lease is determined as the difference between the proceeds received or refunded and the carrying amounts of the lease and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories, including construction materials and spare parts for gas pipeline construction and gas for sales, consumables are stated at the lower of cost and net realisable value. Cost of gas for sales is determined on a weighted average method. Cost of other inventories are determined on first-in, first-out basis. Cost includes cost of purchases and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Inventory of properties

Inventory of properties included properties under development and properties held for sale which are included in current assets at the lower of cost and net realisable value.

The costs of properties under development consist of construction expenditures, amounts capitalised in respect of amortisation of upfront payments of land use rights, borrowing costs directly attributable to construction of such properties and other direct costs. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less costs expected to be incurred to completion and selling and marketing costs. On completion, the properties, together with related land use rights, are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle, which are classified as properties held for development under non-current assets.

No depreciation is provided on properties under development.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Financial assets are classified into the following specified categories: available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter periods, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Dividends on AFS equity instrument are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

AFS financial assets (continued)

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loan and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including borrowings, senior notes, trade and other payables, amounts due to non-controlling shareholders of subsidiaries and amounts due to related parties) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Convertible notes

The component parts of the convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible notes, the balance recognised in convertible notes equity reserve will be transferred to accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the relevant period of the convertible notes using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognised its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition (continued)

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of transfer). The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefit required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible and intangible assets other than goodwill (continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the 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 cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to cover or settle the carrying amount of its asset and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current tax and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and

- exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interest.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non- controlling interests as appropriate).

On the disposal of a foreign operation that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of a control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposal that is, partial disposal of associates or joint arrangements that do not result in the Group losing significant influence or joint control. The proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme for Hong Kong employees and state-managed retirement benefits schemes for employees in the People's Republic of China (the "PRC") are charged as expenses as they fall due. The Group's obligations under state-managed retirement benefits schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash at banks and cash on hand, demand deposits with banks and other financial institutions, short-term, highly liquid investments that are readily convertible to cash and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

Related parties

A related party is a person or that is related to the Group:

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

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

- (i) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) both entities are joint ventures of the same third party;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

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

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

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 entity.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Depreciation and amortisation

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

(b) Estimated impairment on property, plant and equipment

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the higher of fair value of the property, plant and equipment less costs to sell or the value-in-use calculations. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise. At 31 December 2016, no impairment loss was recognised for property, plant and equipment (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(c) Allowance for doubtful debts

The Group's provision policy for bad and doubtful debts is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required. At 31 December 2016, the carrying amount of trade receivable was approximately HK$149,946,000 (2015: approximately HK$108,774,000). There is no allowance for doubtful debts required (2015: nil).

(d) Estimated impairment on goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group 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. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill was approximately HK$168,516,000 (2015: approximately HK$219,313,000), net of accumulated impairment loss of HK$42,000,000 (2015: nil). Details of the recoverable amount calculation are disclosed in Note 16.

(e) Estimated impairment of intangible assets

Determining whether intangible assets is impaired requires an estimation of the value in use of the cash-generating units to which intangible assets has been allocated. The value in use calculation requires the Group 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. Where the actual future cash flows are less than previously estimated, a material impairment loss may arise in the future period.

(f) Fair value of investment properties

Investment properties are carried in the consolidated statement of financial position at 31 December 2016 at their fair value of approximately HK$2,028,090,000 (2015: approximately HK$2,140,477,000). The fair value was based on a valuation on these properties conducted by an independent professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss.

(g) Estimated impairment of inventory of properties

The Group determines the net realisable value of inventory of properties based on estimation of future selling price less costs to be incurred in relation to the sale, with reference to the prevailing market condition, valuations and estimated units selling price from independent property valuers and internally available information and exercised considerable judgement.

(h) Recognition of current taxes and deferred taxes

There were transactions and calculations for which the ultimate tax determination was uncertain during the ordinary course of business is required in determining the provision for income taxes. As detailed in the Group's accounting policies, deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Where the final tax outcomes of these matters are different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provisions in the periods in which such determination is made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade and other receivables, trade and other payables, amounts due to non-controlling shareholders of subsidiaries, amounts due to related parties and convertible notes. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Currency risk management

Certain assets and liabilities of the Group are denominated in foreign currencies which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets 2016 *HK$'000*	**Liabilities 2016 *HK$'000***	Assets 2015 *HK$'000*	Liabilities 2015 *HK$'000*
Renminbi ("RMB")	**537,703**	**2,654,105**	368,159	2,229,650

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB against HK$.

The following table shows the sensitivity analysis of a 5% increase/decrease in RMB against HK$, the effect in the profit or loss and other comprehensive income for the year is as follows:

	2016 *HK$'000*	2015 *HK$'000*
Decrease/increase in other comprehensive income	**105,816**	93,059
Increase/decrease in profit or loss	**4**	15

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, carrying out fund raising activities and matching the maturity profiles of financial assets and liabilities.

As at 31 December 2016, the Group recorded the current liabilities of approximately HK$1,986,478,000. In view of these circumstances, the directors of the Company believe the Group have adequate resources to meet its financial obligations as they fall due after considering the following sources of funds, including but not limited to, the current assets of approximately HK$2,260,443,000 in which cash inflows mainly generated from sales of properties, financial assistance from shareholders and facilities provided by banks and investors in the next twelve months.

The following table details the Group's contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities based on the earliest date on which the Group be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest are at floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	2016							
	Average interest rate	Within 1 month or on demand	1-3 months	3 months-1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	N/A	584,764	–	–	–	–	584,764	584,764
Amounts due to non-controlling shareholders of subsidiaries	N/A	1,221	–	–	–	–	1,221	1,221
Amount due to related parties	10.49%	177,290	45,864	183,840	654,498	–	1,061,492	963,983
Borrowings	8.88%	323,993	217,884	292,989	348,735	15,351	1,198,952	1,104,138
Convertible notes	10.80%	–	–	87,568	80,310	–	167,878	138,486
Senior notes	N/A	–	–	–	–	–	–	–
		1,087,268	263,748	564,397	1,083,543	15,351	3,014,307	2,792,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk management (continued)

		2015						
	Average interest rate	Within 1 month or on demand	1-3 months	3 months-1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	N/A	621,751	–	–	–	–	621,751	621,751
Amounts due to non-controlling shareholders of subsidiaries	N/A	32,253	–	–	–	–	32,253	32,253
Amounts due to related parties	10.28%	2,646	7,937	285,834	399,941	–	696,358	621,724
Borrowings	10.04%	117,529	95,993	677,147	445,869	179,344	1,515,882	1,232,330
Convertible notes	7.55%	–	–	2,595	86,513	–	89,108	75,286
Senior notes	15.25%	–	–	675,000	–	–	675,000	584,724
		774,179	103,930	1,640,576	932,323	179,344	3,630,352	3,168,068

Credit risk management

The Group's maximum exposure to credit risk in the event of counterparties failure to perform their obligations at 31 December 2016 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow up action is taken in time to recover overdue debts. In addition, management of the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spreading over a large number of counterparties and customers.

Interest rate risk management

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk.

Management of the Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing position, alternative financing and hedging. Based on these scenarios, management of the Group calculates the impact on profit or loss of a defined interest rate shift. For each simulation, the same interest rate shifts is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk management (continued)

The Group's cash flow interest rate risk is mainly concentrated on the Group's RMB denominated borrowings which will be impacted by the fluctuation of benchmark interest rate published by the PRC government.

The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk. However, management of the Group will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below, which include interest rate exposure on variable interest-bearing liabilities and deposits, have been determined based on the exposure to interest rates for all non-derivative instrument at the end of the reporting date. For non-bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points increase or decrease is used which represents management's assessment of the possible change in interest rates.

If interest rates have been 100 basis points higher/lower and all other variables held constant, the Group's loss for the year ended 31 December 2016 would increase/decrease by approximately HK$4,224,000 (2015: loss for the year would decrease/increase by approximately HK$5,339,000).

Fair values measurement

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of each reporting period across the three levels of the fair value hierarchy defined in HKFRS 7 Financial Instruments: Disclosures, with the fair value of each financial instrument recognised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

At 31 December 2016 and 2015, there were no financial instruments carried at any level of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values measurement (continued)

(ii) Fair values of financial instruments carried at other than fair value

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

Estimation of fair value

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(i) Bank balances and cash, pledged bank deposits, trade and other receivables, trade and other payables, amounts due to related parties and amounts due to non-controlling shareholders of subsidiaries

The carrying values approximate their fair value because of the short maturities of these instruments.

(ii) Borrowings

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

(iii) Interest rates used for determining fair value

The Group uses the appropriate market yield curve or benchmark rate as of 31 December 2016 plus an appropriate constant credit spread to calculate the fair value of its interest bearing debt.

(iv) Convertible notes

Appropriate valuation methods and assumptions with reference to market conditions existing at the end of each reporting period to determine the fair value of the liability portion of the convertible bonds. The basis for determining the fair value is disclosed in Note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may raise new debts, adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

Management of the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total net borrowings divided by total equity.

The management considers the gearing ratio at the end of reporting period is as follows:

	2016	2015
	HK$'000	*HK$'000*
Borrowings, net of cash and cash equivalents	**1,031,765**	1,128,198
Senior notes	**–**	584,724
Convertible notes	**138,486**	75,286
Total net borrowings	**1,170,251**	1,788,208
Total equity	**1,500,836**	1,898,816
Total net borrowings to total equity ratio	**0.78**	0.94

The decrease in the gearing ratio during the year was resulted primarily from the repayment of senior notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION

The accounting policies of the operating segments are the same as the Group's accounting policies in the preparation of the Group's consolidated financial statements.

The Group's operating segments are identified on the basis of annual reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. Specifically, segment information reported externally was analysed on the basis of the types of goods supplied and services provided by the Group's operating divisions, which is the same information reported to the chief operating decision maker.

The Group's operating segments are as follows:

– Natural Gas Business Segment engages in natural gas pipeline construction and operation of exclusive concession rights in the PRC

– Property Development Business Segment engages in development of property projects in the PRC

– Property Investment Business Segment engages in leasing of investment properties in the PRC

– Hotel Business Segment engages in operation of hotel in the PRC

– Property Management Business Segment engages in provision of property management and other services in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION (continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments.

For the year ended 31 December 2016

	Natural Gas Business HK$'000	Property Development Business HK$'000	Property Investment Business HK$'000	Hotel Business HK$'000	Property Management Business HK$'000	Total HK$'000
TOTAL REVENUE AND EXTERNAL SALES	29,434	443,912	14,711	32,874	4,976	525,907
RESULT						
Segment operating results	233	(111,240)	5,111	(11,852)	78	(117,670)
Fair value gain in respect of investment properties revaluation	–	–	9,351	–	–	9,351
Unallocated corporate income						5,531
Unallocated corporate expense						(48,750)
Finance costs						(237,273)
Loss before tax						(388,811)
Income tax expense						(64,911)
Loss for the year						(453,722)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the year ended 31 December 2015

	Natural Gas Business HK$'000	Property Development Business HK$'000	Property Investment Business HK$'000	Hotel Business HK$'000	Property Management Business HK$'000	Total HK$'000
TOTAL REVENUE AND EXTERNAL SALES	17,925	397,887	19,177	41,565	5,381	481,935
RESULT						
Segment operating results	(1,752)	(22,410)	5,109	(8,276)	1,304	(26,025)
Fair value gain in respect of investment properties revaluation	–	–	100,237	–	–	100,237
Unallocated corporate income						719
Unallocated corporate expense						(136,858)
Finance costs						(84,143)
Loss before tax						(146,070)
Income tax expense						(35,570)
Loss for the year						(181,640)

Segment profit represents the profit earned by each segment without allocation of finance costs and the central administration costs including staff costs, directors' emoluments and other expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

	Natural Gas Business		Property Development Business		Property Investment Business		Hotel Business		Property Management Business		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
ASSETS												
Goodwill	**35,911**	44,708	**132,605**	174,605	**–**	–	**–**	–	**–**	–	**168,516**	219,313
Inventory of properties	**–**	–	**1,714,654**	2,109,881	**–**	–	**–**	–	**–**	–	**1,714,654**	2,109,881
Investment properties	**–**	–	**–**	–	**2,028,090**	2,140,477	**–**	–	**–**	–	**2,028,090**	2,140,477
Intangible assets	**120,571**	213,725	**–**	–	**–**	–	**–**	–	**–**	–	**120,571**	213,725
Interest in associate	**–**	–	**129,999**	–	**–**	–	**–**	–	**–**	–	**129,999**	–
Property, plant and equipment	**170,886**	175,170	**3,290**	4,192	**65**	58	**16,709**	26,516	**55**	102	**191,005**	206,038
Other assets	**20,515**	24,832	**394,045**	320,973	**67,583**	64,916	**8,275**	355,616	**22,508**	1,805	**512,926**	768,142
Segment assets	**347,883**	458,435	**2,374,593**	2,609,651	**2,095,738**	2,205,451	**24,984**	382,132	**22,563**	1,907	**4,865,761**	5,657,576
Unallocated corporate assets											**48,693**	32,698
Consolidated assets											**4,914,454**	5,690,274
LIABILITIES												
Segment liabilities	**165,022**	256,588	**1,386,753**	1,927,062	**394,248**	424,025	**124,325**	133,347	**4,031**	3,052	**2,074,379**	2,744,074
Unallocated corporate liabilities											**1,339,239**	1,047,384
Consolidated liabilities											**3,413,618**	3,791,458
OTHER INFORMATION												
Additions to property, plant and equipment	**16,836**	9,664	**460**	436	**21**	29	**318**	48	**11**	6	**17,646**	10,183
Depreciation and amortisation	**14,299**	7,762	**918**	1,544	**10**	14,092	**9,026**	9,734	**54**	74	**24,307**	33,206
Write-off property, plant and equipment	**29**	–	**–**	–	**–**	–	**–**	–	**–**	–	**29**	–
Additions to investment properties	**–**	–	**–**	–	**–**	29,872	**–**	–	**–**	–	**–**	29,872
Additions to prepayment for acquisition of an intangible asset	**–**	–	**–**	–	**–**	–	**–**	91,728	**–**	–	**–**	91,728

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than bank balances and cash which is used for corporate financing and other financial assets. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities are allocated to operating segments other than convertible notes and other financial liabilities. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION (continued)

Geographical information

The Group operates in two principal geographical areas – Hong Kong and the PRC.

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed as below:

	Revenue from external customers		Non-current assets*	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**–**	–	**518**	47
The PRC	**525,907**	481,935	**2,653,493**	3,130,284
	525,907	481,935	**2,654,011**	3,130,331

* Non-current assets exclude financial instruments.

Information of major customers

The revenues from external customers are attributed to regions on the basis of the customer's location. For the year ended 31 December 2016 and 2015, no single external customers accounted for 10% or more of the Group's consolidated revenue.

7. REVENUE AND OTHER OPERATING INCOME

An analysis of revenue and other operating income is as follows:

		2016	2015
		HK$'000	*HK$'000*
(a)	Revenue		
	Gas connection	**18,036**	12,524
	Sales of natural gas	**11,398**	5,401
	Sales of properties	**443,912**	397,887
	Rental income	**14,711**	19,177
	Hotel operation income	**32,874**	41,565
	Property management income	**4,976**	5,381
	Total revenue	**525,907**	481,935
(b)	Other operating income		
	Interest income	**2,879**	938
	Gain on termination of a lease	**–**	17,969
	Gain on disposals of property, plant and equipments	**–**	236
	Net foreign exchange gain	**4,976**	2,139
	Gain on disposal of a subsidiary	**1,817**	–
	Gain on deemed disposal of a subsidiary	**1,343**	–
	Gain on deemed disposal of an associate	**885**	–
	Sundry income	**701**	463
	Total other operating income	**12,601**	21,745

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest expense on bank loans, and other borrowings wholly repayable within five years	**143,976**	156,348
Effective interest expense on convertible notes	**9,895**	5,546
Effective interest expense on senior notes	**83,402**	89,753
	237,273	251,647
Less:amounts capitalised in the cost of qualifying assets	**–**	(167,504)
	237,273	84,143

The average capitalisation rate on funds borrowed generally is nil (2015: 7.02% per annum).

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follow:

(a) Directors' emoluments and retirement benefits

For the year ended 31 December 2016

Name of Director	Fees	Salaries and allowances	Discretionary bonuses	Retirement benefit scheme contributions	Equity-settled share-based payment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
EXECUTIVE DIRECTORS						
Mr. Li Chao Bo *(note b)*	225	2,786	–	14	–	3,025
Ms. Wang Wenxia *(Chief executive officer)*	220	3,900	–	18	–	4,138
Mr. Ren Qian *(note c)*	166	–	–	–	–	166
NON-EXECUTIVE DIRECTORS						
Mr. Duan Chuan Liang *(note a)*	75	1,250	–	4	–	1,329
Mr. Zhou Kun *(note d)*	92	325	–	–	–	417
INDEPENDENT NON-EXECUTIVE DIRECTORS						
Mr. Chan Pok Hiu	100	–	–	–	–	100
Mr. Wong Chi Ming *(note e)*	100	–	–	–	–	100
Mr. Wang Jian	100	–	–	–	–	100
	1,078	8,261	–	36	–	9,375

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments and retirement benefits (continued)

For the year ended 31 December 2015

Name of Director	Fees	Salaries and allowances	Discretionary bonuses	Retirement benefit scheme contributions	Equity-settled share-based payment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
EXECUTIVE DIRECTORS						
Ms. Wang Wenxia	220	3,900	–	18	11,981	16,119
Mr. Ren Qian	180	–	–	–	331	511
NON-EXECUTIVE DIRECTORS						
Mr. Duan Chuan Liang	300	5,417	–	18	19,968	25,703
Mr. Zhou Kun	100	564	–	19	331	1,014
INDEPENDENT NON-EXECUTIVE DIRECTORS						
Mr. Chan Pok Hiu	100	–	–	–	154	254
Mr. Wong Chi Ming	100	–	–	–	154	254
Mr. Wang Jian	100	–	–	–	154	254
	1,100	9,881	–	55	33,073	44,109

Note:

(a) Mr. Duan Chuan Liang has resigned as the chairman of the Board, non-executive director and authorised representative of the Company with effect on 31 March 2016.

(b) Mr. Li Chao Bo has been appointed the chairman of the Board, executive director and authorised representative of the Company with effect on 31 March 2016.

(c) Mr. Ren Qian has resigned as an executive director of the Company with effect on 2 December 2016.

(d) Mr. Zhou Kun has resigned as the non-executive director of the Company with effect on 2 December 2016.

(e) Mr. Wong Chi Ming has resigned as the independent non-executive director with effect on 16 March 2017.

(b) Directors' termination benefits

During the year ended 31 December 2016, there was no termination benefits paid to the directors (2015: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2016, no consideration was paid for making available the services of the directors of the Company (2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2016, there was no loans, quasi-loans and other dealings entered into by the Company or subsidiaries undertaking of the Company, where applicable, in favour of directors (2015: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director 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 (2015: Nil).

(f) Five highest paid employees

The five highest paid individuals for the year ended 31 December 2016 included three (2015: two) directors of the Company. The emoluments of the remaining two (2015: three) individuals are as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Salaries and other benefits	**1,521**	3,338
Retirement benefit schemes contributions	**35**	76
Equity-settled share-based payment	**–**	2,652
	1,556	6,066

Their emoluments were within the following bands:

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

(g) During the year, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals of the Group (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. INCOME TAX EXPENSE

	2016 HK$'000	2015 HK$'000
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	–	–
PRC Enterprise Income Tax ("EIT")	49,289	11,797
Land Appreciation Tax ("LAT") in the PRC	27,063	18,219
Current tax charge for the year	76,352	30,016
Deferred tax (credit) charge for the year *(Note 35)*	(11,441)	5,554
	64,911	35,570

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit arising in Hong Kong for both years.

The Group's PRC EIT is calculated based on the applicable tax rates on assessable profits, if applicable. PRC LAT is levied at the applicable tax rate on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

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

	2016 HK$'000	2015 HK$'000
Loss before tax	(388,811)	(146,070)
Tax at PRC EIT rate of 25% (2015: 25%)	(97,203)	(36,518)
Tax effect of expenses not deductible for tax purposes	135,090	51,267
Tax effect of income not taxable for tax purposes	(31,784)	(5,708)
Underprovision in respect of prior years	30,212	–
Tax effect on temporary difference not recognised	(10,254)	(7,867)
Effect of different tax rates of subsidiaries operating in Hong Kong	11,787	16,177
LAT	27,063	18,219
Tax charge for the year	64,911	35,570

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For the year ended 31 December 2016

11. LOSS FOR THE YEAR

	2016	2015
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments	**49,357**	47,466
Equity-settled share-based payment, including share options for directors*	**–**	57,581
Retirement benefits scheme contributions, including contributions for directors	**1,014**	1,734
Total staff costs	**50,371**	106,781
Auditors' remuneration	**1,335**	1,555
Amortisation of prepaid lease payments*	**–**	14,063
Amortisation of intangible assets	**6,980**	5,530
Depreciation of property, plant and equipment	**18,000**	13,878
Loss on disposal of property, plant and equipment*	**746**	–
Impairment of available-for-sale investment*	**–**	12,500
Impairment of other receivables*	**–**	879
Impairment of development cost for property project*	**–**	34,129
Impairment of goodwill*	**42,000**	–
Written-off of property, plant and equipment	**29**	–
Operating lease rental expenses in respect of rented premises	**27,003**	30,396

	2016	2015
	HK$'000	*HK$'000*
Gross rental income from investment properties	**(14,711)**	(19,177)
Less: Direct operating expenses from investment properties that generate rental income during the year	**2,275**	3,610
	(12,436)	(15,567)

* Those expenses for the year are included in "other operating expenses" on the face of the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. DIVIDENDS

The directors do not recommend the payment of a dividend for the years ended 31 December 2016 and 2015.

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss attributable to the owners of the Company of approximately HK$451,854,000 (2015: approximately HK$179,294,000) and on the weighted average number of ordinary shares of 2,178,107,189 (2015: 2,044,594,861 shares) deemed to be in issue during the year.

For the years ended 31 December 2016 and 2015, the computation of diluted loss per share has not assumed the conversion of the Company's outstanding convertible notes and share options since their exercise would result in a decrease in loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Leasehold improvement for hotel operation	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST								
At 1 January 2015	–	–	366	9,796	17,980	65,779	–	93,921
Additions	277	–	74	510	1,915	–	9,290	12,066
Acquisition of subsidiaries	32,238	9,246	16,329	670	4,511	–	118,566	181,560
Disposals	–	–	–	–	(2,975)	–	–	(2,975)
Transfer	–	113,793	10	–	–	–	(113,803)	–
Exchange difference	(1,254)	(5,639)	(563)	(534)	(1,042)	(3,915)	(1,686)	(14,633)
At 31 December 2015 and 1 January 2016	31,261	117,400	16,216	10,442	20,389	61,864	12,367	269,939
Additions	19	3,645	18	995	1,970	–	12,335	18,982
Disposals	–	–	–	(2)	(1,647)	–	–	(1,649)
Derecognised on disposal/ deemed disposal of subsidiaries	–	–	(46)	(497)	(962)	–	–	(1,505)
Transfer	–	11,172	–	–	–	–	(11,172)	–
Write-off	–	–	–	–	(564)	–	–	(564)
Exchange difference	(1,757)	(7,527)	(889)	(484)	(896)	(3,476)	(1,925)	(16,954)
At 31 December 2016	29,523	124,690	15,299	10,454	18,290	58,388	11,605	268,249

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Leasehold improvement for hotel operation	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2015	–	–	366	7,567	12,599	28,971	–	49,503
Provided for the year	294	1,254	339	1,032	1,679	9,280	–	13,878
Acquisition of subsidiaries	1,700	878	1,437	269	534	–	–	4,818
Eliminated on disposals	–	–	–	–	(2,757)	–	–	(2,757)
Exchange difference	(86)	(102)	(78)	(445)	(571)	(2,167)	–	(3,449)
At 31 December 2015 and 1 January 2016	1,908	2,030	2,064	8,423	11,484	36,084	–	61,993
Provided for the year	996	4,826	769	768	1,907	8,734	–	18,000
Derecognised on disposal/deemed disposal of subsidiaries	–	–	(32)	(248)	(119)	–	–	(399)
Eliminated on disposals	–	–	–	(1)	(313)	–	–	(314)
Write-off	–	–	–	–	(535)	–	–	(535)
Exchange difference	(152)	(331)	(128)	(356)	(521)	(2,421)	–	(3,909)
At 31 December 2016	2,752	6,525	2,673	8,586	11,903	42,397	–	74,836
CARRYING AMOUNTS								
At 31 December 2016	26,771	118,165	12,626	1,868	6,387	15,991	11,605	193,413
At 31 December 2015	29,353	115,370	14,152	2,019	8,905	25,780	12,367	207,946

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rate per annum:

Leasehold land and buildings	Over the shorter of 50 years or the remaining terms of leases
Pipelines	Over the shorter of 30 years or the remaining operation period of the relevant company
Machinery and equipment	8%-10%
Furniture and fixtures	16%-20%
Motor vehicles	20%-30%
Leasehold improvement for hotel operation	14%

Details of the pledged property, plant and equipment as at 31 December 2016 are set out in Note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. INVESTMENT PROPERTIES

	Investment properties in the PRC	Investment properties under development in the PRC	Total
	HK$'000	*HK$'000*	*HK$'000*
At fair value			
At 1 January 2015	2,192,406	730,380	2,922,786
Additions	–	29,872	29,872
Fair value change recognised in profit or loss	80,742	19,495	100,237
Transfer to inventory of properties *(Note 22)*	–	(779,747)	(779,747)
Exchange difference	(132,671)	–	(132,671)
At 31 December 2015 and 1 January 2016	2,140,477	–	2,140,477
Fair value change recognised in profit or loss	9,351	–	9,351
Exchange difference	(121,738)	–	(121,738)
At 31 December 2016	2,028,090	–	2,028,090

The Group's investment properties are held under medium term lease and are situated in the PRC.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

Details of the pledged investment properties at 31 December 2016 and 2015 are set out in Note 38.

15. INVESTMENT PROPERTIES (continued)

Fair value measurement of the Group's investment properties

The fair value of the Group's investment properties at 31 December 2016 and 2015 has been arrived at on the basis of a valuation carried out on the respective dates by Peak Vision Appraisals Limited, independent qualified professional valuers not connected to the Group who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The valuation of investment properties in Wuhan (Future City Shopping Centre) and Hangzhou were arrived at with the adoption of the combination of direct comparison method and investment method. Direct comparison method assumes the property is capable of being sold in its existing state with the benefit of immediate vacant possession and makes reference to comparable sales evidence as available in the relevant markets. Investment method takes into account the current rents passing and the reversionary income potential of the property.

Additional valuation method is adopted for the best estimation of the current market situation and the properties condition. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy at 31 December 2016 and 2015 are as follows:

	Level 1	**Level 2**	**Level 3**	**Fair value at 31 December 2016**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Investment properties in the PRC	**–**	**–**	**2,028,090**	**2,028,090**

	Level 1	Level 2	Level 3	Fair value at 31 December 2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment properties in the PRC	–	–	2,140,477	2,140,477

There were no transfer into or out of level 3 during the year.

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For the year ended 31 December 2016

15. INVESTMENT PROPERTIES (continued)

Fair value measurement of the Group's investment properties (continued)

The following table gives information about how the fair values of the major 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.

Investment Properties held by the Group	Valuation technique(s)	Significant unobservable inputs	Relation of unobservable inputs for fair value
Future City Shopping Centre in Wuhan	Combination of direct comparison method and investment method	(1) Reversionary yield: 5%	The increase in the reversionary yield would result in a decrease in fair value.
		(2) Estimated market unit sales price per square metre RMB: 16,000-51,100	The increase in the market unit sales price would result in an increase in fair value.
Commercial part of Mei Lai International Centre in Hangzhou	Combination of direct comparison method and investment method	(1) Reversionary yield: 4.75%	The increase in the reversionary yield would result in a decrease in fair value
		(2) Estimated market unit sales price per square metre RMB: 12,500-35,500	The increase in the market unit sales price would result in an increase in fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. GOODWILL

	2016	2015
	HK$'000	*HK$'000*
Cost		
At beginning of the year	**219,313**	174,605
Arising on:		
Acquisition of subsidiaries	**–**	46,958
Derecognised on disposal of a subsidiary *(Note 37)*	**(6,739)**	–
Exchange difference	**(2,058)**	(2,250)
At end of the year	**210,516**	219,313
Impairment		
At beginning of the year	**–**	–
Impairment loss recognised in the year	**42,000**	–
At end of the year	**42,000**	–
Carrying amounts		
At end of the year	**168,516**	219,313

Impairment testing on Goodwill

Goodwill is assessed for impairment annually irrespective of whether there is any indication of impairment.

For the purposes of impairment testing, goodwill has been allocated to the following cash generating units ("CGUs"). At the end of the reporting period, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of:

	2016	2015
	HK$'000	*HK$'000*
Property Development Business	**132,605**	174,605
Natural gas business located in Hunan, the PRC	**21,855**	23,156
Natural gas business located in Jiangxi, the PRC	**–**	6,659
Natural gas business located in Guangxi, the PRC	**14,056**	14,893
	168,516	219,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. GOODWILL (continued)

Impairment testing on Goodwill (continued)

For the purpose of impairment testing, the recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cash flow projections covering period until the expiry of the relevant operation period. The cash flow projections for the first five years are based on financial budgets approved by management.

Property development business

The recoverable amount of property development have been determined based on a value-in-use calculation represented by the management using cash flow projections. These cash flows projections for 5-year period are extrapolated using an estimated growth pattern at an annualised growth rates for each CGU ranging of 11% (2015: 12.5%) and assuming similar to comparable market price of neighbour properties and expected market share of the assessed entity. The discount rate applied to the cash flow projections are based on the average borrowing rate which is 9.09% (2015: 11.60%). The cash flow projections during the budget period are based on the expected gross margin of 26% (2015:20%) and expected completion date of different projects. Based on these projections, the recoverable amount of this CGU will be less than the carrying amount of CGU, and accordingly the Group recognised an impairment loss of HK$42,000,000 for the goodwill during the year ended 31 December 2016 which included in the other operating expense of consolidated statement of profit or loss.

Natural gas business

The recoverable amount of natural gas business have been determined based on a value-in-use calculation represented by the management using cash flow projections. The cash flows projections based on the pattern consistent with the track record of the respective entities taking into account the stage of the development of the respective gas projects and expectation of future in the market. The cash flows beyond the 5-year period are extrapolated using an estimated growth pattern at an annualised growth rates for each CGU ranging from 0% to 25% and assuming the gross profit margin will be at the same throughout the whole projection period. The growth rates are based on the management's estimation on the respective entity's projected market share and industry growth forecast.

The directors estimate discount rates using average cost of equity that reflect current market assessments of the time value of money and the risks specific to the CGUs and determined the discount rates to be at 10.91%.

The directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amounts of goodwill to exceed the recoverable amount of respective CGUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. INTANGIBLE ASSETS

	Operating concession rights in natural gas business *HK$'000*
COST	
At 1 January 2015	–
Arising on acquisition of subsidiaries	231,993
Exchange difference	(13,001)
At 31 December 2015 and 1 January 2016	218,992
Disposal of a subsidiary *(Note 37)*	(84,202)
Exchange difference	(6,029)
At 31 December 2016	128,761
AMORTISATION	
At 1 January 2015	–
Charge for the year	5,530
Exchange difference	(263)
At 31 December 2015 and 1 January 2016	5,267
Charge for the year	6,980
Disposal of a subsidiary *(Note 37)*	(3,656)
Exchange difference	(401)
At 31 December 2016	8,190
CARRYING AMOUNTS	
At 31 December 2016	120,571
At 31 December 2015	213,725

The intangible assets represent the Group's operating concession rights for natural gas business. The operating concession rights are amortised on a straight-line method over the remaining operating periods.

The intangible assets arising on acquisition of subsidiaries are measured at fair value at the acquisition date based on the directors' valuation with reference to independent valuation performed by professional valuers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. INTANGIBLE ASSETS (continued)

Details of the pledged intangible assets as at 31 December 2016 and 31 December 2015 are set out in Note 38.

Amortisation of HK$6,980,000 (2015: HK$5,530,000) is included in cost of sales in the consolidated statement of profit or loss. At the end of the reporting period, the Group reviewed the carrying amounts of its intangible assets and considered that there is no indication that those assets have suffered an impairment loss. No impairment has been recognised for the year ended 31 December 2016.

18. INTEREST IN AN ASSOCIATE

On 23 June 2016, the wholly-owned subsidiaries of the Group entered into the capital increase agreement with an independent third party ("the investor") in relation to the increase in the registered capital of the Jiangsu Hohai Property Development Company Limited* ("Jiangsu Hohai"), a non-wholly subsidiary of the Group. Upon completion of the capital increase as contemplated under the capital increase agreement, the shareholdings of the Group in the Jiangsu Hohai will be decreased from approximately 70.59% to 48.78% and resulting in a loss in control over the Jiangsu Hohai. On 29 November 2016, the shareholdings of the Group in the Jiangsu Hohai was further decreased from approximately 48.78% to 34.79%.

	2016	2015
	HK$'000	*HK$'000*
Unlisted investments:		
Share of net assets *(Note a)*	**22,674**	–
Advance to an associate *(Note b)*	**107,325**	–
Carrying amounts *(Note c)*	**129,999**	–

Notes:

(a) Investment in an associate was in the form of equity and loans from the Group and other shareholders in accordance with respective percentages of equity shareholding in this associate. Investments in the form of loans were comparatively more significant than those in the form of equity, so that the entire amounts were treated as quasi-capital. Under these circumstances, loss incurred by this associate was shared by the Group to the extent that the loss did not exceed the aggregate of its equity and loan investments. As at 31 December 2016, share of loss of associate did not exceed the equity investment.

(b) The balance of advance to an associate was unsecured, interest-free and will not be repayable in the coming twelve months. The Directors consider that the carrying amounts of advance to an associate approximate its fair values.

(c) The Directors consider that the recoverable amount of interest in an associate approximate its carrying amounts as at 31 December 2016.

The associate is accounted for using the equity method in the consolidated financial statements.

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. INTEREST IN AN ASSOCIATE (continued)

Jiangsu Hohai Property Development Company Limited

	2016 *HK$'000*
Non-current assets	377,025
Current assets	131,019
Current liabilities	(99,413)
Non-current liabilities	(343,457)
Net assets	65,174
Revenue	–
Loss for the year	–
Group's share of the total loss for the year	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in Jiangsu Hohai recognised in the consolidated financial statements:

	2016 *HK$'000*
Net assets of Jiangsu Hohai	65,174
Proportion of the Group's ownership interest in Jiangsu Hohai	34.79%
The Group's ownership interest in Jiangsu Hohai	22,674
Advance to an associate	107,325
Carrying amount of the Group's interest in Jiangsu Hohai	129,999

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For the year ended 31 December 2016

19. PREPAYMENT FOR ACQUISITION OF AN INTANGIBLE ASSET

The Group entered into a co-operation agreement with an independent third party in the PRC. According to the co-operation agreement, the Group has to construct a hotel (the "Nanjing Hotel") at her own cost and be responsible for the construction. An operational right of the Nanjing Hotel will be granted to the Group for a period of thirty years upon the completion of the Nanjing Hotel construction. The amount incurred in the construction will be reclassified as hotel operation right upon completion of the Nanjing Hotel construction. The prepayment was derecognised upon the deemed disposal of interests in a subsidiary on 23 June 2016.

20. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

Reference is made to the announcements of the Company dated on 5 January 2016, a subsidiary of the Group entered into an acquisition agreement with independent third parties, pursuant to which the Group acquired 100% equity interest of Tongdao County Sen Tai Natural Gas Company Limited* in Hunan Province ("Hunan Target Company") at a consideration of RMB21,000,000 (approximately HK$24,706,000), subject to downward adjustments. Hunan Target Company is principally engaged in the operation of exclusive natural gas construction and concession operating rights. As at 31 December 2016, the acquisition was still in progress and an amount of approximately RMB11,945,000 (approximately HK$13,422,000) was paid as deposit.

21. INVENTORIES

	2016	2015
	HK$'000	*HK$'000*
Consumables and spare parts	**529**	646
Natural gas	**3,818**	7,001
	4,347	7,647

None of the inventories of the Group was carried at net realisable value at the end of the reporting period.

* *For identification purpose only*

22. INVENTORY OF PROPERTIES

	2016	2015
	HK$'000	*HK$'000*
At beginning of the year	**2,109,881**	1,590,385
Construction costs incurred	**55,650**	128,446
Capitalisation of interest *(Note 8)*	**–**	119,245
Recognition as cost of sales	**(382,549)**	(352,486)
Transfer from investment properties *(Note 15)*	**–**	779,747
Settlement of consideration payable	**–**	(58,230)
Exchange difference	**(68,328)**	(97,226)
At end of the year	**1,714,654**	2,109,881

	2016	2015
	HK$'000	*HK$'000*
Properties under development	**550,471**	564,393
Properties held for sale	**1,164,183**	1,545,488
	1,714,654	2,109,881

The inventory of properties are located in the PRC and are held under medium-term leases or long-term leases.

Details of the pledged inventory of properties at 31 December 2016 and 2015 are set out in Note 38. Amounts of HK$185,146,000 of inventory of properties have been frozen by court due to the litigation. The directors considered that there is no material impact on the Group's operation.

The amounts which are expected to be realised within the Group's normal operating cycle in more than twelve months after the reporting date are classified as under current assets.

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23. TRADE AND OTHER RECEIVABLES

	2016 *HK$'000*	2015 *HK$'000*
Trade receivables	149,946	108,774
Less: Allowance for doubtful debts	–	–
	149,946	108,774
Prepayments *(note a)*	67,780	146,565
Other receivables and other deposits *(note b)*	251,343	57,944
	469,069	313,283

notes:

(a) Included in prepayments are amounts of approximately HK$10,401,000 (2015: approximately HK$11,018,000) for the repair and maintenance deposit paid to the government. The remaining balances represent the prepayment for construction work, prepayment for purchase of natural gas and other prepaid expenses.

(b) Included in other receivables and other deposits are amounts of approximately HK$13,007,000 and HK$7,430,000 (2015: approximately HK$14,047,000 and HK$7,872,000) for utility deposit and amount due from non-controlling shareholder of a subsidiary respectively. The other receivables also included herein is approximately HK$168,669,000 (2015: nil) being an other loan receivables bearing interest 9% annually due from an independent third party.

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23. TRADE AND OTHER RECEIVABLES (continued)

An aging analysis of trade receivables (net of allowance for doubtful debts) based on invoice date at the end of the reporting period is as follows:

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**128,986**	95,980
91 to 180 days	**2,480**	1,087
Over 180 days	**18,480**	11,707
	149,946	108,774

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The credit period generally granted to customers in relation to sales of natural gas is from 10 to 90 days. As for the customers in relation to connection of gas pipelines, the Group generally requests advance payments, and in circumstances of credit sales, management closely monitors the credit quality of the customers, and credit period was granted on a case by case basis with maximum of 2 years.

Rental income from investment properties is received in accordance with the terms of the relevant lease agreements, normally within 1-3 months from the issuance of invoices for customers.

The following table shows the amounts of receivable which are past due but not impaired as the balances related to debtors with sound repayment history and there has not been a significant change in credit quality and the amounts are still considered recoverable.

An aging analysis of trade receivables past due but not impaired is as follows:

	2016	2015
	HK$'000	*HK$'000*
Overdue by:		
1-30 days	**2,480**	1,087
31-60 days	**–**	–
61-180 days	**18,170**	11,520
Over 180 days	**310**	187
	20,960	12,794

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24. AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
	HK$'000	*HK$'000*
Unlisted investment at cost *(note a)*	**–**	25,000

	2016	2015
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current assets	**–**	25,000
Non-current assets	**–**	–
	–	25,000

note:

(a) The unlisted investment represents the investment in an unit fund established by a limited liability company established in the Cayman Islands. The unit fund is managed by a licensed corporation which is registered with Hong Kong Securities and Futures Commission. The unlisted investment was redeemed during the year.

25. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

	2016	2015
	HK$'000	*HK$'000*
Pledged bank deposits *(Note 38)*	**13,483**	14,286
Bank balances and cash	**58,890**	89,846
	72,373	104,132

These bank balances carry interest at market rates which range from 0.01% to 0.35% (2015: 0.01% to 0.30%) per annum. At 31 December 2016, the pledged bank deposits with more than three months to maturity when placed carried interest rate of 2.65% per annum (2015: 2.65%).

An amount of HK$236,000 in the bank balances have been frozen due to the litigation, but there is no material impact on the Group's operation.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group.

26. TRADE AND OTHER PAYABLES

The following is an aging analysis of the Group's trade payables based on the invoice date at the end of the reporting period:

	2016 HK$'000	2015 HK$'000
Within 90 days	97,181	306,619
91 to 180 days	903	562
Over 180 days	71,312	36,387
Trade payables	169,396	343,568
Interest payables	55,376	49,095
Accrued expenses and other tax payables	24,544	20,422
Consideration payables for acquisition of subsidiaries *(note a)*	4,834	39,314
Deposits received in respect of proposed disposal of subsidiaries *(note b)*	200,000	–
Other payables *(note c)*	130,614	169,352
	584,764	621,751

Trade payables principally comprise amounts outstanding for purchase of natural gas and construction materials and construction work of properties under development and investment properties.

The average credit period of trade payables is three to six months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The directors consider that the carrying amount of trade and other payables approximate their fair value.

notes:

(a) The consideration payable represent the amount payable for acquisition of subsidiaries and additional interests in subsidiaries.

(b) On 23 December 2016, the Group and a shareholder's subsidiary entered into a Memorandum of Understanding ("MOU") in respect of the proposed disposal of subsidiaries. The MOU is non-legally binding and the deposits received of HK$200,000,000 is refundable.

(c) The other payables included approximately HK$26,117,000 (2015: approximately HK$25,985,000), being deposit received from a vendor for construction work.

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For the year ended 31 December 2016

27. DEPOSITS RECEIVED FOR SALE AND LEASE OF PROPERTIES

The amounts which are expected to be realised within twelve months after the reporting date are classified under current liabilities as it is within the Group's normal operating cycle.

	2016 HK$'000	2015 HK$'000
Deposits received for sale of properties	**83,548**	59,239
Deposits received for lease of properties	**1,461**	1,667
	85,009	60,906
Less: Amounts shown under current liabilities	**(83,548)**	(59,239)
Amounts shown under non-current liabilities	**1,461**	1,667

Considerations in respect of properties sold are received in accordance with the terms of the related sales and purchase agreement. The portions received on or before the date of delivery of the properties to customers are recorded as deposits received for sale of properties. The remaining balances are normally settled within 1-3 months from date of delivery of the properties to the customers.

28. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

These amounts were unsecured, non-interest bearing and repayable on demand. The directors consider that the carrying amount of these amounts approximate their fair value.

29. AMOUNTS DUE TO RELATED PARTIES

These amounts are unsecured, interest bearing at 9-15% per annum and repayable within two years. The directors consider that the carrying amount of these amounts approximate to their fair value.

	2016 HK$'000	2015 HK$'000
Shareholder's subsidiaries		
Unsecured, bearing interest at 12-15% per annum and repayable within one year	**315,966**	264,581
Unsecured, bearing interest at 9% per annum and repayable more than one year but not exceeding two years	**648,017**	357,143
	963,983	621,724
Less: Amount due within one year shown under current liabilities	**(315,966)**	(264,581)
	648,017	357,143

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30. BORROWINGS

	2016 HK$'000	2015 HK$'000
Bank loans	739,953	949,014
Other loans	364,185	283,316
	1,104,138	1,232,330
Analysed as:		
Secured	869,082	1,106,092
Unsecured	235,056	126,238
	1,104,138	1,232,330
Carrying amount repayable		
On demand or within one year	791,441	773,304
More than one year, but not exceeding two years	214,944	215,573
More than two years, but not more than five years	77,528	161,310
More than five years	20,225	82,143
	1,104,138	1,232,330
Less: Amounts due on demand or within one year shown under current liabilities	(791,441)	(773,304)
	312,697	459,026

The bank loans and other loans carry interest at the prevailing market rates.

During the year, the subsidiaries of the Group had overdue loan payment of approximately RMB126,075,000 (equivalent to approximately HK$141,657,000). As a result, amount of approximately RMB78,000,000 (equivalent to approximately HK$87,640,000) of non-current borrowings was reclassified to current liabilities from non-current liabilities as at 31 December 2016. The subsidiaries had negotiated and rearranged the repayment schedule with banks in March 2017.

The directors consider that the carrying amount of borrowings approximate their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

30. BORROWINGS (continued)

The exposure of the Group's fixed rate borrowings and the contractual maturity dates (or reset dates) are as follows:

	2016 HK$'000	2015 HK$'000
Fixed rate borrowings:		
– Within one year	454,298	519,255
– More than one year, but not exceeding two years	168,539	90,953
	622,837	610,208

The variable interest rate borrowings are reset from a month to a year depending on the loan agreement.

Fixed rate borrowings carry interest rate at rates which range from 4.35% to 22% (2015: 3.6% to 24%) per annum, while the variable rate borrowings carry interest rate at rates which range from 3.13% to 7.00% (2015: 5.50% to 8.52%) per annum.

The Group's borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2016 RMB'000	2015 RMB'000
Currency – RMB	1,104,138	1,001,557

31. CONVERTIBLE NOTES

Convertible notes due on 13 November 2017

On 13 November 2007, the Company issued convertible notes with an aggregate principal amount of HK$180,050,000 ("2017 Notes"), due on 13 November 2017 and bearing interest at 3% per annum payable semi-annually in arrears. The 2017 Notes were issued as part of the consideration for the acquisition of the entire issued share capital of China Environmental Water Holdings Limited. The 2017 Notes are convertible into fully paid ordinary shares with a par value of HK$0.01 each of the Company at an initial conversion price of HK$0.15, subject to adjustment.

The conversion price of 2017 Notes was adjusted from HK$0.15 to HK$0.045 effective from 12 October 2009 upon the completion of placement. The conversion price was further adjusted from HK$0.045 to HK$0.3781 effective from 24 October 2011 upon the completion of share consolidation and open offer on 17 September 2011 and 24 October 2011 respectively.

31. CONVERTIBLE NOTES (continued)

Convertible notes due on 28 June 2019

On 28 June 2016, the Company issued convertible note with an aggregate principal amount of HK$73,000,000 ("2019 Notes"), due on 28 June 2019 and bearing interest at 5% per annum payable annually in arrears. The 2019 Notes were issued to China Financial International Investments Limited, one of the substantial shareholders of the Company. The 2019 Notes are convertible into fully paid ordinary shares with a par value of HK$0.1 each of the Company at an initial conversion price of HK$0.50, subject to adjustment. The proceeds have been fully untilized in repayment indebtedness of the Group.

At initial recognition, the equity component of the convertible loan notes was separated from the liability component. The equity element is presented in equity heading Convertible notes equity reserve.

The fair value of the liability component of the Convertible bond at 31 December 2016 amounted to HK$138 million. The fair value is calculated using cash flow discounted at rate based on the effective interest rate and are within level 2 of the fair value. The effective interest rate of 2017 Notes and 2019 Notes are 7.55% and 15.4% per annum, respectively. The movement of the liability component of 2017 Notes and 2019 Notes for the year are set out below:

Carrying amount of liability components of 2017 Notes and 2019 Notes

	Total
	HK$'000
As 1 January 2015	72,335
Interest charged *(Note 8)*	5,546
Interest paid	(2,595)
At 31 December 2015 and 1 January 2016	75,286
2019 Notes liability component on initial recognition at 28 June 2016	55,900
Interest charged *(Note 8)*	9,895
Interest paid	(2,595)
At 31 December 2016	138,486

	2016	2015
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current liabilities	**78,466**	–
Non-current liabilities	**60,020**	75,286
	138,486	75,286

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32. SENIOR NOTES

On 28 November 2013, the Company issued Senior Notes with the principal amount of HK$350,000,000 ("Original Notes") at an offer price of 98.78% of the face value of the notes (the "Senior Notes"). On 14 May 2014, the Company further issued senior notes with the principal amount of HK$250,000,000 ("Additional Notes") at an offer price of 99.5% of the face value of the notes. The Additional Notes have the same terms and conditions as the Original Notes, save for the issue date and issue price. These Additional Notes were consolidated with the Original Notes to form a single series of Senior Notes. The Senior Notes bear interest at 12.5% per annum payable semi-annually in arrears and were due on 28 November 2016. The Senior Notes are listed on The Stock Exchange of Hong Kong Limited. The Senior Notes carry effective interest rate of 15.25% (2015: 15.25%) per annum. Interest expenses of approximately HK$83,402,000 (2015: approximately HK$89,753,000) was charged to profit or loss for the year ended 31 December 2016. The Senior Notes were mature and repaid in full on 28 November 2016.

33. SHARE CAPITAL

	Number of ordinary shares *HK$0.1 each*	Amount *HK$'000*
Authorised:		
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	5,000,000,000	500,000
Issued and fully paid:		
At 1 January 2015, 31 December 2015 and 1 January 2016	2,044,594,861	204,459
Issue of shares *(note)*	262,000,000	26,200
At 31 December 2016	2,306,594,861	230,659

note: On 28 June 2016, 262,000,000 shares were issued by the Company as a result of a subscription agreement dated 21 June 2016. Shares were issued at a price of HK$0.50 giving the gross proceeds of HK$131,000,000 for general working capital of the Company.

34. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 3 June 2003 for the primary purpose of providing incentives to encourage its participants to perform their best in achieving the goals of the Company and enjoy its result. The participants are any director and eligible employee of the Group; any entity in which any member of the Group holds any equity interest (the "Invested Entity"); any supplier of goods or services and customers to any member of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; any adviser or consultant to any area of business or business development of any member of the Group or any Invested Entity; any shareholders of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, as absolutely determined by the board.

The maximum number of securities which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon the exercise of all options to be granted under the Scheme of the Group must not in aggregate exceed 10% of the shares in issue on 25 June 2003, being the date on which the Company's shares were listed on the Stock Exchange. For the purpose of calculating the above, options lapsed in accordance with the Scheme shall not be counted.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The period within which the shares must be taken up under an option of the Scheme shall not be later than 10 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. HK$1 is payable on acceptance of the options within 21 days from the date of grant. The subscription price is the highest of (i) the closing price of the shares quoted in the Stock exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant which must be a business day; (ii) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a share. The Scheme is valid for 10 years from 3 June 2003. No further options may be granted pursuant to the Scheme after 2 June 2013.

The above Scheme expired during year ended 31 December 2013 and was replaced by a new share option scheme ("2013 Option Scheme") which carries the same terms as the scheme.

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For the year ended 31 December 2016

34. SHARE OPTION SCHEME (continued)

On 18 June 2013, the shareholders of the Company at the annual general meeting approved the adoption of the 2013 Option Scheme and the termination of the Scheme which was adopted by the Company on 3 June 2003. The 2013 Option Scheme will expire on 17 June 2023. Option granted under the Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of the Scheme.

The following table discloses details of the Company's options under the Scheme held by directors and employee/consultants and the movements during the year ended 31 December 2016:

Category	Date of grant	Exercise price HK$	Exercisable period DD/MM/YYYY	At 1 January 2016	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	Outstanding at 31 December 2016
Directors	03/11/2010	0.9602	03/11/2010 to 02/11/2020	25,590,526	–	–	–	(12,795,263)	12,795,263
Director	23/04/2013	0.5980	23/04/2013 to 22/04/2023	54,262,000	–	–	–	(54,262,000)	–
Directors, employees and consultants	29/05/2013	0.6400	29/05/2013 to 28/05/2023	42,787,228	–	–	–	(16,600,000)	26,187,228
Directors, employees and consultants	22/01/2015	0.6680	22/01/2015 to 21/01/2025	180,872,286	–	–	–	(121,510,602)	59,361,684
Employees and consultants	16/06/2015	0.8800	16/06/2015 to 15/06/2025	60,000,000	–	–	–	(55,000,000)	5,000,000
Consultant	25/06/2015	0.9100	25/06/2015 to 24/06/2025	20,445,948	–	–	–	–	20,445,948
				383,957,988	–	–	–	(260,167,865)	123,790,123

The following table discloses details of the Company's options under the Scheme held by directors and employees/consultants and the movements during the year ended 31 December 2015:

Category	Date of grant	Exercise price HK$	Exercisable period DD/MM/YYYY	At 1 January 2015	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	Outstanding at 31 December 2015
Directors	03/11/2010	0.9602	03/11/2010 to 02/11/2020	25,590,526	–	–	–	–	25,590,526
Director	23/04/2013	0.5980	23/04/2013 to 22/04/2023	54,262,000	–	–	–	–	54,262,000
Directors, employees and consultants	29/05/2013	0.6400	29/05/2013 to 28/05/2023	42,787,228	–	–	–	–	42,787,228
Directors, employees and consultants	22/01/2015	0.6680	22/01/2015 to 21/01/2025	–	180,872,286	–	–	–	180,872,286
Employees and consultants	16/06/2015	0.8800	16/06/2015 to 15/06/2025	–	60,000,000	–	–	–	60,000,000
Consultant	25/06/2015	0.9100	25/06/2015 to 24/06/2025	–	20,445,948	–	–	–	20,445,948
				122,639,754	261,318,234	–	–	–	383,957,988

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34. SHARE OPTION SCHEME (continued)

The Group issues equity-settled share-based payments to directors, certain employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually be vested and adjusted for the effect of non-market-based vesting conditions. Options granted during the year 2010, 2013 and 2015 were vested at the date of grant.

During the year ended 31 December 2016, the Group incurred none of share option expenses (2015: approximately HK$57,581,000).

The Scheme was adopted by way of Shareholders' resolution on 18 June 2013. Accordingly, the Scheme mandate limit that could be granted at the time of adoption of the Scheme was 180,872,286 shares, there was 180,872,286 outstanding options which representing from the date of adoption of the Scheme to 31 December 2015, being 10% of the issued share capital of the Company as at 18 June 2013.

On 27 February 2015, the Scheme mandate limit was refreshed to 204,459,486 Shares (representing approximately 10% of the issued share capital of the Company as at 27 February 2015). Subsequently, there were further 80,445,948 options granted from the date of the latest refreshment of the Scheme mandate limit, which has 80,445,948 options were outstanding (representing approximately 3.93% of the issued share capital of the Company as at 27 February 2015) as at 31 December 2015. Under the current refreshed Scheme mandate limit, the share options carrying the rights to subscribe for 124,013,538 shares (representing approximately 6.07% of issued share capital of the Company) were available for granting by the Company as at 31 December 2015.

The fair value of the total options granted in the year measured as at 22 January 2015, 16 June 2015 and 25 June 2015 were approximately HK$38,390,000, HK$14,190,000 and HK$5,001,000 respectively. The following significant assumptions were used to derive the fair value using the Black-Scholes model with Binomial Tree method:

1. an expected volatility was 26.1540%, 26.3530% and 26.3745% respectively;

2. expected no annual dividend yield;

3. the estimated expected life of the options granted in range (10 years); and

4. the risk free rate was 1.7159%, 1.8573% and 1.8433% respectively.

The Black-Scholes model with Binomial Tree method requires the input of highly subjective assumptions, including the volatility of share price. As changes in subjective input assumptions can materially affect the fair value estimated, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

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35. DEFERRED TAX LIABILITIES

The following are the Group's major deferred tax assets and liabilities recognised and movements thereon during the current and prior reporting periods:

	Revaluation on investment properties	Revaluation gain arising from business combination	Intangible assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	274,553	137,993	–	412,546
Exchange difference	(17,047)	–	(2,179)	(19,226)
Arising from acquisition of subsidiaries	–	(2,006)	43,512	41,506
Charged (credited) to the consolidated statement of profit or loss for the year *(Note 10)*	14,804	(8,209)	(1,041)	5,554
At 31 December 2015 and 1 January 2016	272,310	127,778	40,292	440,380
Exchange difference	(15,262)	–	(1,729)	(16,991)
Derecognised on disposal of a subsidiary *(Note 37)*	–	–	(7,003)	(7,003)
Credited to the consolidated statement of profit or loss for the year *(Note 10)*	(808)	(9,222)	(1,411)	(11,441)
At 31 December 2016	256,240	118,556	30,149	404,945

At 31 December 2016 and 2015, the Group had no unused tax losses available for offset against future profit and no deferred tax asset has been recognised accordingly. The unrecognised tax losses may be carried forward indefinitely.

Pursuant to the PRC Enterprise Income Tax Law, dependent upon the nationality and domicile of the foreign investors, a 5% to 10% withholding tax is levied on the dividends declared to foreign investors. The requirement has become effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rates range from 5% to 10%.

At 31 December 2016, the unrecognised deferred tax liabilities were approximately HK$5,466,000 (2015: approximately HK$6,134,000), relating to withholding tax that would be payable for undistributed profits of PRC subsidiaries, as the directors consider that the timing for reversed of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future. The total undistributed profits of these PRC subsidiaries at 31 December 2016 amounted to approximately HK$54,661,000 (2015: approximately HK$61,342,000).

36. RETIREMENT BENEFITS SCHEME

When the Mandatory Provident Fund Schemes Ordinance ("MPFO") came into effect in Hong Kong on 1 December 2000, The Group established a mandatory provident fund scheme (the "MPF Scheme") for its employees in Hong Kong.

Prior to the introduction of the MPF Scheme, the Group had operated a defined contribution scheme registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") for its qualified employees in Hong Kong. The ORSO Scheme was discontinued in 2001 and the benefits of the employees were transferred to the MPF Scheme. The assets held under the ORSO Scheme which were held separately from those of the Group were also transferred directly to the MPF Scheme. For MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee.

The amounts charged to the consolidated statement of profit or loss represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes less forfeiture, if any, arising from employees leaving the Group prior to completion of their qualifying service period.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the end of the reporting period, there was no significant amount of forfeited contributions available to reduce future contributions.

37. DEEMED DISPOSAL/DISPOSAL OF SUBSIDIARIES

(a) Deemed disposal of a subsidiary

On 23 June 2016, the subsidiaries of the Group entered into a capital increase agreement with the Investor, in relation to the increase in the registered capital of Jiangsu Hohai, a non-wholly owned subsidiary of the Group. Pursuant to the completion of the capital increase agreement, the shareholdings of the Group in Jiangsu Hohai decreased from approximately 70.59% to 48.78% and the loss in control in the Jiangsu Hohai. The reduction in equity interests in Jiangsu Hohai is treated as a deemed disposal. Details of the transaction are set out in the Company's announcement dated 23 June 2016.

On 7 November 2016, the subsidiaries of the Group entered into another capital increase agreement with another independent third party, in relation to the increase in the registered capital of Jiangsu Hohai. Pursuant to the completion of the capital increase agreement, the shareholdings of the Group in Jiangsu Hohai decreased from approximately 48.78% to 34.79%. The reduction in equity interests in Jiangsu Hohai is treated as a deemed disposal.

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37. DEEMED DISPOSAL/DISPOSAL OF SUBSIDIARIES (continued)

(a) Deemed disposal of a subsidiary (continued)

	2016
	HK$'000
Fair value of interest retained	21,790

Analysis of assets and liabilities over which control was lost:

	HK$'000
Non-current assets	
Property, plant and equipment	235
Prepayment for acquisition of an intangible asset	359,626
Current assets	
Amounts due from group companies	65,439
Prepayments, deposits and other receivables	10,967
Cash and cash equivalents	6,296
Current liabilities	
Trade and other payables	(62,874)
Amounts due to related companies	(181,402)
Amounts due to the group companies	(171,115)
Net assets disposal of	27,172

	HK$'000
Deemed gain on disposal of a subsidiary:	
Fair value of retained interest	21,790
Net assets disposed of	(27,172)
Non-controlling interests	7,930
Cumulative exchange difference in respect of the net assets of Jiangsu Hohai reclassified from equity to profit or loss	(1,205)
Gain on deemed disposal	1,343

	HK$'000
Net cash outflow arising on disposal	
Cash and cash equivalents deemed disposed of	6,296

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37. DEEMED DISPOSAL/DISPOSAL OF SUBSIDIARIES (continued)

(b) Disposal of a subsidiary

On 18 May 2016, a subsidiary of the Group entered into a sales and purchase agreement with an independent third party, pursuant to which the Group disposed of the entire 90% equity interest in Tonggu County Tongcheng Natural Gas Company Limited* ("Tonggu Company") at a consideration of RMB22,929,000 (approximately HK$27,725,000). The disposal was completed in June 2016.

The net assets of the Tonggu Company at the date of disposal were as follow:

	2016 *HK$'000*
Property, plant and equipment	871
Goodwill	6,739
Intangible asset – operating concession right	80,546
Inventories	869
Prepayments, deposits and other receivables	11,254
Bank balances and cash	33
Trade and other payables	(7,541)
Due to group companies	(3,614)
Due to non-controlling interest	(31,312)
Tax payable	(188)
Bank and other borrowings	(22,821)
Deferred tax liabilities	(7,003)
	27,833
Release of translation reserve	184
Non-controlling interests	(2,109)
Gain on disposal	1,817
Total consideration	27,725

	2016 *HK$'000*
Consideration	27,725
Less: liabilities offset	(3,445)
Less: consideration receivable	(21,176)
Less: cash disposed of	(33)
Net cash inflow arising on the disposal	3,071

* *For identification purpose only.*

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38. PLEDGE OF ASSETS

At the end of the reporting period, the following assets with their respective carrying amount were pledged by the Group to secure general banking facilities granted to the Group:

	2016 *HK$'000*	2015 *HK$'000*
Inventory of properties together with relevant land use rights situated in the PRC *(note a)*	**694,099**	1,352,548
Investment properties situated in the PRC	**2,028,090**	2,140,477
Investment properties under development situated in the PRC	**–**	–
Property, plant and equipment situated in the PRC	**46,620**	16,254
Intangible assets situated in the PRC	**–**	80,579
Pledged bank deposit situated in the PRC	**13,483**	14,286
	2,782,292	3,604,144

In addition, the Group has also pledged its rights to receive income of a subsidiary in favour of a bank to secure a borrowing granted to the Group.

note:

(a) Included in inventory of properties are amounts of approximately HK$185,146,000 of inventories which have been frozen by court due to the litigation. The directors considered that there is no material impact on the Group's operation.

39. OPERATING LEASES

The Group as lessee for office and other premises

At the end of the reporting period, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	2016 *HK$'000*	2015 *HK$'000*
Within one year	**25,936**	28,262
In the second to fifth year inclusive	**20,207**	48,281
	46,143	76,543

Operating lease payments represent rentals payable by the Group for certain of its office and premises. Leases are negotiated for a term of between two to seven years and rentals are fixed between two to seven years.

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39. OPERATING LEASES (continued)

The Group as lessor

Property rental income earned during the year was HK$14,711,000 (2015: HK$19,177,000). The properties are expected to generate rental yield of 3.27% (2015: HK$2.83%) on an ongoing basis. All of the properties held have committed tenants within the next six years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**11,180**	12,540
In the second to fifth year inclusive	**8,549**	10,753
More than five years	**1,803**	4,564
	21,532	27,857

40. CAPITAL COMMITMENTS

At 31 December 2016, the Group had capital commitments in respect of its construction of properties, contracted but not provided in the consolidated financial statements, amounting to approximately HK$17,800,000 (2015: approximately HK$21,400,000).

The Group had capital commitment in respect of its acquisition of a subsidiary, authorised but not contracted in the consolidated financial statements, amounting to RMB9,055,000 (approximately HK$10,174,000).

* *For identification purpose only.*

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41. CONTINGENT LIABILITIES

Contingent liabilities at the end of the reporting period are analysed as follows:

The Company has not recognised any deferred income for the guarantees given in respect of borrowing and other banking facilities as their fair value cannot be reliably measured and transaction was minimal.

As at 31 December 2016, the Group had provided guarantees to banks for loans of approximately HK$108,401,000 (2015: approximately HK$48,700,000) in respect of the mortgage loans provided by the banks to purchasers of the properties the Group developed and sold. The guarantees are issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates.

As at 31 December 2016, a subsidiary was exposed to litigation in relation to joint and several guarantee provided to certain financial institutions and independent third parties regarding loan and the interest thereon totaling approximately RMB45,271,000 (equivalent to approximately HK$50,866,000) granted to certain independent third parties. The guarantee will be released after the full repayment of the loan and interest thereon.

One of the guarantors ("guarantor") committed to bear the loan and the interest in written. Moreover, the subsidiary also due approximately RMB47,449,000 (equivalent to approximately HK$53,314,000) to the guarantor as at 31 December 2016. Once the guarantor has not fulfilled his commitment, the payable amount can be set off with the loan principal together with accrued interest. Therefore, the directors consider the risk to the Company is remote and does not affect the operation of the group.

The directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 31 December 2016 and 2015.

42. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) Compensation to key management personnel:

The directors of the Company considered that they are the only key management personnel of the Group and their remuneration has been set out in Note 9.

(b) Related party transactions:

(i) Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entered into the following transactions with related parties:

	Finance cost (*note i*)		Amounts due to related parties (Interest bearing) (*note ii*)		Amounts due from related party (*note iii*)		Amounts due to related parties (Non-interest bearing) (*note iv*)		Deposits received (*note v*)	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Shareholder	**9,895**	5,546	**–**	–	**–**	–	**–**	–	**–**	–
Shareholder's subsidiaries	**73,311**	20,224	**963,983**	621,724	**–**	–	**–**	–	**200,000**	–
Non-controlling interest	**–**	–	**–**	–	**7,430**	7,872	**1,221**	32,253	**–**	–
	83,206	25,770	**963,983**	621,724	**7,430**	7,872	**1,221**	32,253	**200,000**	–

notes:

(i) The interest paid on the convertible notes and amounts due to related parties. The interest rate ranges from 7%-24% p.a. (2015: 7.55%-15% p.a.).

(ii) The amounts are unsecured and interest bearing. No guarantees have been given.

(iii) The transactions are carried out on normal commercial terms.

(iv) The amounts are unsecured, non-interest bearing and repayable on demand. No guarantees have been given.

(v) The Group and a shareholder's subsidiary entered into a Memorandum of Understanding ("MOU") in respect of the proposed disposal of subsidiaries on 23 December 2016. The MOU is non-legally binding and the deposits received of HK$200,000,000 is refundable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Paid-up capital/ registered capital	Percentage of issued capital/ registered attributable to the Group 2016	2015	Proportion of voting power held 2016	2015	Principal activities
Directly held:							
China Water Property Investment Limited 中國水務地產投資有限公司	British Virgin Islands	USD10,000	100%	100%	100%	100%	Investment holdings
Green Environmental Resources Limited 綠色環境資源有限公司	British Virgin Islands	USD1	100%	100%	100%	100%	Investment holdings
Indirectly held:							
China Water Property Corporate Finance Limited 中國水務地產企業財務有限公司	Hong Kong	HK$10,000	100%	100%	100%	100%	Investment holdings
Shenzhen Zhongshui Property Company Limited* 深圳中水置業有限公司	PRC	RMB80,000,000	100%	100%	100%	100%	Investment holdings
China Water Property (Hong Kong) Investment Limited 中國水務地產（香港）投資有限公司	Hong Kong	HK$10,000	100%	100%	100%	100%	Investment holdings
First Supreme Limited	British Virgin Islands	USD1	100%	100%	100%	100%	Investment holdings
Hong Kong Walter Hotel Management Group Limited 香港沃爾特酒店管理集團有限公司	British Virgin Islands	USD1	100%	100%	100%	100%	Investment holdings

* *For identification purpose only.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment	Paid-up capital/ registered capital	Percentage of issued capital/ registered attributable to the Group 2016	2015	Proportion of voting power held 2016	2015	Principal activities
China Water Real Property Limited 中國水務房地產有限公司	Hong Kong	HK$10,000	100%	100%	100%	100%	Investment holdings
China Water Property Land Development Limited 中國水務地產開發有限公司	Hong Kong	HK$10,000	100%	100%	100%	100%	Investment holdings
China Water Property (Hong Kong) Group Limited 中國水務地產（香港）集團有限公司	British Virgin Islands	USD1	100%	100%	100%	100%	Investment holdings
China Water Property Development Limited 中國水務地產發展有限公司	Hong Kong	HK$1	100%	100%	100%	100%	Investment holdings
Water Property Hubei Group Limited* 水務地產湖北集團有限公司	PRC	RMB200,000,000 *(note i)*	100%	100%	100%	100%	Property development
HK Mei Lai International (Canada) Limited 香港美來國際（加拿大) 有限公司	Hong Kong	HK$10,000	100%	100%	100%	100%	Investment holdings
Hangzhou Niagra Real Estates Company Limited* ("Hangzhou Niagra") 杭州尼加拉置業有限公司	PRC	USD14,900,000 *(note i)*	100%	100%	100%	100%	Property development and sale of properties
Hangzhou Mei Lai Commercial Corporation Management Company Limited* 杭州美萊商業企業管理有限公司	PRC	RMB30,000,000	100%	100%	100%	100%	Provision of management services

* *For identification purpose only.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment	Paid-up capital/ registered capital	Percentage of issued capital/ registered attributable to the Group		Proportion of voting power held		Principal activities
			2016	2015	2016	2015	
Hangzhou Pu Tian Property Development Company Limited* 杭州普天房地產開發有限公司	PRC	RMB30,000,000 *(note ii)*	60%	60%	60%	60%	Property development and sale of properties
Chunan Yuehuzhuang Hotel Company Limited* 淳安悦湖莊酒店有限公司	PRC	RMB1,000,000	60%	60%	60%	60%	Provision of hotel operation
Wuhan Xingiaohui Commercial Property Management Company Limited* 武漢新潮薈商業管理有限公司	PRC	RMB10,000,000	100%	100%	100%	100%	Provision of management service
Wuhan Kaiyue Property Development Company Limited* 武漢凱越房地產開發有限公司	PRC	RMB50,000,000	100%	100%	100%	100%	Property development and sale of properties
Wuhan Future City Hotel Management Company Limited* 武漢未來城大酒店管理有限公司	PRC	RMB5,000,000	100%	100%	100%	100%	Provision of hotel operation
Jiangsu Hohai Property Development Company Limited* 江蘇河海置業有限公司	PRC	RMB28,333,333.33	35%	71%	35%	71%	Property development
Wuhan Future City Technology Incubator Company Limited* 武漢未來城科技孵化器有限責任公司	PRC	RMB1,000,000	100%	100%	100%	100%	Provision of management service

* For identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment	Paid-up capital/ registered capital	Percentage of issued capital/ registered attributable to the Group 2016	2015	Proportion of voting power held 2016	2015	Principal activities
Wuhan Zhong Nan Automobile Parts And Accessories Company Limited* 武漢市中南汽車配件配套有限責任公司	PRC	RMB50,000,000	100%	100%	100%	100%	Property development and sale of properties
Wuhan Future City Property Management Company Limited* 武漢未來城物業管理有限公司	PRC	RMB500,000	100%	100%	100%	100%	Provision of management service
Guangdong Zhongshui Property Development Company Limited* 廣東中水地產開發有限公司	PRC	RMB20,000,000	100%	100%	100%	100%	Property development and sale of properties
China Infrastructure Investments Company Limited 中國基礎設施投資有限公司	Hong Kong	HK$1	100%	100%	100%	100%	Investment holdings
Jiangxi Zhongshui Culture Industry Investment Development Company Limited* 江西中水文化產業投資發展有限公司	PRC	RMB10,000,000	100%	100%	100%	100%	Property development
北京聖龍文化有限公司	PRC	RMB20,000,000	100%	100%	100%	100%	Investment holdings
China Environment Investment Limited 中國環境投資有限公司	Hong Kong	HK$1	100%	100%	100%	100%	Investment holdings

* *For identification purpose only.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment	Paid-up capital/ registered capital	Percentage of issued capital/ registered attributable to the Group		Proportion of voting power held		Principal activities
			2016	2015	**2016**	2015	
邁森融資租賃（上海）有限公司	PRC	RMB219,666,229	**100%**	100%	**100%**	100%	Investment holdings
Wuhan Chengji Commodity City Management Company Limited* 武漢城基小商品城商業管理有限公司	PRC	RMB500,000	**100%**	100%	**100%**	100%	Provision of management service
Shenzhen Huafeng Infrastructure Investments Company Limited* 深圳華峰基礎設施投資有限公司	PRC	RMB20,000,000	**100%**	100%	**100%**	100%	Property development and sale of properties
Yongxing Zhongtian Gas Company Limited* 永興中天燃氣有限公司	PRC	RMB50,000,000	**70%**	70%	**70%**	70%	Sales of natural gas and gas pipeline construction
Rucheng Zhongtian Gas Company Limited* 汝城中天燃氣有限公司	PRC	RMB50,000,000	**70%**	70%	**70%**	70%	Sales of natural gas and gas pipeline construction
Tonggu County Tongcheng Natural Gas Company Limited* 銅鼓縣銅城天然氣有限公司	PRC	RMB6,080,000	**-**	90%	**-**	90%	Sales of natural gas and gas pipeline construction

* For identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment	Paid-up capital/ registered capital	Percentage of issued capital/ registered attributable to the Group		Proportion of voting power held		Principal activities
			2016	2015	**2016**	2015	
Rongshui Yaneng Natural Gas Enterprise Development Company Limited* 融水亞能天然氣實業發展有限公司	PRC	RMB10,000,000	**100%**	100%	**100%**	100%	Sales of natural gas and gas pipeline construction
Xiangzhou County Senzhong Gas Company Limited* 象州縣森眾燃氣有限公司	PRC	RMB10,000,000	**100%**	100%	**100%**	100%	Sales of natural gas and gas pipeline construction

notes:

(i) Hangzhou Niagra Real Estates Co. Ltd and Water Property Hubei Group Limited are wholly foreign owned enterprises established in the PRC.

(ii) Hangzhou Pu Tian Property Development Co., Ltd. is a sino-foreign joint venture enterprise established in the PRC.

(iii) None of the subsidiaries had any debt securities outstanding during the year or at the end of the reporting period.

The above table lists the subsidiaries of the Group which, in the opinions of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* *For identification purpose only.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

(b) Material non-controlling interest

The following table lists out the information relating to the consolidated results and financial position of major subsidiaries of the Group which have material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before elimination of any inter-company transactions.

	2016 ***HK$'000*** **Yongxing Zhongtian** ***(note a)***	2015 *HK$'000* Yongxing Zhongtian *(note a)*
NCI percentage	**30%**	30%
Current assets	**7,684**	5,397
Non-current assets	**122,951**	127,466
Current liabilities	**(36,059)**	(22,667)
Non-current liabilities	**(42,721)**	(57,843)
Net assets	**51,855**	52,353
Carrying amount of NCI	**15,557**	15,706

	2016 ***HK$'000*** **Yongxing Zhongtian** ***(note a)***	2015 *HK$'000* Yongxing Zhongtian *(note a)*
Revenue	**17,236**	6,887
Profit and total comprehensive income for the year	**1,891**	814
Profit and total comprehensive income allocated to NCI	**567**	244
Net cash flow from operating activities	**21,327**	10,335
Net cash flow used in investing activities	**(8)**	(218)
Net cash flow used in financing activities	**(14,246)**	(9,720)
Net cash inflow	**7,073**	397

notes:

(a) The Group acquired 70% of shareholding of Yongxing Zhongtian on 3 April 2015.

* *For identification purpose only.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. STATEMENT OF THE FINANCIAL POSITION OF THE COMPANY

	2016 HK$'000	2015 HK$'000
ASSETS		
Non-current asset		
Interests in subsidiaries	941,969	1,433,845
Current assets		
Other receivables	402	290
Bank balances	736	400
	1,138	690
TOTAL ASSETS	943,107	1,434,535
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	230,659	204,459
Reserves *(note)*	540,133	531,761
TOTAL EQUITY	770,792	736,220
Non-current liability		
Convertible notes	60,020	75,286
Current liabilities		
Other payables and accruals	33,829	38,305
Convertible notes	78,466	–
Senior notes	–	584,724
	112,295	623,029
TOTAL LIABILITIES	172,315	698,315
TOTAL EQUITY AND LIABILITIES	943,107	1,434,535
NET CURRENT LIABILITIES	(111,157)	(622,339)
TOTAL ASSETS LESS CURRENT LIABILITIES	830,812	811,506

The Company's statement of financial position was approved and authorised for issue by the board of directors on 30 March 2017 and are signed on its behalf by:

Li Chao Bo *DIRECTOR*	**Wang Wenxia** *DIRECTOR*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. STATEMENT OF THE FINANCIAL POSITION OF THE COMPANY (continued)

note: Movement in the Company's reserves

	Share premium HK$'000	Contributed surplus HK$'000	Convertible notes equity reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	1,300,114	71,463	25,434	32,897	(783,928)	645,980
Equity-settled share-based payment	–	–	–	57,581	–	57,581
Loss for the year	–	–	–	–	(171,800)	(171,800)
At 31 December 2015	1,300,114	71,463	25,434	90,478	(955,728)	531,761
Issue of share	104,800	–	–	–	–	104,800
Share issue expenses	(252)	–	–	–	–	(252)
Share options lapsed	–	–	–	(58,971)	58,971	–
Recognition of equity component of convertible notes	–	–	17,100	–	–	17,100
Loss for the year	–	–	–	–	(113,276)	(113,276)
At 31 December 2016	1,404,662	71,463	42,534	31,507	(1,010,033)	540,133

The contributed surplus represents the difference between the book values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the Group Reorganisation.

The Company's reserves available for distribution to its shareholders comprise of share premium, contributed surplus, convertible notes equity reserve, share options reserve and accumulated losses which in aggregate amounted to approximately HK$540 million at 31 December 2016 (2015: approximately HK$532 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for distributions or paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distributions or payment of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of retained earnings or other reserves, including the share premium account, of the Company.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Continuing operations					
Revenue	271,374	368,265	232,170	481,935	**525,907**
Profit (loss) from operations	237,562	247,954	154,302	(61,927)	**(151,538)**
Finance costs	(39,689)	(31,358)	(32,053)	(84,143)	**(237,273)**
Profit (loss) before tax	197,873	216,596	122,249	(146,070)	**(388,811)**
Income tax expenses	(87,785)	(78,798)	(64,349)	(35,570)	**(64,911)**
Profit (loss) for the year before discontinued operation	110,088	137,798	57,900	(181,640)	**(453,722)**
Discontinued operation	(43,428)	–	–	–	**–**
Profit (loss) before non-controlling interests	66,660	137,798	57,900	(181,640)	**(453,722)**
Non-controlling interests	(17,570)	(52,207)	(25,830)	2,346	**1,868**
Profit (loss) for the year attributable to owners of the Company	49,090	85,591	32,070	(179,294)	**(451,854)**
Earnings (losses) per share from continuing and discontinued operations	HK Cents	HK Cents	HK Cents	HK Cents	**HK Cents**
– Basic	2.75	4.66	1.71	(8.77)	**(20.75)**
– Diluted	2.70	4.42	1.71	(8.77)	**(20.75)**

ASSETS AND LIABILITIES

	Year ended 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	4,129,350	5,148,891	5,835,330	5,690,274	**4,914,454**
Total liabilities	(2,361,005)	(3,148,080)	(3,634,964)	(3,791,458)	**(3,413,618)**
Non-controlling interests	(169,316)	(233,809)	(259,639)	(142,363)	**(129,637)**
Equity attributable to owners of the Company	1,599,029	1,767,002	1,940,727	1,756,453	**1,371,199**

PROPERTIES PARTICULARS

Property Projects of the Group at 31 December 2016 is set out below.

	Property Projects	Type	Lease Term	Site Area (Square Metres)	Gross Floor Area (Square Metres)	Stage of Completion	Interest attributable to the Group	Anticipated Completion
1.	Future City Situated on No. 147, Luo Shi Road South, Hongshan District, Wuhan City, Hubei Province, the PRC	Residential/ Commercial/ Hotel	Medium	19,191	145,273	Completed	100%	–
2.	Future Mansion Situated on No. 378, Wu Lo Road, Hongshan District, Wuhan City, Hubei Province, the PRC	Residential	Medium	5,852	42,149	Completed	100%	–
3.	Qiandao Lake Villa Situated on She Lou Shang Xia Ling, Wangzhai Township, Qiandao Lake, Hangzhou City, Zhejiang Province, the PRC	Residential	Medium	44,016	33,493	Phase I completed Phase II & III in progress	60%	2010 to 2016 will be completed in phases
4.	Mei Lai International Centre Situated on Southern side of intersection of Yin Bin Road and Weng Mei Road, Nanyan Street, Yuhang District, Hangzhou City, Zhejiang Province, the PRC	Commercial	Medium	16,448	114,610	Completed	100%	–
5.	Zhongshui • Longyang Plaza Situated on Land Lot No. 19C2 Located at Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	Commercial	Medium	30,625	135,173	Completed	100%	–