



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

(Incorporated in Bermuda with limited liability)

(Stock code : 00059)

2016

INTERIM REPORT

CONTENTS

- 2** CORPORATE INFORMATION
- 3** MANAGEMENT DISCUSSION AND ANALYSIS
- 14** CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
- 15** CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
- 16** CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
- 17** CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
- 18** NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
- 37** OTHER INFORMATION



CORPORATE INFORMATION

Directors

Executive Directors:

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

Non-executive Directors:

Mr. ZHONG Guoxing

Independent Non-executive Directors:

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

Company Secretary

Ms. CHEUNG Lin Shun

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Risk Management Committee

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

Share Listing

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

Bond Listing

The Stock Exchange of Hong Kong Limited
 The Company's 0.1% bonds due 2024, Stock Code: 05821
 The Company's 0.1% bonds due 2024, Stock Code: 05580
 The Company's 0.1% bonds due 2025, Stock Code: 05626
 The Company's 0.1% bonds due 2031, Stock Code: 05855
 The Company's 0.1% bonds due 2031, Stock Code: 05567
 The Company's 0.1% bonds due 2032, Stock Code: 05602

Head Office and Principal Place of Business in The PRC

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

Principal Place of Business in Hong Kong

Unit 1401, 14th Floor, AXA Centre,
 151 Gloucester Road,
 Wanchai, Hong Kong.
 Telephone: (852) 2111 2259
 Facsimile: (852) 2890 4459
 E-mail: cs@sfr59.com

Registered Office

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

Principal Share Registrar and Transfer Office

Codan Services Limited
 Clarendon House, 2 Church Street,
 Hamilton, HM 11, Bermuda.

Branch Share Registrar and Transfer Office

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

Principal Bankers

Industrial and Commercial Bank of China Limited
 The Bank of East Asia, Limited

Auditor

BDO Limited
 Certified Public Accountants

Legal Advisers

Hong Kong Laws:

Sidley Austin
 King & Wood Mallesons
 Vincent T.K. Cheung, Yap & Co.

Bermuda Laws:

Conyers Dill & Pearman

PRC Laws:

廣東泛美律師事務所
 (Guangdong Pan American Law Firm)
 北京市中銀(深圳)律師事務所
 (Beijing Zhong Yin Law Firm (Shenzhen))

Company's Website

<http://www.tianyudc.com>

MANAGEMENT DISCUSSION AND ANALYSIS

A. Business review

The handing-over of the completed Tianhe Project in the period served the Group with a record breaking sale level. The Group had recognized property sales of RMB1,180.8 million for the first six months ended 30 June 2016, bringing a 942.8% increase in revenue when compared with the corresponding period in last year.

Up till the period-end date, the Group is in presale of three projects, namely Zhoutouzui Project in Guangzhou, Nanning Skyfame Garden Project in Nanning and Yongzhou Project in Hunan. The pre-sale performance is within the expectation of our management in light of the current market atmosphere which turns to be positive compared with the corresponding period last year. During the six months ended 30 June 2016, contracted sales in aggregate of approximately RMB1.95 billion have been made, representing 54.2% of the annual forecasted contracted sales of RMB3.6 billion for the full year. The two key projects, Zhoutouzui Project and Nanning Skyfame Garden Project, have contracted sales of approximately RMB5.5 billion in respect of saleable GFA of approximately 605,000 sq. m. since commencement of presales and up to 25 July 2016. These contracted sales will turn into sale revenue when the relevant properties are completed and delivered starting from late 2016 and until 2018 according to the construction timelines.

B. Property Portfolio

1. Properties under development and land reserves

Including Tianhe Project in Guangzhou completed in April 2016, the Group underwent the development of five real estate development projects in mainland China during the first six months of 2016. As at 29 August 2016, the Group's projects on hand renders a total GFA of approximately 3,139,000 sq.m., out of which a total saleable GFA of approximately 402,000 sq.m., excluding that for the resettlement housing in the Nanning Skyfame Garden Project, are currently or will be in pre-sale stage in the second half of 2016.

The details about the Group's projects on hand as at 29 August 2016 are summarised below:

| Project | Location | Property type | Estimated project total developable GFA (sq.m.) | Actual/estimated completion year | The Group's interest |
|--|-----------|--|---|----------------------------------|----------------------|
| Zhoutouzui Project | Guangzhou | Residential and commercial | 320,000 | 2017 | 72% |
| Nanning Skyfame Garden Project | Nanning | Residential, commercial and ancillary facilities | 1,207,000 | 2016 to 2018 | 80% |
| Skyfame Nanning ASEAN Maker Town Project | Nanning | Composite | 1,405,000 | 2018 to 2022 | 100% |
| Yongzhou Project | Yongzhou | Residential, commercial and ancillary facilities | 207,000 (Note) | 2014 to 2016 | 70% |
| Total | | | 3,139,000 | | |

Note:

Project total developable GFAs presented here represent the total developable area in the project, including the area sold and delivered in the period and previous years. The developable GFA in Yongzhou Project includes 71.8% of developable GFA which has been sold and delivered up to 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

B. Property Portfolio *(Continued)*

1. Properties under development and land reserves *(Continued)*

Zhoutouzui Project

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

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

As of 25 July 2016, all towers have been roofed. The management expects that construction works of all towers will be completed in 2017. Except for a total saleable GFA of approximately 81,000 sq.m. in tower A4 and A5 and some car parking spaces that will be handed over to the Port Authority in 2017, it is currently planned that all other towers are developed for sales. Pre-sales of residential units in tower A3, A6 and A7 were launched in 2015. Up to 25 July 2016, contracted sales of approximately RMB2,064.9 million (total saleable GFA of approximately 57,000 sq.m.) have been made.

Tianhe Project

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

The equity interest in the project company that was engaged in the development of the project was disposed pursuant to an agreement in 2010 for a gross consideration of RMB1.09 billion before the deduction of some development costs that are to be borne by the Group.

The properties were completed and handed over to the buyer in April 2016. Aloft Hotel has commenced business since mid-May 2016. The sale transaction from the transaction is recorded as property sales and the resulting profits booked in the accounts of the Group for the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

B. Property Portfolio *(Continued)*

1. Properties under development and land reserves *(Continued)*

Nanning Skyfame Garden Project

The project is situated in Wuxiang New District (五象新區), a new zone in Nanning, Guangxi province. Commenced construction since the Group acquired the land use right from a land auction in the first quarter of 2014, the project is being developed into a residential district, namely "Nanning Skyfame Garden" ("南寧天譽花園"), with a total developable GFA of approximately 1,207,000 sq.m., consisting of developable GFA of approximately 918,000 sq.m. for residential and retail properties and other facilities for sale and developable GFA of approximately 289,000 sq.m. of residential and commercial units for compensated housing for the resettlement of the original occupants. The project is divided into five zones, namely Zone 3, 4, 5, 6 and 7.

As of 25 July 2016, all the 5 zones are under construction. 40 out of a total 67 towers, have been roof-topped. Pre-sales of property units in zone 3, 4 and 5 of saleable GFA of approximately 605,800 sq.m. have commenced and contracted sales totaling approximately RMB3,430.1 million (total saleable GFA of approximately 548,000 sq.m.) have been made so far since the initial launch. Physical delivery to buyers are scheduled to take place by phases through late 2016 to 2018. In addition, aggregated saleable GFA of 263,000 sq.m. in zone 4, 6 and 7 will be delivered to original land occupants for resettlement housing for which sale proceeds totaling RMB993.2 million have been received from the district government. The management expects the hand-over of resettlement housing will take place in 2017 and 2018.

Skyfame Nanning ASEAN Maker Town Project

In February 2015, the Group acquired through public auction for the land use rights of three land plots of site area of 194,221 sq.m. (equivalent to 291.33 mu) located at the north of Wuxiang Da Road, Wuxiang New Zone (五象新區), Liangqing District, Nanning, Guangxi, the People's Republic of China at an aggregate consideration of approximately RMB705.0 million. The development is planned to be a complex project which will become a landmark in Wuxiang New District comprising A-class offices, residential, hotel, retail properties, a skyscraper with a planned height of approximately 530 meter, car parks for sale and leasing and other ancillary facilities with a planned total developable GFA of approximately 1,405,000 sq.m..

The project is divided into east and west zone and will be developed in phases. The east zone consists of A-class offices, a skyscraper (unofficially named as the Skyfame ASEAN Tower), an international 5-star hotel and retail properties while the west zone consists of residential and retail properties.

As of 25 July 2016, development works have commenced. Structural design of the Skyfame ASEAN Tower with a planned height of approximately 530 meter has successfully passed the review of the PRC National Super High-rise Anti-seismic Committee. Construction works of properties in all zones are expected to be completed between the years from 2018 to 2022.

Yongzhou Project

The project, named as "Tianyu-huafu" ("天譽•華府"), features a residential development of villas, apartments and retail shops with a total saleable GFA of the project is approximately 186,000 sq.m. and has been under development since 2012. The remaining 2 towers of high-rise apartments of saleable GFA of approximately 25,400 sq.m. were completed in May 2016. Up to 30 June 2016, an aggregated saleable GFA of approximately 133,000 sq.m., mainly of apartments, have been sold and delivered to buyers. Out of the unsold saleable GFA of approximately 53,000 sq.m., sale contracts for saleable GFA of approximately 9,700 sq.m. have been made up to 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

B. Property Portfolio *(Continued)*

2. Investment properties

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

A 17,300 sq.m. commercial podium at Tianyu Garden Phase II in Tianhe District, Guangzhou is 84.1% occupied as at 30 June 2016. The Directors consider the properties are fairly stated in the statement of financial position of the Group as of 30 June 2016 at directors' estimated open market values totaling RMB448.0 million.

A 8,700 sq.ft. office premise at AXA Centre in Wanchai, Hong Kong is 74.8% occupied as at 30 June 2016. The Directors consider the property is fairly stated in the statement of financial position of the Group as of 30 June 2016 at directors' estimated open market value of RMB124.5 million (approximately HK\$145.7 million).

C. Business Outlook

China's economy is no doubt going into a new normal slower GDP growth in line with the central government's emphasis to keep economic growth more sustainable by imposing stimulus in domestic consumption and investments in selected sectors. In the wake of strong property sale performance in some first and second-tier cities as a result of the stimulating policies favouring the property sector in late 2015 that continues into the first half of 2016, we believe that the sales momentum will remain in the coming months of the year. However, there will be convergence in housing policies in different regions in the country where there will be restrictive policies in regions with signs of overheating but a broad-based clampdown is not expected. Buying sentiment in Guangzhou and Nanning, the major contributors of revenue to the Group in the period, is seen to be increasingly positive, but yet is considered as rational as compared with other cities like Shenzhen and Nanjing where the housing prices gallop and inventory level has been drastically dragged down. Under this circumstance, the management expects Guangzhou and Nanning are not the targets of new restrictive policies, resulting that property sales in these regions will continue to benefit from the policy loosening.

Projects in Guangzhou and Nanning have delivered satisfactory pre-sale results during the period ended 30 June 2016. With exception of the Yongzhou Project which has been completed in the period and contracted sales of the project will be booked upon completion of contracts, the contracted presales of the other two projects will be turned into recognized sales in late 2016 to 2018, depending on the timing of handing-over of properties sold.

Thanks to the strong cash inflow generated from presales, the Group has had a de-leveraged financial position with reduced net gearing ratio comparing with the last year-end date. The Group expects to ride on the stronger organic cash flow generation in the second half of 2016 and the coming years to build up new land reserves in cities with sizable population and affordable economic stance to support solid demand for housing. With proper implementation of strategies in land bank building, the Group will ensure a sustainable growth in its business in 2018 onwards when the existing projects, other than the Nanning Maker Tower Project, are due to be completed by 2018. The management has been currently in active negotiations with land sellers and believes that some acquisitions will soon be materialized in the coming months.

MANAGEMENT DISCUSSION AND ANALYSIS

D. Financial Review

Sales Turnover and Margins

Property sales of the Group are the largest income earner, constituting 98.6% of total revenue for the period. During the period, the Group's Tianhe Project and Yongzhou Project delivered properties in GFA of approximately 134,100 sq.m.. The handing-over of the Tianhe Project signified a record breaking revenue of RMB1,180.8 million to the Group, a 942.8% increase from the corresponding period in last year when only Yongzhou Project were delivered.

Overall gross margin on property sales is 22.3% (2015: negative 6.7%), The improvement is driven by the better margin achieved in the Tianhe Project which compensates the loss-making Yongzhou Project. The low pricing of properties sold in Yongzhou Project led to a loss situation that is resulted from the slump market in the region where demand is low and inventories are piped up.

The leasing of properties at the commercial podium at Tianyu Garden Phase II in Guangzhou and offices at AXA Centre in Wanchai, Hong Kong, the Group's secondary line of business, contributed a total revenue of RMB8.3 million, a drop of 13.5% from last period at a gross margin of 90.1%. Whilst the occupancy rate of the commercial podium at Tianyu Garden Phase II is maintained steady at 84.1%, the occupancy of AXA Centre is 74.8% as at 30 June 2016, being affected by temporary vacancy due to termination of lease of a tenant.

The property management company provides a relative stable income of RMB9.0 million for the period (2015: RMB9.3 million). The operation enjoys a margin of 61.5%.

Due to the delivery of the high-margin Tianhe Project that boost both the revenue and margin, the overall gross margin of the Group for the period is advanced to 23.1% (2015: 5.7%).

Operating Expenses

As a result of the launching of pre-sale marketing activities in particular for the youth community residential units in Nanning Skyfame Garden Project and the continuous marketing of the Zhoutouzui Project, sales and marketing expenses, consisting of mainly advertising, promotions and agent commission, surged 36.0% to RMB29.3 million. Administrative and other operating expenses amounting to RMB101.1 million, increased 90.8% from last period. The increase in expenses is explained by unrealized losses of RMB28.0 million on exchange of loans denominated in HK\$ and US\$ booked for the period and the increased staff costs. Staff costs, being the biggest expense item constituting 31.2% of total operating expenses, amounted to RMB40.7 million, representing a 29.8% rise from last period. The rise in staff costs is due to the increased provision for bonus and the share-based payments to staff and directors apart from the general payrise. Total staff costs incurred during the period amounted to RMB60.9 million (2015: RMB47.0 million), of which RMB20.2 million were capitalized as development costs of properties under development.

Finance Costs

Due to the increase in presale proceeds received that were used to repay the Group's indebtedness, the Group's indebtedness declined, leading to a drop in finance costs. Finance costs, including arrangement fees, incurred during the period decreased to RMB84.8 million, representing a drop of 40.7%. Most finance costs incurred were capitalized as costs of those projects under development whilst only RMB3.4 million was charged against the operating results for the period. The Group's annualized blended borrowing costs, excluding money market loans that are backed up by bank deposits, is 10.9% per annum. This corresponds with a general decline in interest rates charged by lenders.

MANAGEMENT DISCUSSION AND ANALYSIS

D. Financial Review *(Continued)*

Non-operating Items

Non-operating items include mainly the net decrease of RMB2.2 million in the fair values of the derivative financial asset/liabilities that are embedded in the rights attached to the Company's secured loan advanced by and convertible bond issued to a lender in 2015, and the medium term bonds issued to some investors since 2014 and up to the period end date.

Taxation

Provision in taxation included a provision of land appreciation tax in the sales of commercial properties in Yongzhou Project and provision for corporate income taxes on profits arrived from property sales and property management.

Profits Attributable to Shareholders

The Company had a consolidated after-tax profit of RMB96.0 million for the period of which profit of 96.8 million was attributable to the shareholders of the Company.

Liquidity and Financial Resources

1. Asset Base

| | Change in % | 30 June 2016 RMB'000 | 31 December 2015 RMB'000 |
|--------------|-------------|----------------------------|--------------------------------|
| Total assets | -0.6% | 10,296,931 | 10,357,027 |
| Net assets | 17.3% | 1,770,333 | 1,509,005 |

Properties under development, with total carrying costs of RMB6,850.0 million, is the biggest asset category constituting 66.5% of the total assets of the Group, aggregated to RMB10,296.9 million. Total assets also include investment properties with fair market values totaling RMB572.5 million, properties for self-use, plant and equipment totalling RMB255.8 million, restricted cash and pledged deposits of RMB698.8 million, cash and cash equivalents of RMB875.4 million, trade deposits and receivables of RMB623.9 million, properties held for sale in Yongzhou Project of RMB195.2 million, and balance of sale consideration receivable from HNA in respect of the disposal of the equity interest in Tianhe Project of RMB140.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

D. Financial Review (Continued)

Liquidity and Financial Resources (Continued)

2. Capital structure and liquidity

The Company raised HK\$192.0 million in cash by way of a private placement to a number of investors in early June 2016. The placing proceed was used to repay a third party loan of the Company. The indebtedness of the Group are aggregated to RMB1,771.2 million at the period-end date, representing a decrease of RMB1,001.2 million when compared with the last year-end. Indebtedness of the Company also includes money market loans of RMB389.1 million which are guaranteed by letter of credits issued by banks being backed up by cash deposits of RMB388.4 million. Excluding these backed-up loans, the indebtedness of the Group amounted to RMB1,382.1 million at the period-end. The decrease of indebtedness is a result of repayment of indebtedness in the period. The details and maturity profile of the indebtedness are illustrated as follows:

| | Within one year RMB'000 | 1 to 2 years RMB'000 | 2 to 5 years RMB'000 | Over 5 years RMB'000 | Total carrying amount RMB'000 |
|----------------------------------|-------------------------------|----------------------------|----------------------------|----------------------------|--|
| Bank and other borrowings | | | | | |
| – Secured bank borrowings | 476,374 | 377,634 | 38,530 | 105,666 | 998,204 |
| – Other secured borrowings | 27,000 | 486,779 | – | – | 513,779 |
| – Unsecured borrowings | – | – | – | 243,710 | 243,710 |
| | 503,374 | 864,413 | 38,530 | 349,376 | 1,755,693 |
| Derivative financial liabilities | – | 4,870 | – | 10,675 | 15,545 |
| | 503,374 | 869,283 | 38,530 | 360,051 | 1,771,238 |

Due to the drop in indebtedness and the enlarged equity by the private placement in the period, the gearing ratio, calculated as total indebtedness net of cash and cash equivalents (the "Net Debt") divided by the equity attributable to shareholders of the Company plus Net Debt), drops to 22.3% as at 30 June 2016 (31 December 2015: 53.6%).

MANAGEMENT DISCUSSION AND ANALYSIS

D. Financial Review *(Continued)*

Liquidity and Financial Resources *(Continued)*

2. Capital structure and liquidity *(Continued)*

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

| | 30 June 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|-------------------------------------|--------------------------------|
| Total debt | 1,771,238 | 2,772,395 |
| Less: restricted bank deposits backing up the money market loans | (388,420) | (652,010) |
| Less: cash and cash equivalents | (875,364) | (383,255) |
| Net debt | 507,454 | 1,737,130 |
| Equity attributable to owners | 1,766,135 | 1,503,940 |
| Capital plus net debt | 2,273,589 | 3,241,070 |
| Gearing ratio (Net debt/Capital plus net debt) | 22.3% | 53.6% |

The maturity of the indebtedness shows that the Group's indebtedness bears a longer duration than the prior year. An aggregate amount of RMB1,267.9 million, representing 71.6%, of the indebtedness (31 December 2015: 29.7%) are due to be repaid after one year.

MANAGEMENT DISCUSSION AND ANALYSIS

D. Financial Review (Continued)

Liquidity and Financial Resources (Continued)

2. Capital structure and liquidity (Continued)

| | Change in % | 30 June 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|-------------|----------------------------|--------------------------------|
| Current assets | | | |
| Properties under development | 11.2% | 6,849,988 | 6,159,277 |
| Properties under Tianhe Project | -100.0% | – | 786,168 |
| Properties held for sale | 9.8% | 195,236 | 177,850 |
| Consideration receivable | 33.3% | 140,000 | 105,000 |
| Trade and other receivables | 25.8% | 623,879 | 495,974 |
| Short-term investments | -100.0% | – | 460,000 |
| Loan to a non-controlling shareholder of a subsidiary | 73.5% | 35,400 | 20,400 |
| Prepaid income tax | – | 36,239 | – |
| Restricted and pledged deposits | -24.3% | 698,808 | 922,729 |
| Cash and cash equivalents | 128.4% | 875,364 | 383,255 |
| <i>Sub-total (A)</i> | -0.6% | 9,454,914 | 9,510,653 |
| Current liabilities | | | |
| Trade and other payables | -13.2% | 1,042,322 | 1,200,733 |
| Properties pre-sale deposits | 49.4% | 5,544,387 | 3,710,375 |
| Bank and other borrowings – current portion | -71.8% | 567,477 | 2,013,166 |
| Consideration from disposal of Tianhe Project | -100.0% | – | 990,360 |
| Income tax payable | -100.0% | – | 5,378 |
| <i>Sub-total (B)</i> | -9.7% | 7,154,186 | 7,920,012 |
| Net current assets (A-B) | 44.6% | 2,300,728 | 1,590,641 |
| Current ratios (A/B) | 10.1% | 1.32 | 1.20 |

Current assets were steadily maintained at RMB9,454.9 million as at the period-end. Cash constitutes to 16.6% (31 December 2015: 13.7%) total current assets, indicating a stronger liquidity position.

Total current liabilities at the period-end amounted to RMB7,154.2 million, representing a drop of 9.7% from last year-end date. The decrease in current liabilities is caused by the repayment of bank loans and other borrowings when they were due during the period. Such decrease was partially offset by the increase in presale deposits received from customers.

The current ratio, being 1.32 times at the period-end (31 December 2015: 1.20 times) indicates improvements in the Company's strength to liquidate the assets to meet with its loan repayment commitments.

MANAGEMENT DISCUSSION AND ANALYSIS

D. Financial Review *(Continued)*

Liquidity and Financial Resources *(Continued)*

3. *Borrowings and pledge of assets*

The office units at AXA Centre in Hong Kong and office premises at HNA Tower and certain commercial units at the commercial podium in Tianyu Garden Phase II in Guangzhou are mortgaged in favour of commercial banks to secure for financing facilities granted to the Group for its general working capital. In addition, cash deposits are placed in commercial banks to secure for letters of credit issued to a Macau-based bank to guarantee repayment performance of the money market loans. The issued shares of Guangzhou Zhoutouzui Development Limited, a subsidiary holding the equity interest in Zhoutouzui Project, and 1,587,168,407 shares of the Company owned by the Company's controlling shareholder, Yu Pan, are charged as security in favor of two financial institutions for loans advanced and a convertible bond issued to the lenders. As at 30 June 2016, the outstanding balances of these secured indebtedness amounted to RMB1,516.9 million whilst the pledged assets and the underlying assets represented by these securities carried an aggregated realizable value estimated at approximately RMB3,175.7 million measured by open market values of the assets charged or mortgaged as at 30 June 2016. The securities provide the creditors with sufficient cover on their lending. The Group is sufficiently backed up with assets to secure for its indebtedness.

E. Contingent Liabilities

In July 2015, a legal action was raised against 廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited) ("**Yucheng**"), the project company of Zhoutouzui Project, by Guangzhou Port Group Carrier Services Co., Limited (廣州港集團客運服務有限公司), a wholly-owned subsidiary of Port Authority, to claim for compensation in the amount of RMB20.0 million for the demolition and relocation of occupants of the site of Zhoutouzui Project. The claim was made pursuant to an agreement entered into with Port Authority and Yucheng on 18 September 2001 and as supplemented by an agreement dated 18 December 2003 entered into with Port Authority and Yucheng. Due to a problem about the legal identity of the claimant encountered, on 29 April 2016, the case was withdrawn by the claimant. On 28 April 2016, Port Authority initiated another legal action with a revised claim of RMB12.0 million. The claim has been in negotiations between the parties out of court. Based on the current assessment of the progress of the negotiations, the directors estimate that the claim will be settled at a reduced amount that will be provided for in the accounts of the Group timely upon the reaching of a settlement agreement with the parties.

Other than the above-mentioned, the Group had no other material contingent liabilities as at 30 June 2016 (31 December 2015: Nil).

F. Treasury Management

The Group is principally engaged in property development activities which are all conducted in the PRC and denominated in RMB, the functional currency of the Company's principal subsidiaries. At the same time, certain financing, property leasing, investment holding and administrative activities of the Group are carried out and denominated in HK or US dollars. At the period-end date, the Group has foreign currency denominated borrowings and financial derivatives equivalent to RMB1,645.5 million, representing 92.9% of total indebtedness, and an overseas properties with carrying value equivalent to RMB191.1 million. The other assets and liabilities are mostly denominated in RMB.

Since August 2015, the exchange rate of RMB have depreciated against HK and US dollars by a total of 8.3%, of which a depreciation of 2.0% for the current period was experienced. In consequence, foreign exchange losses of RMB28.0 million were unrealized when liabilities denominated in foreign currencies are converted at RMB in the financial accounts. In addition, exchange differences arising from the consolidation of assets and liabilities of a subsidiary operated in Hong Kong as at 30 June 2016 results to an exchange gain of RMB0.7 million. The gain is charged against the exchange reserve that forms part of the equity of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

F. Treasury Management *(Continued)*

We expect that the volatility of the exchange rate of RMB will continue in the coming months, but in milder steps. Further depreciation of RMB may happen, bringing negative impacts on the profitability of the Group when losses may be incurred when foreign currency denominated indebtedness are converted into RMB upon maturities or at reporting period-ends. Unfortunately, no natural hedge against the depreciation of RMB is available to the Group in the meantime. The management will instead make possible effort to reduce the foreign currency debts or taking useful hedging instruments to manage the exposures at reasonable costs.

G. Employees

The Group recruits suitable staff in capable caliber to fill vacancies created as a result of the growing business. As at 30 June 2016, including four executive directors of the Company, the Group employed a total of 555 full-time staff, of which 157 work in site offices, 149 in the head office in Guangzhou and Hong Kong for central management and supporting work in the property development business and 249 full-time staff in the property management offices in Guangdong and Hunan provinces and Nanning city. Employees are remunerated according to qualifications and experience, job nature and performance. They are incentivized by bonuses benchmarked on performance targets and options to acquire shares of the Company. Besides, training programs are offered to management trainees and staff at all levels. Remuneration packages are aligned with job markets in the business territories where the staff are located.



The board of directors (the “**Board**”) of Skyfame Realty (Holdings) Limited (the “**Company**”) announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2016, together with comparative figures for the corresponding period of 2015.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------------|--------------------------------|
| | | 2016 RMB'000 (Unaudited) | 2015 RMB'000 (Unaudited) |
| Revenue | 3 | 1,198,118 | 132,134 |
| Cost of sales and services | | (921,284) | (124,545) |
| Gross profit | | 276,834 | 7,589 |
| Other income and gains, net | | 877 | 1,974 |
| Sales and marketing expenses | | (29,340) | (21,577) |
| Administrative and other expenses | | (72,604) | (54,821) |
| Exchange (loss)/gain | | (28,539) | 1,806 |
| Fair value changes in derivative financial asset/liabilities | | 2,229 | (16,727) |
| Finance costs | 4 | (3,372) | (2,115) |
| Finance income | 4 | 7,727 | 10,161 |
| Profit/(loss) before income tax | 5 | 153,812 | (73,710) |
| Income tax expense | 6 | (57,839) | (3,464) |
| PROFIT/(LOSS) FOR THE PERIOD | | 95,973 | (77,174) |
| Other comprehensive income: | | | |
| Exchange differences arising on foreign operations | | (655) | (593) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 95,318 | (77,767) |
| Profit/(loss) for the period attributable to: | | | |
| – Owners of the Company | | 96,840 | (70,340) |
| – Non-controlling interests | | (867) | (6,834) |
| | | 95,973 | (77,174) |
| Total comprehensive income for the period attributable to: | | | |
| – Owners of the Company | | 96,185 | (70,933) |
| – Non-controlling interests | | (867) | (6,834) |
| | | 95,318 | (77,767) |
| Earnings/(loss) per share | 7 | | |
| – <i>Basic</i> | | RMB0.043 | (RMB0.032) |
| – <i>Diluted</i> | | RMB0.043 | (RMB0.032) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

| | Notes | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|---|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 255,816 | 262,725 |
| Investment properties | 9 | 572,520 | 570,058 |
| Goodwill | | 13,554 | 13,554 |
| Derivative financial asset | | 127 | 37 |
| | | 842,017 | 846,374 |
| Current assets | | | |
| Properties under development | | 6,849,988 | 6,159,277 |
| Properties under Tianhe project | | – | 786,168 |
| Properties held for sale | | 195,236 | 177,850 |
| Consideration receivable | 10 | 140,000 | 105,000 |
| Loan to a non-controlling shareholder of a subsidiary | 11 | 35,400 | 20,400 |
| Trade and other receivables | 12 | 623,879 | 495,974 |
| Short-term investments | 13 | – | 460,000 |
| Prepaid income tax | | 36,239 | – |
| Restricted and pledged deposits | 14 | 698,808 | 922,729 |
| Cash and cash equivalents | | 875,364 | 383,255 |
| | | 9,454,914 | 9,510,653 |
| Current liabilities | | | |
| Trade and other payables | 15 | 1,042,322 | 1,200,733 |
| Properties pre-sale deposits | | 5,544,387 | 3,710,375 |
| Bank and other borrowings – current portion | 17 | 567,477 | 2,013,166 |
| Consideration from disposal of Tianhe project | | – | 990,360 |
| Income tax payable | | – | 5,378 |
| | | 7,154,186 | 7,920,012 |
| Net current assets | | | |
| | | 2,300,728 | 1,590,641 |
| Total assets less current liabilities | | | |
| | | 3,142,745 | 2,437,015 |
| Non-current liabilities | | | |
| Bank and other borrowings – non-current portion | 17 | 1,188,216 | 746,656 |
| Derivative financial liabilities | | 15,545 | 12,573 |
| Deferred tax liabilities | | 168,651 | 168,781 |
| | | 1,372,412 | 928,010 |
| Net assets | | | |
| | | 1,770,333 | 1,509,005 |
| Capital and reserves | | | |
| Share capital | 18 | 24,456 | 21,068 |
| Reserves | | 1,741,679 | 1,482,872 |
| Equity attributable to owners of the Company | | | |
| | | 1,766,135 | 1,503,940 |
| Non-controlling interests | | 4,198 | 5,065 |
| Total equity | | | |
| | | 1,770,333 | 1,509,005 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

| Notes | Attributable to owners of the Company | | | | | | | | | | | | Total RMB'000 |
|---|---------------------------------------|--------------------------|--|--|---|---------------------------|-------------------------------|-------------------------------------|----------------------------------|-----------------------------|----------------------|--------------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Contributed surplus reserve RMB'000 | Share-based payment reserve RMB'000 | Property revaluation reserve RMB'000 | Merger reserve RMB'000 | Statutory reserves RMB'000 | Foreign exchange reserve RMB'000 | Other/capital reserve RMB'000 | Retained profits RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | |
| Six months ended 30 June 2016 (Unaudited) | | | | | | | | | | | | | |
| At 31 December 2015 (Audited) and 1 January 2016 | 21,068 | 1,507,182 | 16,116 | 10,576 | 34,499 | (293,095) | 6,471 | (1,303) | 743 | 201,683 | 1,503,940 | 5,065 | 1,509,005 |
| Profit/(loss) for the period | - | - | - | - | - | - | - | - | - | 96,840 | 96,840 | (867) | 95,973 |
| Other comprehensive income | - | - | - | - | - | - | - | 655 | - | - | 655 | - | 655 |
| Total comprehensive income for the period | - | - | - | - | - | - | - | 655 | - | 96,840 | 97,495 | (867) | 96,628 |
| Reallocation of lapsed options from share-based payment reserve to retained profits | - | - | - | (190) | - | - | - | - | - | 190 | - | - | - |
| Issue of shares: Share placing | 18 | 3,388 | 159,217 | - | - | - | - | - | - | - | 162,605 | - | 162,605 |
| Share issue expenses | - | (3,787) | - | - | - | - | - | - | - | - | (3,787) | - | (3,787) |
| Transfer among reserves | - | - | - | - | (34,499) | - | - | - | (743) | 35,242 | - | - | - |
| Recognition of equity-settled share-based payment expenses | 19 | - | - | 5,882 | - | - | - | - | - | - | 5,882 | - | 5,882 |
| At 30 June 2016 (Unaudited) | 24,456 | 1,662,612 | 16,116 | 16,268 | - | (293,095) | 6,471 | (648) | - | 333,955 | 1,766,135 | 4,198 | 1,770,333 |
| Six months ended 30 June 2015 (Unaudited) | | | | | | | | | | | | | |
| At 31 December 2014 (Audited) and 1 January 2015 | 21,068 | 1,507,182 | 16,116 | 12,152 | 34,499 | (293,095) | 6,471 | (412) | 743 | 405,330 | 1,710,054 | 25,560 | 1,735,614 |
| Loss for the period | - | - | - | - | - | - | - | - | - | (70,340) | (70,340) | (6,834) | (77,174) |
| Other comprehensive income | - | - | - | - | - | - | - | (593) | - | - | (593) | - | (593) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | (593) | - | (70,340) | (70,933) | (6,834) | (77,767) |
| Reallocation of lapsed options from share-based payment reserve to retained profits | - | - | - | (577) | - | - | - | - | - | 577 | - | - | - |
| Recognition of equity-settled share-based payment expenses | 19 | - | - | 419 | - | - | - | - | - | - | 419 | - | 419 |
| At 30 June 2015 (Unaudited) | 21,068 | 1,507,182 | 16,116 | 11,994 | 34,499 | (293,095) | 6,471 | (1,005) | 743 | 335,567 | 1,639,540 | 18,726 | 1,658,266 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

| | Note | Six months ended 30 June | |
|---|------|--------------------------------|--------------------------------|
| | | 2016 RMB'000 (Unaudited) | 2015 RMB'000 (Unaudited) |
| Net cash from/(used in) operating activities | 20 | 367,520 | (372,387) |
| Investing activities | | | |
| Interest received | | 7,820 | 5,290 |
| Purchase of property, plant and equipment | | (277) | (2,193) |
| Disposal of short-term investments | | 460,000 | 44,000 |
| Decrease/(increase) in restricted and pledged deposits | | 223,921 | (146,084) |
| Net cash from/(used in) investing activities | | 691,464 | (98,987) |
| Financing activities | | | |
| Proceeds from shares issued under share placing | | 162,605 | – |
| Expenses incurred on issue of shares | | (3,787) | – |
| New bank and other borrowings | | 1,700,952 | 777,625 |
| Repayment of bank and other borrowings | | (2,412,029) | (180,057) |
| Loan advance to a non-controlling shareholder of a subsidiary | | (15,000) | – |
| Net cash (used in)/from financing activities | | (567,259) | 597,568 |
| Net increase in cash and cash equivalents | | 491,725 | 126,194 |
| Effect of foreign exchange rate changes | | 384 | (597) |
| Cash and cash equivalents at beginning of period | | 383,255 | 201,105 |
| Cash and cash equivalents at end of period | | | |
| – Cash and bank balances | | 875,364 | 326,702 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements for the six months ended 30 June 2016 (the “**Interim Financial Statements**”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The Interim Financial Statements should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2015.

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

2. SEGMENT REPORTING

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

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

The Group’s senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses directly incurred by those segments. In addition to the segment performance in terms of segment results, management also provides other segment information concerning depreciation and amortisation, impairment loss on trade and other receivables, additions to properties under Tianhe project, additions to properties under development and capital expenditure.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

2. SEGMENT REPORTING (Continued)

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

| | Property development RMB'000 | Property investment RMB'000 | Property management RMB'000 | Total RMB'000 |
|--|------------------------------------|-----------------------------------|-----------------------------------|------------------|
| Six months ended 30 June 2016 (Unaudited) | | | | |
| Segment revenue | | | | |
| Reportable segment revenue | 1,180,846 | 12,320 | 14,728 | 1,207,894 |
| Elimination of intra-segment revenue | – | (4,067) | (5,709) | (9,776) |
| Consolidated revenue from external customers | 1,180,846 | 8,253 | 9,019 | 1,198,118 |
| Segment results | 194,236 | 5,217 | (4,619) | 194,834 |
| <i>Reconciliation:</i> | | | | |
| Unallocated corporate net expenses | | | | (47,606) |
| | | | | 147,228 |
| Fair value changes in derivative financial asset/liabilities | | | | 2,229 |
| Finance costs | | | | (3,372) |
| Finance income | | | | 7,727 |
| Consolidated profit before income tax | | | | 153,812 |
| Other segment information: | | | | |
| Depreciation and amortisation | (816) | (415) | (876) | (2,107) |
| Impairment loss on trade and other receivables | – | – | (83) | (83) |
| Additions to properties under Tianhe project | 6,595 | – | – | 6,595 |
| Additions to properties under development | 699,902 | – | – | 699,902 |
| Capital expenditure | 254 | – | 23 | 277 |
| As at 30 June 2016 (Unaudited) | | | | |
| Assets and liabilities | | | | |
| <u>Assets</u> | | | | |
| Reportable segment assets | 8,149,357 | 580,760 | 42,275 | 8,772,392 |
| <i>Reconciliation:</i> | | | | |
| Derivative financial asset | | | | 127 |
| Prepaid income tax | | | | 36,239 |
| Cash and cash equivalents | | | | 875,364 |
| Unallocated restricted and pledged deposits | | | | 388,420 |
| Unallocated corporate assets | | | | |
| – Leasehold land and building | | | | 208,429 |
| – Other corporate assets | | | | 15,960 |
| Consolidated total assets | | | | 10,296,931 |
| <u>Liabilities</u> | | | | |
| Reportable segment liabilities | 6,588,809 | 7,390 | 9,482 | 6,605,681 |
| <i>Reconciliation:</i> | | | | |
| Deferred tax liabilities | | | | 168,651 |
| Derivative financial liabilities | | | | 15,545 |
| Unallocated bank and other borrowings | | | | 1,728,692 |
| Unallocated corporate liabilities | | | | 8,029 |
| Consolidated total liabilities | | | | 8,526,598 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

2. SEGMENT REPORTING (Continued)

| | Property development RMB'000 | Property investment RMB'000 | Property management RMB'000 | Total RMB'000 |
|---|------------------------------------|-----------------------------------|-----------------------------------|------------------|
| Six months ended 30 June 2015 (Unaudited) | | | | |
| Segment revenue | | | | |
| Reportable segment revenue | 113,280 | 13,616 | 14,896 | 141,792 |
| Elimination of intra-segment revenue | – | (4,060) | (5,598) | (9,658) |
| Consolidated revenue from external customers | 113,280 | 9,556 | 9,298 | 132,134 |
| Segment results | | | | |
| | (52,370) | 6,514 | (5,001) | (50,857) |
| <i>Reconciliation:</i> | | | | |
| Unallocated corporate net expenses | | | | (14,172) |
| | | | | (65,029) |
| Fair value changes in derivative financial liabilities | | | | (16,727) |
| Finance costs | | | | (2,115) |
| Finance income | | | | 10,161 |
| Consolidated loss before income tax | | | | (73,710) |
| Other segment information: | | | | |
| Depreciation and amortisation | (607) | (449) | (863) | (1,919) |
| Impairment loss on trade and other receivables | – | (6) | (43) | (49) |
| Write-down of properties under development and properties held for sale | (8,637) | – | – | (8,637) |
| Additions to properties under Tianhe project | 11,511 | – | – | 11,511 |
| Additions to properties under development | 1,516,201 | – | – | 1,516,201 |
| Capital expenditure | 1,207 | – | 75 | 1,282 |
| As at 31 December 2015 (Audited) | | | | |
| Assets and liabilities | | | | |
| <u>Assets</u> | | | | |
| Reportable segment assets | 8,009,651 | 577,828 | 42,170 | 8,629,649 |
| <i>Reconciliation:</i> | | | | |
| Derivatives financial assets | | | | 37 |
| Short-term investments | | | | 460,000 |
| Cash and cash equivalents | | | | 383,255 |
| Unallocated restricted and pledged deposits | | | | 652,010 |
| Unallocated corporate assets | | | | |
| – Leasehold land and building | | | | 212,638 |
| – Other corporate assets | | | | 19,438 |
| Consolidated total assets | | | | 10,357,027 |
| <u>Liabilities</u> | | | | |
| Reportable segment liabilities | 6,293,360 | 6,980 | 510,846 | 6,811,186 |
| <i>Reconciliation:</i> | | | | |
| Income tax payable | | | | 5,378 |
| Deferred tax liabilities | | | | 168,781 |
| Derivative financial liabilities | | | | 12,573 |
| Unallocated bank and other borrowings | | | | 1,839,183 |
| Unallocated corporate liabilities | | | | 10,921 |
| Consolidated total liabilities | | | | 8,848,022 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

2. SEGMENT REPORTING *(Continued)*

Information about major customers

None of the customers of the Group contributed more than 10% of the Group's revenue for the six months ended 30 June 2016 and 2015.

3. REVENUE

Revenue represents the aggregate of the net invoiced amounts received and receivable from property development, property investment and property management services earned by the Group, and net of sale related taxes. The amounts of each significant category of revenue recognised during the period are as follows:

| | Six months ended 30 June | |
|------------------------------|--------------------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Sale of properties | 1,180,783 | 113,228 |
| Rental income | 8,316 | 9,608 |
| Property management services | 9,019 | 9,298 |
| | 1,198,118 | 132,134 |

4. FINANCE COSTS AND INCOME

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Finance costs: | | |
| Interest on bank and other borrowings | | |
| – wholly repayable within five years | 69,234 | 122,438 |
| – wholly repayable after five years | 13,155 | 6,283 |
| | 82,389 | 128,721 |
| <i>Less: Amount capitalised as properties under development</i> | | |
| Interest on bank and other borrowings | (80,960) | (127,817) |
| | 1,429 | 904 |
| Other borrowing costs | 2,443 | 14,327 |
| <i>Less: Amount capitalised as properties under development</i> | (500) | (13,116) |
| | 1,943 | 1,211 |
| Finance costs charged to profit or loss | 3,372 | 2,115 |
| Finance income: | | |
| Bank interest income | 5,978 | 5,102 |
| Interest income on short-term investments | 808 | 5,059 |
| Interest income on loan to a non-controlling shareholder of a subsidiary | 941 | – |
| Finance income credited to profit or loss | 7,727 | 10,161 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

5. PROFIT/(LOSS) BEFORE INCOME TAX

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

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2016 RMB'000 (Unaudited) | 2015 RMB'000 (Unaudited) |
| Cost of properties sold | 921,284 | 112,168 |
| Write-down of properties under development/properties held for sale | – | 8,637 |
| Cost of inventories recognised in profit or loss | 921,284 | 120,805 |
| Staff costs (including directors' emoluments) comprise: | | |
| – Basic salaries and other benefits | 52,299 | 44,509 |
| – Equity-settled share-based payment expenses | 5,882 | 419 |
| – Contributions to defined contribution pension plans | 2,711 | 2,052 |
| Total staff costs (including directors' emoluments) | 60,892 | 46,980 |
| <i>Less: Amount capitalised as properties under development</i> | (20,197) | (15,619) |
| Staff costs charged to profit or loss | 40,695 | 31,361 |
| Auditor's remuneration – current period | 417 | 443 |
| Depreciation of property, plant and equipment | 6,887 | 6,396 |
| <i>Less: Amount capitalised as properties under development</i> | (64) | (30) |
| Depreciation charged to profit or loss | 6,823 | 6,366 |
| Amortisation of leasehold land | 1,703 | 1,703 |
| Depreciation and amortisation charged to profit or loss | 8,526 | 8,069 |
| Impairment loss on trade and other receivables | 83 | 49 |
| Exchange loss/(gain), net | | |
| – Realised | 506 | (1,141) |
| – Unrealised | 28,033 | (665) |
| | 28,539 | (1,806) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

6. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2016 RMB'000 (Unaudited) | 2015 RMB'000 (Unaudited) |
| Current tax | | |
| Hong Kong profits tax | – | – |
| PRC corporate tax | | |
| – current period | 57,877 | 4,330 |
| – write-off of provisional corporate income taxes | (1,973) | (3,126) |
| PRC land appreciation tax | | |
| – current period | 2,064 | 2,648 |
| | 57,968 | 3,852 |
| Deferred tax | | |
| – current period | (129) | (388) |
| Total income tax expense | 57,839 | 3,464 |

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (six months ended 30 June 2015: 16.5%) for the six months ended 30 June 2016.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (six months ended 30 June 2015: 25%) on the estimated assessable profits.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

| | Six months ended 30 June | |
|--|--------------------------|--------------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Profit/(loss) for the purposes of calculating basic and diluted earnings/(loss) per share | 96,840 | (70,340) |
| | Number of shares | |
| | '000 | '000 |
| | (Unaudited) | (Unaudited) |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share | 2,271,476 | 2,216,531 |

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

For the six months ended 30 June 2016 and 2015, basic earnings/(loss) per share is the same as diluted earnings/(loss) per share as any effect arising from the exercise of Company's options and convertible bonds is no dilutive.

8. DIVIDENDS

The Company does not have distributable reserves available for distribution of dividends for the six months ended 30 June 2016 and 2015.

9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The movements of the property, plant and equipment and investment properties are as follows:

| | Property, plant and equipment RMB'000 | Investment properties RMB'000 |
|---|--|-------------------------------------|
| Net book value at 31 December 2015 (Audited) and 1 January 2016 | 262,725 | 570,058 |
| Additions | 277 | – |
| Disposals | (12) | – |
| Depreciation | (6,875) | – |
| Amortisation | (1,703) | – |
| Exchange differences | 1,404 | 2,462 |
| Net book value at 30 June 2016 (Unaudited) | 255,816 | 572,520 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

10. CONSIDERATION RECEIVABLE

| | Gross consideration | (Received)/ paid | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|--|---------------------|------------------|--|--|
| Gross sale consideration for the equity interest plus net assets of Huan Cheng (net of relocation cost of fire-station borne by the Group) | 1,128,273 | (988,273) | 140,000 | 140,000 |
| Less: Estimated development costs and finance costs borne by the Group | (55,000) | 20,000 | (35,000) | (35,000) |
| Add: Finance costs over-estimated | 35,000 | – | 35,000 | – |
| Amortised cost, amount due within one year | 1,108,273 | (968,273) | 140,000 | 105,000 |

The receivable relates to the final instalment receivable from the purchaser, Hainan Haikong Realty Company Limited, for the disposal of the equity interests in Guangzhou Huan Cheng Real Estate Development Company Limited (“Huan Cheng”), the developer of Tianhe Project, that is unsecured and interest-free. The amount of approximately RMB140,000,000 (31 December 2015: RMB105,000,000) is estimated after taking into account the estimated costs to be borne by the Group pursuant to the agreement. The final instalment is expected to be received in the coming months when the broad ownership title certificates of the buildings which were completed during the period are obtained.

Following the delivery of properties in the Tianhe Project which were completed during the period, the disposal proceeds, development costs of the Tianhe Project invested by the Group, and corporate income tax relating to the disposal of the equity interests in Huan Cheng are recognised in the consolidated statement of profit or loss for the current period.

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

The balance is unsecured, interest bearing at floating rate according to 110% of the 1-year Lending rate quoted by the People’s Bank of China and repayable within one year and is provided to non-controlling shareholder of a subsidiary at an amount pro-rata to its capital contributed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

12. TRADE AND OTHER RECEIVABLES

| | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|---|---|---|
| Current or less than 1 month | 2,326 | 881 |
| 1 to 3 months | 1,006 | 462 |
| More than 3 months but less than 12 months | 774 | 589 |
| More than 1 year | 258 | 114 |
| Trade receivables, net of impairment | 4,364 | 2,046 |
| Refundable construction costs | 59,765 | 19,159 |
| Tender deposits in a development project | 30,800 | 30,800 |
| Prepaid construction costs | 124,241 | 110,636 |
| Prepaid finance costs | 17,500 | 141 |
| Prepaid business taxes and surcharges | 259,739 | 200,305 |
| Maintenance funds paid on behalf of properties owners | 43,922 | 41,161 |
| Interest receivable on bank deposits/short-term investments | 4,849 | 4,941 |
| Other deposits, prepayments and other receivables | 78,699 | 86,785 |
| | 623,879 | 495,974 |

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

13. SHORT-TERM INVESTMENTS

The Group invested in certain saving plans issued by bank on mainland China with investment values amounting to RMB460,000,000 as at 31 December 2015 which were used to secure two back-to-back letters of credit issued by a local bank in the PRC to a Hong Kong-based bank and New York-based bank to guarantee the repayment performance of the borrowers of money market loans of respectively US\$31,000,000 (approximately RMB201,302,000) and US\$39,600,000 (approximately RMB257,147,000). The two saving plans carry a return respectively at a fixed rate of 3.5% and 3.6% per annum. The money market loans were fully repaid on 4 January 2016 and short-term investments encashed on maturities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

14. RESTRICTED AND PLEDGED DEPOSITS

| | 30 June 2016 | 31 December 2015 |
|--|-------------------------|---------------------|
| <i>Notes</i> | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| To secure for: | | |
| – letter of credit issued by a bank to guarantee repayment of money market loans | (a) 388,420 | 652,010 |
| – the payment of construction costs of development projects | (b) 301,410 | 261,754 |
| – others | 8,978 | 8,965 |
| | 698,808 | 922,729 |

Notes:

- (a) As at 30 June 2016, to secure a back-to-back letter of credit issued by a local bank in the PRC to a Macau-based bank to guarantee repayment of the latter's money market loan facility granted to a subsidiary in a total of HK\$455,240,000 (approximately RMB389,094,000), bank deposits with an aggregate balance of RMB388,420,000 were placed in the local bank in the PRC.
- (b) The balance represents deposits received from buyers of pre-sold properties. These deposits will be released only to pay construction costs of the development projects.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

15. TRADE AND OTHER PAYABLES

| | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|---|---|---|
| Current or less than 1 month | 682 | 1,485 |
| 1 to 3 months | 328 | 477 |
| More than 3 months but less than 12 months | 1,495 | 5 |
| More than 1 year | 168 | 198 |
| Total trade payables | 2,673 | 2,165 |
| Construction costs payable | 799,910 | 648,437 |
| Tender receivable from the suppliers | 48,529 | 49,397 |
| Land cost payable | – | 352,511 |
| Receipts in advance, rental and other deposits from buyers, customers and/or tenants | 16,768 | 16,404 |
| Receipts in advance from government on a project clearance | 54,630 | 54,630 |
| Compensation payable | 18,750 | 11,250 |
| Accrued business taxes, value-added taxes and surcharges | 24,354 | 19,685 |
| Provision for additional development costs and land use rights in relation to Tianhe Project | 35,795 | – |
| Interest payable on bank and other borrowings | 2,791 | 6,472 |
| Other accrued expenses and other payables | 38,122 | 39,782 |
| | 1,042,322 | 1,200,733 |

16. FINANCIAL GUARANTEE CONTRACT

As at 30 June 2016, the Group provides guarantees to the extent of approximately RMB2,255,630,000 (31 December 2015: RMB1,178,900,000) in respect of credit facilities granted by certain banks relating to the mortgage loans arranged for some buyers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these buyers, the Group is responsible for repaying the outstanding mortgage principal, accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take legal action against the defaulted buyers for losses and take possession of the related properties from the defaulted buyers. Such guarantees shall terminate upon delivery of properties and issuance of relevant property ownership certificates to the property buyers. The management, with its assessment of the current and outlook of the market, perceives that the possibility of default in mortgage loans by home buyers is remote and, in the event of default, the liabilities caused to the Group will be minimal as the loss will be adequately mitigated by the proceed recovered from the sales of the repossessed properties. Accordingly, no provision is made in the accounts for the financial guarantees.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL (ASSET)/LIABILITIES

| | Notes | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|--|-------|---|---|
| Bank and other borrowings | | | |
| Secured bank borrowings: | | | |
| (i) term loans, revolving loans and construction loans | (a) | 609,110 | 538,483 |
| (ii) money market loans | (b) | 389,094 | 891,591 |
| Other secured borrowings: | | | |
| (i) trust loan | (c) | – | 500,000 |
| (ii) entrusted loan | (d) | 27,000 | – |
| (iii) secured loan and convertible bonds | (e) | 486,779 | 466,563 |
| Unsecured borrowings: | | | |
| (i) unsecured bonds | (f) | 243,710 | 251,185 |
| (ii) other borrowings | (g) | – | 112,000 |
| | | 1,755,693 | 2,759,822 |
| Derivative financial asset | | | |
| – company redemption rights on unsecured bonds | (f) | (127) | (37) |
| Derivative financial liabilities | | | |
| – rights embedded with convertible bonds | (e) | 4,870 | 5,877 |
| – holder redemption rights on unsecured bonds | (f) | 10,675 | 6,696 |
| | | 15,545 | 12,573 |

Notes:

- (a) Certain bank borrowings from Hong Kong and PRC based banks are secured by mortgages of ownership titles of properties, plant and equipment and investment properties with an aggregate carrying amount of approximately RMB780,949,000 at 30 June 2016 (31 December 2015: RMB3,024,205,000). The Company provides corporate guarantee to secure for the repayment of a term loan and revolving loans with carrying value of approximately RMB144,286,000 (31 December 2015: RMB:117,843,000). The bank loans carry interest at variable market rates ranging from 2.50% to 6.27% per annum as at 30 June 2016 (31 December 2015: 2.75% to 5.23% per annum).

On 28 June 2016, a commercial bank loan from the Singapore branch of a foreign bank was drawn down by the Company in principal amount US\$60,000,000 (approximately RMB397,872,000) which is secured by personal guarantee provided by Mr. YU Pan and charge of a total 1,587,167,407 shares of the Company. The bank loan was amortised at the effective interest method by applying an effective interest rate at 13.72%.

Other than a term loan of approximately RMB67,363,000 (31 December 2015: RMB67,575,000) which is repayable by monthly instalments until 2033 and RMB98,753,000 which is repayable by monthly instalments until 2026, bank borrowings in an aggregate amount of approximately RMB442,994,000 (31 December 2015: RMB470,908,000) are repayable in the years 2016 and 2018.

The carrying values of the aforesaid bank borrowings are RMB609,110,000 as at 30 June 2016 (31 December 2015: RMB538,483,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL LIABILITIES (Continued)

Notes: (Continued)

- (b) The money market loans in aggregate of approximately RMB389,094,000 as at 30 June 2016 (31 December 2015: RMB891,591,000) extended by bank in Macau were secured by bank deposits of RMB388,420,000. The money market loans carry fixed rate at 1.90% per annum (31 December 2015: 1.32% to 2.70% per annum).
- (c) The trust loan was fully repaid on 18 January 2016.
- (d) As at 30 June 2016, Guangzhou Yu Jun Consulting Service Company Limited has entrusted a third party entity to borrow bank borrowings on its behalf and property units of which are mortgaged to a bank for bank loan facility of RMB27,000,000. The loan facility is also secured by corporate guarantee of RMB35,000,000 provided by the Company and personal guarantee given by Mr. YU Pan. The entrusted loan carries interest at fixed rate at 10.0% per annum.
- (e) In July 2015, Ample Mark Enterprises Limited ("**Ample Mark**") extended a loan to the Company of HK\$560,000,000 (RMB469,168,000) (the "**Loan**") and subscribed for convertible bonds issued by the Company in principal amount of HK\$40,000,000 (RMB33,512,000) (the "**Convertible Bonds**"). The Loan bears interests at the rate of 10% per annum. The Loan has a term of two years and is repayable on 22 July 2017.

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

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

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

The carrying values of the Loan and the Convertible Bonds are RMB453,692,000 and RMB33,087,000 as at 30 June 2016 (31 December 2015: RMB434,824,000 and RMB31,739,000). The movements of the Loan and Convertible Bonds are as follows:

| | Loan RMB'000 | Convertible Bonds RMB'000 | Total RMB'000 |
|--|-----------------|------------------------------|------------------|
| At 31 December 2015 (Audited) and 1 January 2016 | 434,824 | 31,739 | 466,563 |
| Accrued interest expense | 33,576 | 2,385 | 35,961 |
| Interest paid | (23,708) | (1,676) | (25,384) |
| Exchange differences | 9,000 | 639 | 9,639 |
| At 30 June 2016 (Unaudited) – Amounts due after one year | 453,692 | 33,087 | 486,779 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL LIABILITIES (Continued)

Notes: (Continued)

- (f) As at 30 June 2016, the Company has issued unsecured bonds respectively with the principal amounts in aggregate of HK\$290,000,000 (RMB247,863,000) due on 12 September 2024 (the "2024 Bonds"), HK\$570,000,000 (RMB487,179,000) due on 14 November 2031 (the "2031 Bonds"), HK\$40,000,000 (RMB34,188,000) due on 12 September 2025 (the "2025 Bonds") and HK\$430,000,000 (RMB367,521,000) due on 14 November 2032 (the "2032 Bonds"). The 2024 Bonds and 2025 Bonds carry coupon interest at 7.5%, 2031 Bonds and 2032 Bonds carry coupon interest at 8.0% per annum. Interests chargeable on the bonds were payable in advance upon the issue of the bonds. In addition, the bonds are subject to an annual interest of 0.1% per annum payable annually on 14 October (for the 2024 Bonds and 2025 Bonds) and 14 November (for the 2031 Bonds and 2032 Bonds) until maturity. The bonds were amortised at the effective interest method by applying an effective interest rate ranging from 11.75% to 13.14% per annum.

The unsecured bonds in aggregated principal amount of HK\$100,000,000 carried at RMB83,780,000 as at 31 December 2015 which are due in 2016 ("2016 Bonds") were fully repaid during the period.

The movements of the bonds are as follows:

| | 2016 Bonds HK\$'000 | 2024 Bonds HK\$'000 | 2025 Bonds HK\$'000 | 2031 Bonds HK\$'000 | 2032 Bonds HK\$'000 | Total HK\$'000 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------------|
| Nominal value | – | 290,000 | 40,000 | 570,000 | 430,000 | 1,330,000 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Nominal value | – | 247,863 | 34,188 | 487,179 | 367,521 | 1,136,751 |
| Liability component of carrying amount | | | | | | |
| At 31 December 2014 (Audited) and 1 January 2015 | 72,595 | 24,923 | – | 6,939 | – | 104,457 |
| Issue of the bonds, net of transaction costs | – | 143,019 | – | 396,348 | 16,011 | 555,378 |
| Discounts and interest paid | (7,995) | (91,763) | – | (331,817) | (13,574) | (445,149) |
| Accrued interest expense | 13,817 | 5,654 | – | 4,307 | – | 23,778 |
| Exchange differences | 4,675 | 4,324 | – | 3,685 | 37 | 12,721 |
| At 31 December 2015 (Audited) and 1 January 2016 | 83,092 | 86,157 | – | 79,462 | 2,474 | 251,185 |
| Issue of the bonds, net of transaction costs | – | – | 31,728 | – | 306,854 | 338,582 |
| Repayment | (83,982) | – | – | – | – | (83,982) |
| Discounts and interest paid | (3,152) | – | (20,412) | – | (258,634) | (282,198) |
| Accrued interest expense | 3,844 | 5,366 | 4 | 4,736 | 591 | 14,541 |
| Exchange differences | 198 | 1,820 | 242 | 1,676 | 1,646 | 5,582 |
| At 30 June 2016 (Unaudited) | – | 93,343 | 11,562 | 85,874 | 52,931 | 243,710 |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL LIABILITIES (Continued)

At the end of the reporting period, the maturity profile of the bank and other borrowings are as follows:

| | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|---|---|---|
| On demand or within one year | 567,477 | 2,013,166 |
| More than one year, but not exceeding two years | 861,071 | 578,563 |
| More than two years, but not exceeding five years | 27,987 | – |
| After five years | 299,158 | 168,093 |
| | 1,755,693 | 2,759,822 |
| Amounts due within one year included in current liabilities | (567,477) | (2,013,166) |
| Amounts due after one year | 1,188,216 | 746,656 |

18. SHARE CAPITAL

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

Note:

Pursuant to a placing agreement entered by the Company with a placing agent on 17 May 2016 in relation to the placing of 400,000,000 shares of the Company at a price of HK\$0.48 per share (the "Placing"), the Placing was completed on 6 June 2016 and 400,000,000 shares were issued and allotted to not less than six placees, raising proceeds, net of direct expenses, totaling approximately HK\$187,200,000 (RMB158,818,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

19. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The share option scheme adopted on 4 August 2005 (the “2005 Scheme”) expired on 3 August 2015. The Company has adopted a new share option scheme on 9 June 2015 (the “2015 Scheme”) to continue to provide incentives and rewards to eligible participants including the directors and employees of the Group and entity in which the Group holds any equity interest.

During the six months ended 30 June 2016, there were 2,000,000 share options lapsed under the 2015 Scheme and no share option was granted or exercised during the period. During the six months ended 30 June 2015, there were 2,085,239 share options lapsed under the 2005 Scheme and 73,000,000 share options were granted under the 2015 Scheme. No share option was exercised during the six months ended 30 June 2015. The movements in the number of share options during the period and the balance outstanding at 30 June 2016 and 31 December 2015 are as follows:

| Date of grant | Exercise period | Exercise price per share | Number of options outstanding at 31 December 2015 and | During the six months ended 30 June 2016 | | | Number of options outstanding at 30 June 2016 |
|---------------------------------|----------------------------------|--------------------------|---|--|-------------------|----------------|---|
| | | | 1 January 2016 | Options granted | Options exercised | Options lapsed | |
| 11 August 2011 | 11 August 2012 to 10 August 2021 | HK\$0.6714 | 5,942,929 | - | - | - | 5,942,929 |
| 11 August 2011 | 11 August 2015 to 10 August 2021 | HK\$0.6714 | 5,942,930 | - | - | - | 5,942,930 |
| 11 August 2011 | 11 August 2018 to 10 August 2021 | HK\$0.6714 | 5,942,932 | - | - | - | 5,942,932 |
| | | | 17,828,791 | - | - | - | 17,828,791 |
| 26 June 2015 | 26 June 2016 to 25 June 2025 | HK\$1.0820 | 10,296,000 | - | - | (286,000) | 10,010,000 |
| 26 June 2015 | 26 June 2017 to 25 June 2025 | HK\$1.0820 | 10,296,000 | - | - | (286,000) | 10,010,000 |
| 26 June 2015 | 26 June 2018 to 25 June 2025 | HK\$1.0820 | 10,296,000 | - | - | (286,000) | 10,010,000 |
| 26 June 2015 | 26 June 2019 to 25 June 2025 | HK\$1.0820 | 10,296,000 | - | - | (286,000) | 10,010,000 |
| 26 June 2015 | 26 June 2020 to 25 June 2025 | HK\$1.0820 | 10,296,000 | - | - | (286,000) | 10,010,000 |
| 26 June 2015 | 26 June 2021 to 25 June 2025 | HK\$1.0820 | 10,296,000 | - | - | (286,000) | 10,010,000 |
| 26 June 2015 | 26 June 2022 to 25 June 2025 | HK\$1.0820 | 10,224,000 | - | - | (284,000) | 9,940,000 |
| | | | 72,000,000 | - | - | (2,000,000) | 70,000,000 |
| | | | 89,828,791 | - | - | (2,000,000) | 87,828,791 |
| Weighted average exercise price | | | HK\$1.0005 | - | - | HK\$1.0820 | HK\$0.9987 |
| <i>Analysis by category:</i> | | | | | | | |
| Directors | | | 16,213,097 | - | - | - | 16,213,097 |
| Other employees | | | 73,615,694 | - | - | (2,000,000) | 71,615,694 |
| | | | 89,828,791 | - | - | (2,000,000) | 87,828,791 |

The Group recognised approximately RMB5,882,000 (six months ended 30 June 2015: RMB419,000) as equity-settled share-based payment expenses for the six months ended 30 June 2016 in relation to share options granted by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

20. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2016 RMB'000 (Unaudited) | 2015 RMB'000 (Unaudited) |
| Profit/(loss) before income tax | 153,812 | (73,710) |
| <i>Adjustments for:</i> | | |
| Finance costs | 3,372 | 2,115 |
| Finance income | (7,727) | (10,161) |
| Equity-settled share-based payment expenses | 5,882 | 419 |
| Depreciation of property, plant and equipment | 6,823 | 6,366 |
| Amortisation of leasehold land | 1,703 | 1,703 |
| Exchange loss/(gain), net | 31,327 | (616) |
| Fair value changes in financial derivative asset/liabilities | (2,229) | 16,727 |
| Impairment loss on trade and other receivables | 83 | 49 |
| Write-down of properties under development/properties held for sale | – | 8,637 |
| Operating profit/(loss) before working capital changes | 193,046 | (48,471) |
| Decrease/(increase) in properties under Tianhe Project | 786,168 | (11,511) |
| Increase in properties under development | (890,941) | (988,624) |
| Decrease in properties held for sale | 73,330 | 112,169 |
| (Increase)/decrease in trade and other receivables | (110,701) | 24,173 |
| Increase in trade and other payables | 32,130 | 65,192 |
| Increase in properties pre-sale deposits | 1,834,012 | 905,341 |
| Consideration from disposal of Tianhe Project | (1,094,601) | – |
| Cash generated from operations | 822,443 | 58,269 |
| Income tax paid | (30,344) | (56,692) |
| Other borrowing costs paid | (62,249) | (23,982) |
| Interest paid | (362,330) | (349,982) |
| Net cash from/(used in) operating activities | 367,520 | (372,387) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

21. RELATED PARTY TRANSACTIONS

During and up to the end of the period, the Group entered into the following material transactions with related parties:

(a) Material transactions with related parties

| Related party relationship | Type of transaction | Six months ended 30 June | |
|---|--|--------------------------------|--------------------------------|
| | | 2016 RMB'000 (Unaudited) | 2015 RMB'000 (Unaudited) |
| Companies beneficially owned by Mr. YU Pan and his spouse | Rental income received from office leasing | 55 | 55 |

(b) Mr. YU Pan has provided personal guarantee to a bank and financial institution in respect of loan facilities extended to the Company and its subsidiary, which are disclosed in note 17(a) and 17(d).

(c) Compensation of key management personnel

The remuneration of members of key management, including directors' emoluments, incurred during the period is as follows:

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2016 RMB'000 (Unaudited) | 2015 RMB'000 (Unaudited) |
| Short-term benefits | 7,897 | 6,330 |
| Other long-term benefits | 258 | 198 |
| Equity-settled share-based payment expenses | 3,662 | 412 |
| | 11,817 | 6,940 |

Members of key management (including Directors and executive officers), are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

22. COMMITMENTS

| | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|--|--|---|
| | Expenditure contracted but not provided for in respect of – Property construction and development costs | 1,510,951 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

23. CONTINGENT LIABILITIES

In July 2015, a legal action was raised against 廣州市譽城房地產開發有限公司(Guangzhou Yucheng Real Estate Development Company Limited) (“**Yucheng**”), the project company of Zhoutouzui Project, by Guangzhou Port Group Carrier Services Co., Limited (廣州港集團客運服務有限公司), a wholly-owned subsidiary of Guangzhou Port Group Co., Limited (“**Port Authority**”), to claim for compensation in the amount of RMB20.0 million for the demolition and relocation of occupants of the site of Zhoutouzui Project. The claim was made pursuant to an agreement entered into with Port Authority and Yucheng on 18 September 2001 and as supplemented by an agreement dated 18 December 2003 entered into with Port Authority and Yucheng. Due to a problem about the legal identity of the claimant encountered, on 29 April 2016, the case was withdrawn by the claimant. On 28 April 2016, Port Authority initiated another legal action with a revised claim of RMB12.0 million. The claim has been in negotiations between the parties out of court. Based on the current assessment of the progress of the negotiations, the directors estimate that the claim will be settled at a reduced amount that will be provided for in the accounts of the Group timely upon the reaching of a settlement agreement with the parties.

Other than the above-mentioned, the Group had no other material contingent liabilities as at 30 June 2016 (31 December 2015: Nil).

24. EVENT AFTER THE END OF THE REPORTING PERIOD

On 21 June 2016, the Company entered into the placing agreement with Crosby Securities Limited pursuant to which Crosby Securities Limited agreed to use its best efforts to procure placees to subscribe for in the aggregate up to HK\$100 million (RMB85.5 million) principal amount of the bonds, on the terms and subject to the conditions set out in the placing agreement during the period commencing upon the date of the placing agreement and ending on 31 August 2016. The placing was completed on 5 July 2016 when bonds of a total principal value of HK\$100 million were issued.

OTHER INFORMATION

Interim Dividend

As at 30 June 2016, the Company's distributable reserves amounted to a deficiency of RMB452.7 million (net of the Company's contributed surplus of RMB16.1 million). Thus, the Company does not have reserve available for cash distribution and/or distribution in specie as computed in accordance with generally accepted accounting principles of Hong Kong.

Directors' and Chief Executives' Interests in Shares and Underlying Shares

As at 30 June 2016 the interests and short positions of the Directors and chief executives of the Company in the share of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to be notified to the Company and the Stock Exchange, were as follows:

(a) Interests in the Shares or underlying Shares

| Name of Director | Company/ Associated corporation | Capacity | Number of Shares or underlying Shares (Note 1) | Approximate shareholding percentage (Note 2) |
|------------------|---------------------------------------|--|--|---|
| Mr. YU Pan | Company | Interest of controlled corporation and/or beneficial owner | 1,587,168,407 (long) | 60.66% |

Notes:

- These Shares comprised (i) 141,504,000 existing Shares; and (ii) 1,445,664,407 existing Shares held directly by Grand Cosmos Holdings Limited ("Grand Cosmos"). The entire issued share capital of Grand Cosmos was held by Sharp Bright International Limited ("Sharp Bright"), the entire issued share capital of which was held by Mr. YU Pan. The 1,587,168,407 Shares were charged in favour of UBS AG, Singapore Branch pursuant to a security agreement dated 25 June 2016 in relation to a loan facility of US\$60 million granted to the Company by UBS AG, Singapore Branch in June 2016.
- For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 2,616,531,175 Shares in issue as at 30 June 2016.

OTHER INFORMATION

Directors' and Chief Executives' Interests in Shares and Underlying Shares *(Continued)*

(b) Interests in underlying Shares arising from share options

As at 30 June 2016, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under share option schemes adopted by the Company on 4 August 2005 (the "2005 Scheme") and 9 June 2015 (the "2015 Scheme"):

| Name of Director | Exercise price (HK\$) | Exercise period | Number of underlying Shares | Approximate shareholding percentage <i>(Note 3)</i> |
|----------------------------------|--------------------------|---|-----------------------------------|--|
| Mr. WEN Xiaobing | 0.6714 | 11 August 2002 to 10 August 2021 <i>(Note 1)</i> | 5,213,097 | 0.20% |
| | 1.0820 | 26 June 2016 to 25 June 2025 <i>(Note 2)</i> | 8,000,000 | 0.31% |
| Mr. CHOY Shu Kwan | 1.0820 | 26 June 2016 to 25 June 2025 <i>(Note 2)</i> | 1,000,000 | 0.04% |
| Mr. CHENG Wing Keung, Raymond | 1.0820 | 26 June 2016 to 25 June 2025 <i>(Note 2)</i> | 1,000,000 | 0.04% |
| Ms. CHUNG Lai Fong | 1.0820 | 26 June 2016 to 25 June 2025 <i>(Note 2)</i> | 1,000,000 | 0.04% |

Note:

- First tranche (33.33% of the Options) is exercisable from 11 August 2012 to 10 August 2021;
 - Second tranche (33.33% of the Options) is exercisable from 11 August 2015 to 10 August 2021; and
 - Third tranche (33.34% of the Options) is exercisable from 11 August 2018 to 10 August 2021.
- First tranche (14.3% of the Options) is exercisable from 26 June 2016 to 25 June 2025;
 - Second tranche (14.3% of the Options) is exercisable from 26 June 2017 to 25 June 2025;
 - Third tranche (14.3% of the Options) is exercisable from 26 June 2018 to 25 June 2025;
 - Fourth tranche (14.3% of the Options) is exercisable from 26 June 2019 to 25 June 2025;
 - Fifth tranche (14.3% of the Options) is exercisable from 26 June 2020 to 25 June 2025;
 - Sixth tranche (14.3% of the Options) is exercisable from 26 June 2021 to 25 June 2025; and
 - Seventh tranche (14.2% of the Options) is exercisable from 26 June 2022 to 25 June 2025.
- For the purpose of this section, the shareholding percentage in the Company was calculated on the basis of 2,616,531,175 Shares in issue as at 30 June 2016.

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange.

OTHER INFORMATION

Substantial shareholders

At 30 June 2016, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Interests in the Shares or underlying Shares

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

Notes:

- The 1,445,664,407 existing Shares were held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. YU Pan, Mr. YU Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. The 1,445,664,407 Shares together with 141,504,000 Shares held by Mr. YU Pan were charged in favour of UBS AG, Singapore Branch pursuant of a security agreement dated 25 June 2016 in relation to a loan facility of US\$60 million granted to the Company by UBS AG, Singapore Branch in June 2016.
- For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 2,616,531,175 Shares in issue as at 30 June 2016.

Save as disclosed above, as at 30 June 2016, the Company had not been notified by any other persons or corporations who had any long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

Share Options Scheme

The Company has adopted the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation and enabling the Group to recruit and retain high-calibre employees. As the 2005 Scheme expired on 3 August 2015, the Company has adopted the 2015 Scheme to continue to provide incentives and rewards to eligible participants including the directors and employees of the Group and entity in which the Group holds any equity interest for contribution they have made or may make to the Group and to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and/or any entity in which the Group holds any equity interest. The 2015 Scheme became effective on 9 June 2015 and, unless otherwise cancelled or amended, will remain in force for ten years since then. Under the 2015 Scheme, the Directors are authorized, at their absolute discretion, to invite any employee and any directors (including executive and non-executive and independent non-executive directors) of any member of the Group or of any entity in which the Group holds any equity interest, to take up the options. Details of the 2015 Scheme are set out in the Company's circular dated 27 April 2015.

During the period ended 30 June 2016, there were 2,000,000 share options lapsed under the 2015 Scheme. No share option was granted or exercised during the period and there were 81,828,791 share options outstanding as at 30 June 2016.

OTHER INFORMATION

Corporate Governance

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the Interim Financial Statements, in compliance with the code provisions in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules except for the following deviations:

Code Provision A2.1 – Chairman and Chief Executive

The roles of chairman and chief executive officer of the Company is not separated as required by the CG Code but has been dually performed by Mr. YU Pan, since 2004.

Due to the relatively small size of the management team, the Board considers the currently simple but efficient management team serves sufficiently enough the need of the Group. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out a clearer division of responsibilities between the chairman and chief executive to ensure a proper segregation of the management of the Board and the management of the Group’s business.

Code Provision E.1.2 – Chairman Attending Annual General Meeting

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

Directors’ Securities Transaction

The Company has adopted its own Code of Conduct for Securities Transactions by Directors and relevant employees of the Company (the “**Code**”) on terms no less exact than the required standards set out in the Model Code and the Code is updated from time to time in accordance with the Listing Rules requirements. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Code throughout the period under review.

Purchase, Sale or Redemption of the Company’s Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities for the six months ended 30 June 2016.

Audit Committee

The principal duties of the Audit Committee include regular reviews of the Company’s financial reporting procedures, internal controls and financial results of the Group. The Interim Financial Statements have been reviewed by the Audit Committee.

By order of the Board
Skyfame Realty (Holdings) Limited
YU Pan
Chairman

Hong Kong, 29 August 2016