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(Stock code: 00405)

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**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

The board of directors (“Board”) of Yuexiu REIT Asset Management Limited (“Manager”) is pleased to announce the audited consolidated results of Yuexiu Real Estate Investment Trust (“Yuexiu REIT”) and its subsidiaries for the year ended 31 December 2016 (“Reporting Year”) together with comparative figures for the corresponding period in 2015 as follows:

FINANCIAL HIGHLIGHTS

The following is a summary of Yuexiu REIT's audited consolidated results (Note a) for the year ended 31 December 2016 together with comparative figures for the corresponding period in 2015:

(in Renminbi ("RMB"), unless otherwise specified)

	Financial Year ended 31 December 2016	Financial Year ended 31 December 2015	Increase/ (decrease)
Gross income (Note a)	1,837,579,000	1,709,645,000	7.5%
Net property income	1,268,104,000	1,088,369,000	16.5%
Profit after tax	712,144,000	740,683,000	(3.9)%
Earnings per unit - Basic	0.25	0.26	(3.8)%
Portfolio valuation	28,658,000,000	27,574,000,000	3.9%
Net assets attributable to Unitholders per Unit	4.63	4.74	(2.3)%
Net assets attributable to Unitholders per Unit - Equivalent to HK\$	5.18	5.66	(8.5)%
Units issued (units)	2,921,780,484	2,828,887,374	3.3%
Total borrowings as a percentage of gross assets (Note b)	38.9%	37.4%	1.5 percentage points
Gross liabilities as a percentage of gross assets (Note c)	55.5%	54.0%	1.5 percentage points
Distribution			
Total distribution (including additional items)	824,717,000	704,321,000	17.1%
Distribution per Unit (HK\$)	0.3269	0.3052	7.1%

Note a: Revenue of Yue Xiu Tower was recorded since 1 September 2015.

Note b: Calculation of Total borrowings based on bank loan and other borrowings, excluding capitalization of debt-related expenses.

Note c: Calculation of Gross liabilities based on total liabilities, excluding capitalization of debt-related expenses and net assets attributable to Unitholders.

DISTRIBUTION

In accordance with the Trust Deed, Yuexiu REIT is required to distribute no less than 90% of Total Distributable Income to the Unitholders. According to the offering circular (“OC”) issued to Unitholders dated 30 June 2012, the Manager has intended to distribute to the Unitholders an amount equal to 100% of Yuexiu REIT’s Total Distributable Income and Additional Items (as defined in the OC) for the financial year ended from 31 December 2012 to the financial year ending 31 December 2016.

The Manager also has the discretion under Yuexiu REIT’s trust deed, where there are surplus funds, to distribute amounts in addition to that set out in the OC. At the time of announcing the distribution for any particular year, the Manager shall consider whether to exercise such discretion having regard to factors including but not limited to Yuexiu REIT’s funding requirements, its earnings and financial position, its growth strategy, operating and capital requirements, compliance with relevant laws, regulations and covenants (including existing limitations on borrowings as prescribed in the REIT Code), other capital management considerations, the overall stability of distributions and prevailing industry practice.

In light of the above, the Manager has determined that the final distribution to the Unitholders for the period from 1 July 2016 to 31 December 2016 (“2016 Final Period”) will be approximately RMB0.1506 which is equivalent to HK\$0.1699 (2015: RMB0.1275 which was equivalent to HK\$0.1522) per Unit. Such final distribution per Unit is subject to adjustment once new units are issued to the Manager (in satisfaction of the Manager’s fees) prior to the record date for the 2016 Final Period distribution. A further announcement will be made to inform Unitholders of the final Distribution per Unit for the 2016 Final Period.

The final distribution for the 2016 Final Period, together with the interim distribution of Yuexiu REIT for the six-month period from 1 January 2016 to 30 June 2016 (“2016 Interim Period”) being approximately RMB0.1346 which is equivalent to HK\$0.1570 (2015: RMB0.1208 which was equivalent to HK\$0.1530) per Unit, represents a total distribution to each Unitholder for the Reporting Year of approximately RMB0.2852 (which is equivalent to HK\$0.3269) (2015: approximately RMB0.2483 which was equivalent to HK\$0.3052).

The total distribution amount for the Reporting Year, being RMB824,717,000 (2015: RMB704,321,000), includes an amount of approximately RMB483,000,000 (2015: RMB504,000,000), that is capital in nature. The total distribution amount for the Reporting Year comprises the distributable amount calculated pursuant to the formula set out in the OC (being approximately RMB280,643,000) plus a further distribution of approximately RMB544,074,000 having regard to the abovementioned discretion of the Manager under Yuexiu REIT’s trust deed to distribute excess amounts where it has surplus funds. Further details regarding the breakdown of the total distributable amount are set out in the Distribution Statement.

Distributions payable to the Unitholders will be paid in Hong Kong dollars. The exchange rate adopted by the Manager is the central parity rate, as announced by the People’s Bank of China, for the five business days preceding the date of declaration of distributions.

Yuexiu REIT aims at providing steady returns to its Unitholders derived from the gross income of its Properties. It has been distributing no less than 100% of Total Distributable Income for 11 consecutive years after listing in 2005.

Distribution Yield

Disregarding new units to be issued prior to the relevant record date with respect to the Manager’s fees, Distribution per Unit (“DPU”) for the Reporting Year is approximately HK\$0.3269 (2015: HK\$0.3052), of which approximately HK\$0.1865 (2015: HK\$0.2150) is attributable to capital items, represents a yield of approximately 8.0% (2015: 7.4%) per Unit based on the closing price of HK\$4.09 per Unit as at 31 December 2016 (2015: HK\$4.16).

CLOSURE OF REGISTER OF UNITHOLDERS

The record date for the final distribution will be 12 April 2017. The register of Unitholders will be closed from 12 April 2017 to 13 April 2017, both days inclusive, during which period no transfer of units will be effected. In order to be qualify for the distribution, all Unit certificates with completed transfer forms must be lodged with Yuexiu REIT's unit registrar, Tricor Investor Services Limited, at 22/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 11 April 2017. The final distribution will be paid on 16 May 2017 to the Unitholders whose names appear on the register of Unitholders on 12 April 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Steady growth in operating results, persistent increase in asset appreciation

In 2016, the macro-economy of China was in a structural optimization and industry upgrading era of new normality, economic growth continued to slow down. In order to safeguard the interest of unitholders, Yuexiu REIT implemented proactive leasing and asset management strategies, its properties continued to achieve excellent results, asset value of properties continued to appreciate, establishing a solid foundation for income growth and sustainable development in future for Yuexiu REIT.

Under the concerted efforts of the Manager's team, the REIT and the Manager won a number of community awards in 2016. Among the awards, Yuexiu REIT was the winner of "Listed Enterprises of the Year 2016" awarded by Bloomberg Businessweek, the "Hong Kong Outstanding Enterprise Award" presented by Economic Digest, "Top 10 Commercial Property Funds of China" award presented by WinShang.com, and Gold Award of "Excellence in Governance" presented by The Asset. And the Manager won the "China Commercial Property Asset Management 2016 Award" by Guandian Property. The Manager will continue to improve the internal management mechanism, enhance the corporate governance standard persistently, with a view to bring more benefits to investors and unitholders.

PROPERTY PORTFOLIO AND VALUATION

As at 31 December 2016, Yuexiu REIT's portfolio of properties ("Properties") consisted of seven properties, namely, White Horse Building Units ("White Horse Building"), Fortune Plaza Units ("Fortune Plaza"), City Development Plaza Units ("City Development Plaza"), Victory Plaza Units ("Victory Plaza"), Yue Xiu Neo Metropolis Plaza Units ("Neo Metropolis"), Guangzhou International Finance Center ("GZIFC"), which are located in Guangzhou, and Yue Xiu Tower ("Yue Xiu Tower") which is located in Shanghai. The aggregate area of ownership of the Properties was approximately 743,106.2 sq.m. and the total rentable area was 487,324.3 sq.m. (excluding 7,544.7 sq.m. of parking space and 4,528.0 sq.m. of clubhouse and common facilities area of Neo Metropolis; 91,460.9 sq.m. of hotel, 51,102.3 sq.m. of serviced apartments and 76,512.3 sq.m. of parking space and other ancillary facilities area of GZIFC; and 13,502.6 sq.m. of parking space and 2,610.4 sq.m. of specific purpose area of Yue Xiu Tower; and the following statistics of both aggregate rented area and occupancy rate have excluded the above areas).

Particulars of the Properties are as follows:

Property	Type	Location	Year of Completion	Area of Ownership (sq.m.)	Total Rentable Area (sq.m.)	Property Occupancy Rate ⁽¹⁾	Unit Rent ⁽¹⁾ (VAT inclusive) (RMB/sq.m./month)	Unit Rent ⁽¹⁾ (VAT exclusive) (RMB/sq.m./month)
White Horse Building	Wholesale mall	Guangzhou Yuexiu District	1990	50,199.3	50,128.9	100.0%	656.6	625.3
Fortune Plaza	Grade A office	Guangzhou Tianhe District	2003	41,355.2	41,355.2	95.7%	156.6	149.1
City Development Plaza	Grade A office	Guangzhou Tianhe District	1997	42,397.4	42,397.4	95.0%	135.4	129.0
Victory Plaza	Retail shopping mall	Guangzhou Tianhe District	2003	27,698.1	27,262.3	100.0%	232.2	221.1
Neo Metropolis	Commercial complex	Guangzhou Yuexiu District	2007	61,960.0	49,887.3 ⁽²⁾	99.7% ⁽²⁾	112.1	106.8
GZIFC	Commercial complex	Guangzhou Tianhe District	2010	457,356.8	230,266.9	97.5%	210.3	200.3
Including:	Grade A office			267,804.4	183,539.6 ⁽³⁾	98.3%	235.7	224.5
	Retail shopping mall			46,989.2	46,727.3	94.3%	106.3	101.2
	Hotel			91,460.9 ⁽⁴⁾	N/A	N/A	N/A	N/A
	Serviced apartments			51,102.3	N/A	N/A	N/A	N/A
Yue Xiu Tower	Commercial complex	Shanghai Pudong New District	2010	62,139.4	46,026.3 ⁽⁵⁾	99.2%	266.7	254.0
Total				<u>743,106.2</u>	<u>487,324.3</u>	97.9%	242.8	231.3

Note:

- (1) As at 31 December 2016;
- (2) Excluding 7,544.7 sq.m. of parking space and 4,528.0 sq.m. of clubhouse and common facilities area;
- (3) Excluding 76,512.3 sq.m. of parking space area;
- (4) Including 2,262.0 sq.m. of hotel ancillary facilities and refuge floor area;
- (5) Excluding 13,502.6 sq.m. of parking space and 2,610.4 sq.m. of specific purpose area (management office, owners' committee office, bicycle parking space and crisis shelter floor).

Segments of the Properties are as follows:

Rental Property	Area of Ownership (sq.m.)	Rentable Area (sq.m.)	Occupancy Rate ⁽¹⁾	Percentage Point increase/decrease	Unit Rent ⁽¹⁾ (VAT exclusive) (RMB/sq.m./month)	Unit Rent ⁽¹⁾ (VAT inclusive) (RMB/sq.m./month)	Percentage as compared to the same	Operating Income ⁽²⁾ (RMB'000)
							period of 2015	
Office	475,656.4	363,205.8 ⁽³⁾	98.0%	-0.1	192.6	202.3	3.2%	815,300
Retail	74,687.3	73,989.6	96.4%	4.7	147.0	154.4	-3.9%	136,606
Wholesale	50,199.3	50,128.9	100.0%	0.0	625.3	656.6	3.1%	401,752

Note:

(1) As at 31 December 2016;

(2) For the year ended 31 December 2016;

(3) Excluding 7,544.7 sq.m. of parking space and 4,528.0 sq.m. of clubhouse and common facilities area of Neo Metropolis, excluding 76,512.3 sq.m. of parking space area of GZIFC, and excluding 13,502.6 sq.m. of parking space and 2,610.4 sq.m. of specific purpose area (management office, owners' committee office, bicycle parking space and crisis shelter floor).

Operational Property	Type	Commencement of Operation	Area of Ownership (sq.m.)	No. of Units (units)	Average	Average
					Occupancy Rate ⁽¹⁾	Rent ⁽¹⁾ (VAT inclusive) (RMB/Room/Day)
Four Seasons Hotel Guangzhou	Five star hotel	August 2012	91,460.9	344	73.7%	1,907
Ascott Serviced Apartments GZIFC	High-end serviced apartments	September 2012	51,102.3	314	93.9%	997

Note:

(1) From 1 January 2016 to 31 December 2016;

(2) Both hotel and serviced apartments are entrusted operators.

Property Valuation

On 31 December 2016, revaluation of the portfolio of properties of Yuexiu REIT was carried out by Vigers Appraisal and Consulting Limited (“Vigers”), an independent professional valuer, and the revalued market valuation was approximately RMB28,658 million, representing an increase of RMB1,084 million or 3.9% over the valuation as at 31 December 2015.

The following table summarizes the valuation of each of the Properties as at 31 December 2016 and 31 December 2015:

Name of Property	Valuation as at	Valuation as at	Increase
	31 December 2016	31 December 2015	
	<i>RMB million</i>	<i>RMB million</i>	<i>%</i>
White Horse Building	4,885	4,715	3.6%
Fortune Plaza	980	903	8.5%
City Development Plaza	811	758	7.0%
Victory Plaza	880	866	1.6%
Neo Metropolis	912	863	5.7%
GZIFC	17,190	16,639	3.3%
Yue Xiu Tower	<u>3,000</u>	<u>2,830</u>	<u>6.0%</u>
Total	<u>28,658</u>	<u>27,574</u>	<u>3.9%</u>

Lease Expiry of the Properties

In respect of the rental area in the next five years and beyond, ratios of lease expiry of Yuexiu REIT Properties each year will be 22.4%, 29.5%, 21.3%, 8.4% and 18.4% respectively. In respect of basic monthly rental, ratios of lease expiry each year will be 23.4%, 31.3%, 26.0%, 8.2% and 11.1% respectively.

Lease Expiry of the Properties

Properties of Yuexiu REIT

Year	Percentage of	Percentage of
	Rental Area	Total Basic Monthly Rental
FY 2017	22.4%	23.4%
FY 2018	29.5%	31.3%
FY 2019	21.3%	26.0%
FY 2020	8.4%	8.2%
FY 2021 and beyond	<u>18.4%</u>	<u>11.1%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

White Horse Building

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2017	35.8%	28.7%
FY 2018	16.1%	23.2%
FY 2019	33.7%	39.3%
FY 2020	14.4%	8.8%
FY 2021 and beyond	<u>0.0%</u>	<u>0.0%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

Fortune Plaza

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2017	39.2%	42.5%
FY 2018	24.9%	23.2%
FY 2019	17.3%	15.4%
FY 2020	4.9%	6.8%
FY 2021 and beyond	<u>13.7%</u>	<u>12.1%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

City Development Plaza

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2017	29.2%	28.9%
FY 2018	22.2%	26.1%
FY 2019	12.6%	12.3%
FY 2020	9.1%	14.1%
FY 2021 and beyond	<u>26.9%</u>	<u>18.6%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

Victory Plaza

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2017	10.1%	9.7%
FY 2018	3.8%	9.0%
FY 2019	17.5%	19.1%
FY 2020	29.0%	15.2%
FY 2021 and beyond	<u>39.6%</u>	<u>47.0%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

Neo Metropolis

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2017	18.8%	17.3%
FY 2018	50.2%	47.8%
FY 2019	26.9%	25.1%
FY 2020	1.5%	1.3%
FY 2021 and beyond	<u>2.6%</u>	<u>8.5%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

GZIFC

Year	Offices and Retail Shopping Mall in aggregate		Offices		Retail Shopping Mall	
	Percentage of Rental Area	Percentage of Total Basic Monthly Rental	Percentage of Rental Area	Percentage of Total Basic Monthly Rental	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2017	14.2%	15.2%	15.8%	15.1%	7.6%	15.9%
FY 2018	32.3%	39.0%	40.2%	43.2%	0.1%	0.3%
FY 2019	20.2%	21.4%	24.6%	23.1%	2.4%	6.3%
FY 2020	8.0%	9.0%	9.5%	9.8%	1.8%	2.4%
FY 2021 and beyond	<u>25.3%</u>	<u>15.4%</u>	<u>9.9%</u>	<u>8.8%</u>	<u>88.1%</u>	<u>75.1%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

Yue Xiu Tower

Year	Percentage of Rental Area	Percentage of Total Basic Monthly Rental
FY 2017	38.8%	38.2%
FY 2018	36.9%	35.0%
FY 2019	21.2%	23.5%
FY 2020	0.5%	0.6%
FY 2021 and beyond	<u>2.6%</u>	<u>2.7%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Revenue continued to increase

In 2016, the properties of Yuexiu REIT recorded total revenue of approximately RMB1,837.6 million, representing an increase of 7.5% as compared to the same period of the previous year. Among which, White Horse Building, Fortune Plaza, City Development Plaza, Victory Plaza, Neo Metropolis, GZIFC and Yue Xiu Tower accounted for approximately 21.9%, 3.8%, 3.4%, 3.5%, 3.5%, 56.5% and 7.4% respectively of the total revenue.

No bad debt was recorded during the reporting period. The following table sets out a comparison of revenue in respect of the Properties between the reporting period and the same period of the previous year:

Name of Property	Revenue in 2016 <i>RMB million</i>	Revenue in 2015 <i>RMB million</i>	Increase/ (Decrease) as compared to 2015 <i>RMB million</i>	Increase/ (Decrease) %
White Horse Building	401.8	406.9	(5.1)	(1.3)%
Fortune Plaza	70.7	71.5	(0.8)	(1.1)%
City Development Plaza	62.9	60.2	2.7	4.5%
Victory Plaza	64.5	63.9	0.6	0.9%
Neo Metropolis	<u>63.8</u>	<u>64.5</u>	<u>(0.7)</u>	(1.1)%
Sub-total of the original properties	<u>663.7</u>	<u>667.0</u>	<u>(3.3)</u>	(0.5)%
GZIFC	1,037.8	999.6	38.2	3.8%
Yue Xiu Tower	<u>136.1</u>	<u>43.0⁽¹⁾</u>	<u>93.1</u>	216.5%
Total	<u>1,837.6</u>	<u>1,709.6</u>	<u>128.0</u>	7.5%

Note:

(1) Revenue from Yue Xiu Tower was recorded since 1 September 2015.

The following table sets out a comparison of net property income (“NPI”) in respect of the Properties between the reporting period and the same period of previous year:

Name of Property	Net Property Income in 2016 RMB million	Net Property Income in 2015 RMB million	Increase as compared to 2015 RMB million	Increase %
White Horse Building	329.9	320.5	9.4	2.9%
Fortune Plaza	57.3	55.5	1.8	3.2%
City Development Plaza	50.6	46.7	3.9	8.4%
Victory Plaza	51.9	49.8	2.1	4.2%
Neo Metropolis	51.1	50.3	0.8	1.6%
Sub-total of the original properties	540.8	522.8	18.0	3.4%
GZIFC	607.3	529.2	78.1	14.8%
Yue Xiu Tower	120.0	36.3 ⁽¹⁾	83.7	230.6%
Total	1,268.1	1,088.3	179.8	16.5%

Note:

(1) Net Property Income from Yue Xiu Tower was recorded since 1 September 2015.

White Horse Building — Increased efforts in transformation and upgrading, further enhanced market competitiveness

In 2016, the Manager adopted measures to actively respond to the trend of market downturn, and continued to augment transformation and upgrading efforts in the various aspects of hardware transformation, image enhancement, tenant adjustment, brand incubation and marketing innovation, integrated market competitiveness was further enhanced. Among these measures, White Horse Building actively adjusted the structure of shops on the second floor. The number of shops was reduced from 380 to 179 in aggregate. It optimized the floor operation positioning and brand portfolio and introduced 15 high-quality customers by leveraging on the opportunity of upgrading and adjustment of the second floor, through in-depth market analysis and research and incorporating the needs of operating tenants, the image, consequently, integrated competitiveness of White Horse Building was further escalated. On lease renewals, the renewals of leasing contracts for the sixth floor expiring by the end of 2016 were completed in a smooth manner by executing the differentiated pricing policy, with a renewal rate of 100%. On marketing and promotions, the Manager reinforced the marketing strategy of “going out and bringing in” and organized customers to participate in the China International Fashion Fair - CHIC 2016 in Shanghai and successfully organized the 10th White Horse Fashion Procurement Festival. Furthermore, the Manager also strived to increase efforts in hatching the brand of White Horse Building, established the White Horse brand operation center and introduced the “Half-step (半步)” platform for gathering White Horse original creation designers. Innovative breakthrough was also made by cutting into the upstream of the fashion industrial chain to gradually enhance the competitiveness of White Horse products, continued to increase the brand influence of White Horse Building and consolidate its benchmark position in the industry.

Victory Plaza — Strengthened the tenant synergy mechanism, expanded continuously the brand influence of the mall

In 2016, Victory Plaza closely adhered to the brand positioning of being a “VT101” young, fast, fashionable mall, enhanced synergy and interactions among tenants by launching a series of large-scale thematic marketing activities in various seasons and organized small-scale marketing activities with special features on weekdays, and recorded the ideal performance of 100% occupancy rate as at the end of the reporting period. A total of nearly 50 campaigns were organized throughout the year with integrated resources, including influential promotional campaigns such as “International Vertical Marathon VT101 Station (國際垂直馬拉松VT101站)”, “China Super Vocal Open Selection (中國好聲音海選)”, “Anniversary Celebration VR Experience (周年慶VR體驗)” and “Christmas and New Year Greetings at Avenue of Stars (聖誕元旦星光大道)”, increasing the mall traffic flow enormously, with the average daily traffic flow being increased to approximately 20,000 people, and further enhancing the brand awareness of “VT101” mall among young consumer groups. In addition, Victory Plaza communicated proactively with key tenants, whose leases expired in 2016 and formulated renewal proposals in advance, and retained the key tenants together with a significant increase in rentals. Rents paid by some tenants for renewing their leases increased by more than 40%. On operational management, the Manager implemented a communication and supervision mechanism for major tenants to enhance operation counselling and risk management control in order to enhance its operational management standard and efficiency. Meanwhile, the Manager further improved the tenant advisory mechanism and reached consensus with various tenants to purchase and install sales data collection box and added some customer traffic flow collection devices. On one hand, these would provide precise operational data for tenants, while on the other hand, these would establish a foundation for brand optimization and rent increase of the mall in future.

Fortune Plaza, City Development Plaza, Yue Xiu Neo Metropolis Plaza — Actively explored the potential customer needs, raised rental value of the properties steadily

In 2016, the three office projects of Fortune Plaza, City Development Plaza and Yue Xiu Neo Metropolis Plaza recorded high occupancy rates of 95.7%, 95.0% and 99.7%, respectively, the rent levels increased by 5.0%, 6.6% and 3.7%, respectively, as compared to the same period of the previous year, rental value of the properties increased steadily. The Manager continued to implement actively the leasing and customer relationship management strategies, by leveraging on the flexible lease management policy and an in-depth probe into the potential needs of the customers in these projects, the average renewal rate of office projects was as high as 75.4%. On the other hand, the Manager actively introduced quality tenants to optimize continuously the mix of tenants in the projects. Among them, Fortune Plaza successfully renewed leases for renowned tenants including “CTrip”, “Citicorp”, “Nikon” and “Saint Honore”, achieved renewal rate at 79.9%. Moreover, Fortune Plaza also brought in the famous local brand of detergents “Bluemoon”, the US famous medical brand “Convatec”, and assisted tenants, including “Nikon” and “Dicos”, to complete internal expansion of leasing area. City Development Plaza realized the successful expansion in leasing area for some internal quality tenants, including “E Fund”, “Taikang Life” and “Tong Cheng Travel”. Yue Xiu Neo Metropolis Plaza completed lease renewal for its podium key tenant, “Gome” and expansion of leasing area for internal quality tenant “Star Cruises”, the rental value of the properties rose steadily.

Guangzhou International Finance Center — Office occupancy rate achieved record-high level, commercial value of podium rose steadily

For offices in Guangzhou International Finance Center (GZIFC), the Manager continued to implement proactive, stable and sound leasing policies and measures, and responded actively to the challenging market environment as new supplies concentrated on the market of Grade A offices in Zhujiang New Town, good operation results were obtained. The occupancy rate of GZIFC as at the end of the year reached 98.3%, representing an increase of 1.0 percentage point as compared to the same period of the previous year. The occupancy rate rose steadily to a new record-high level. With respect to new leases, by leveraging on the effective and flexible leasing strategies, relatively strong resources integration abilities and an excellent leasing team, the Manager actively developed leasing channels and successfully brought in premium tenants including “Everbright Securities”, “Zurich General Insurance”, “Momo”, “PPTV” and “Guangdong Southern Finance and Economics Omnimedia Group”. Furthermore, expansion in leasing areas by quality tenants including “CF Capital”, “CSC Group” and

“Guangzheng Hang Seng” was also successfully arranged. In lease renewals, in order to retain quality tenants in GZIFC, the Manager responded actively to market competition, and formulated flexible renewal policy in advance. Moreover, the Manager established and introduced international standards of premium offices management and customer services, as well as implementing 6S services system highlighting Security, Speed, Smile, Sharing, Sincerity and Specialty, together with excellent management services, the lease renewal area of GZIFC offices for the full year was approximately 26,000 sq.m., the renewal rate was as high as 77%. The Manager also strived to maintain customer relationship and enhance recognition on project branding. A series of activities including “Chinese Valentine’s Day Photography Exhibition (七夕攝影展及沙龍)”, “IFC Film Party (IFC電影聯歡會)” and “Gourmet Trip and Photography Exhibition (美食之旅展及沙龍)” were organized on the Mezzanine Floor throughout the year, interactions over the WeChat platform were enhanced, and customer socialization activity “Beyond work — beyond living (越工作•越生活)” was organized to further maintain and enhance customer relationship in the GZIFC offices, which effectively augmented customer loyalty and continued to expand the branding impact of GZIFC.

For the podium of GZIFC, the Manager proactively reduced the podium area of the original tenant, Friendship Department Store, according to the retail market spending and upgrading needs, together with the increasingly mature operation atmosphere of the retail circle in Zhujiang New Town, the whole of the fourth and fifth floors were recovered and part of the basement one level was renovated and modified for proprietary operation. In business aspect, 26 tenants were brought in again, of which 23 were specialty restaurants, 1 hair salon, 1 department retailer and 1 fitness center. By increasing food and beverage business outlets, famous restaurant tenants were brought in to further increase the traffic flow in the mall. The launching of the brand “GZIFC Shopping Mall” has timely satisfied the diversified spending needs of CBD customers. Meanwhile, the precise positioning of an elite lifestyle and a new landmark featuring business, lifestyle, fashion and leisure under one roof, establishing a foundation for fast leasing. At the end of the year, the GZIFC Shopping Mall recorded an occupancy rate of 94.3%, the rent level rose to RMB101.2/sq.m./month, representing an increase of 0.8% as compared to the level prior to the adjustment. The commercial value and ancillary servicing abilities of the GZIFC podium were enhanced remarkably. In addition, after commencement of business at the mall, in order to bring more traffic flow to the mall and enhance the operating results of the tenants, the Manager coordinated and consolidated resources inside and outside the mall, such as media, various organizations, platforms and peripheral public equipment and facilities, and provided active and effective promotional activities for tenants to create a good business environment. For example, a number of marketing promotional activities with the theme of “Enjoy Happiness, Flavours and Arts in a Wonderful Way (樂享天開、味享天開、藝享天開)” were organized and GZIFC was converted into a smart mall by building the GZIFC Shopping Mall WeChat Network, advertisement information release system, shopping guide screen system and Wifi network system to further broaden customers’ experience.

High-end international brand hotels in Guangzhou were affected by the downturning economic growth in China, the operating results were steady with a slight decline. For serviced apartments, there was no new supply during the whole year, the performance of the leasing market was stable with an optimistic trend. Through the implementation of a “5 in 1” cooperative and mutually beneficial owner supervision system, the Manager supervised and managed the operations of Four Seasons Hotel and the Ascott Serviced Apartments effectively. Moreover, the Manager continued to strengthen cost control and operation supervision, and changed analysis of operation indicators to analysis of asset efficiency indicators, focused on details of customer service quality, monitored Four Seasons Hotel and the Ascott Serviced Apartments to improve service standards and enhance operating income. During the Reporting Year, Four Seasons Hotel and the Ascott Serviced Apartments continued to be leaders with benchmark positions in the industry in Guangzhou area, the average room rate, revenue per available room and customer satisfaction were all in top ranking among competitors. The average room rate in Four Seasons Hotel decreased by 4.9% and revenue per available room decreased by 2.5% on a year-on-year basis, with a GOP rate of 41.2%; the average room rate of the Ascott Serviced Apartments increased by 0.6% and revenue per available room increased by 1.4% on a year-on-year basis, with a GOP rate of 62.9% and good performance in operating results.

Yue Xiu Tower — continued to optimize tenant mix, rental increase was in line with expectation

In order to continue expanding the influence of Yuexiu REIT in other cities and attract tenancy from financial sectors with strong and solid financial background, the name of this project was renamed as Yue Xiu Tower in 2016 in the name of Yuexiu REIT. In view of the office environment and needs analysis of industry customers in Shanghai where the Yue Xiu Tower Project is located, the Manager created a different project operation positioning — a place of growth and convergence of financial enterprises, and effectively attracted many famous and reputable tenants. Moreover, the Manager continued to optimize the tenant mix, enhance the property value and long-term competitiveness of this project, the number of customers decreased to 107 from 97 at the end of last year, the effect was apparent. In optimizing the tenant mix, the Manager also continued to improve the property service standards to enhance satisfaction level of the tenants, and the project recorded a renewal rate of 59.2% during the year, and the average increase in rental after renewal was 33.3%. The average rental of Yue Xiu Tower increased by 9.8% on a year-on-year basis, the rental increase was in line with expectation, and the rental value of the property rose steadily.

Actively pursued asset enhancement projects to realize property value preservation and appreciation

In 2016, the Manager continued to implement a number of capital-intensive renovation and enhancement projects, including addition of information safety firewall to the weak electricity system of GZIFC, upgrading and renovation of the safety and preventive system in the outer rim and office lobby of GZIFC, renovation of the weak electricity system of Ascott Serviced Apartments, and outer rim greenery renovation at podium, general lighting system renovation of podium tower and indoor and outdoor signs system renovation works of podium mall under the capital-intensive renovation ancillary projects of GZIFC, common area renovation works on floors of City Development Plaza, external facade renovation of podium tower of Victory Plaza and addition of IT air-con main generator at Yue Xiu Tower, ensuring the safety of operation in various projects, the business environment of the projects were also improved on an on-going basis.

In 2017, the Manager will also plan to invest in a number of capital-intensive modification projects at GZIFC, White Horse Building, City Development Plaza, Victory Plaza and Yue Xiu Tower to continuously enhance operation efficiency and business environment of these projects.

Examined the REIT's property portfolio, sought development opportunities and optimized the asset structure

In 2016, the Manager continued to conduct market research and continuously examined the REIT's existing property portfolio. Meanwhile, the Manager implemented an investment strategy of actively seeking and prudent decision making to seek for high-quality projects from inside and outside, with a focus on investment opportunities in first-tier cities such as Beijing and Shanghai as well as in core areas of key cities such as Wuhan and Hangzhou in order to seek the structural optimization of the REIT's assets and enhance the interests of unit holders of the REIT.

Continuously optimized the debt structure, reduced financing costs, enhanced foreign exchange risk management

The Manager optimized debt structure and reduced financing costs with a basically stable gearing ratio under its control. In 2016, Renminbi was officially included in the basket of currencies under the SDR system. The exchange rate of Renminbi depreciated by a significant extent and market expectation of further depreciation still exists. The Manager conducted research on exchange rate risk and its effects in view of the relatively large proportion of foreign currency debt in the REIT, and formulated a proactive risk management plan to reduce the risk arising from foreign exchange fluctuations. On one hand, by borrowing Renminbi at home and abroad, part of the foreign currency loans was repaid, and the proportion of foreign currency debt was reduced. At the same time, the REIT purchased structured forward instruments in respect of the US\$177 million indebtedness and the HK\$1 billion indebtedness to fix the Renminbi exchange rate. On the other hand, the REIT endeavoured to reduce financing costs and completed restructuring of an overseas loan of HK\$2.3 billion and restructuring of the financing of RMB3.3555 billion for the GZIFC project, the average financing cost of the REIT was reduced by 40% and 15% respectively as compared to those before restructuring. As a result of these re-financing managements, the effective interest rate has decreased from 3.42% at the beginning of the year to 3.29% at the balance sheet date.

FINANCIAL REVIEW

FINANCIAL RESULTS

Both rental income and net property income of Yuexiu REIT were higher than those in 2015. The following is a summary of Yuexiu REIT financial results for the Reporting Year:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>	Increase/ (Decrease)
Gross income	<u>1,837,579</u>	<u>1,709,645</u>	7.5%
Hotel and serviced apartments direct expenses	(293,317)	(309,265)	(5.2)%
Leasing agents fees	(40,977)	(37,473)	9.4%
Property related taxes (Note 1)	(221,873)	(265,362)	(16.4)%
Other property expenses (Note 2)	<u>(13,308)</u>	<u>(9,176)</u>	45.0%
Total property operating expenses	<u>(569,475)</u>	<u>(621,276)</u>	(8.3)%
Net property income	<u>1,268,104</u>	<u>1,088,369</u>	16.5%
Withholding tax	(80,501)	(62,725)	28.3%
Depreciation and amortisation	(156,878)	(151,800)	3.3%
Manager's fees	(129,907)	(113,283)	14.7%
Trustee fees	(9,186)	(8,064)	13.9%
Other trust expenses (Note 3)	<u>(9,297)</u>	<u>(23,536)</u>	(60.5)%
Total non-property expenses	<u>(385,769)</u>	<u>(359,408)</u>	7.3%
Net profit before finance expenses, finance income and income tax	882,335	728,961	21.0%
Finance income	26,243	44,963	(41.6)%
Finance expenses	<u>(938,299)</u>	<u>(763,232)</u>	22.9%
Net (loss)/profit before income tax	(29,721)	10,692	(378.0)%
Income tax expense	<u>(285,183)</u>	<u>(260,033)</u>	9.7%
Net loss after income tax before fair value gain on investment properties, other expenses in relation to the acquisition of subsidiaries and fair value gain on derivative financial instruments	(314,904)	(249,341)	26.3%
Fair value gain on investment properties	952,422	1,074,920	(11.4)%
Other expenses in relation to the acquisition of subsidiaries	—	(84,896)	N/A
Fair value gain on derivative financial instruments	<u>74,626</u>	<u>—</u>	N/A
Net profit after income tax before transactions with Unitholders	<u>712,144</u>	<u>740,683</u>	(3.9)%

Note 1 Property related tax included urban real estate tax, land use right tax, business tax (from 1 May 2016 onward, the business tax was replaced by value-added tax (VAT)), urban construction and maintenance tax, education surcharge, local education surcharge and stamp duties.

Note 2 Other property expenses included valuation fee, insurance premium and other expenses.

Note 3 Other trust expenses included audit fees, legal counselling fees, printing charges, unit registrar fees, listing fees, exchange differences and miscellaneous expenses.

Gross income and net property income during the Reporting Year were approximately RMB1,837,579,000 (2015: RMB1,709,645,000) and RMB1,268,104,000 (2015: RMB1,088,369,000) respectively, which represented an increase of approximately 7.5% and 16.5% respectively while comparing with 2015.

Gross income included income from office, wholesales, retail, hotel and serviced apartments. Gross income analysis is listed in the following table:

	2016	2015
	RMB'000	RMB'000
Office	815,300	708,752
Wholesales	401,752	406,861
Retail	136,606	102,808
Hotel and serviced apartments	<u>483,921</u>	<u>491,224</u>
Total	<u>1,837,579</u>	<u>1,709,645</u>

Net property income amounted to approximately RMB1,268,104,000 (2015: RMB1,088,369,000), representing approximately 69.0% of total gross income, after deduction of hotel and serviced apartments direct expenses, property related taxes, leasing agent fees and other property operating expenses. Net property income analysis is listed in the following table:

	2016	2015
	RMB'000	RMB'000
Office	667,423	554,820
Wholesales	329,879	320,519
Retail	112,494	81,122
Hotel and serviced apartments	<u>158,308</u>	<u>131,908</u>
Total	<u>1,268,104</u>	<u>1,088,369</u>

The adjustment of the business structure for the shopping podium of GZIFC in the first half of 2015 had incurred a one-off non-cash rental reduction. Upon the completion of this adjustment in 2016, the rental income of retails is increased.

Hotel and serviced apartments direct expenses were approximately RMB293,317,000, a decrease of 5.2% as compared with 2015. It was mainly because of effective cost control.

Leasing agent fees increased by approximately 9.4% as compared with 2015. It was mainly because of the newly acquired Yue Xiu Tower, and an increase in rental income of office and IFC shopping mall.

Property related tax decreased by approximately 16.4% as compared with 2015. It was mainly because of the replacing of business tax with value-added tax (VAT) and from 1 May 2016 onward, no business tax is required to pay.

Depreciation and amortisation charge was mainly due to the fact that hotel and serviced apartments of GZIFC were booked as fixed assets and land use right incurring the depreciation and amortization charge.

Overall, the Manager's fees increased by approximately 14.7% as a result of the increase in total assets and net property income. The Trustee fees increased by approximately 13.9% as a result of the increase in total assets.

As Renminbi depreciated against Hong Kong dollar and US dollar for the Reporting Year, the bank borrowings denominated in Hong Kong Dollar and United States Dollar and secured note loans denominated in United States Dollar resulted in an exchange loss of approximately RMB544,074,000 (2015:RMB375,543,000). Excluding this exchange factor, the finance expenses incurred for the Reporting Year amounted to approximately RMB379,031,000 (2015: RMB354,536,000).

Profit after tax before transactions with Unitholders amounted to approximately RMB712,144,000 (2015: RMB740,683,000), which represented a 3.9% decrease, mainly due to an exchange loss incurred for the Reporting Year.

Value-Added Tax

On 23 March 2016, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) formally promulgated the Circular regarding the Comprehensive Roll-out of the Pilot Program for the Transformation from Business Tax to Value-Added Tax (Cai Shui 2016 No. 36). Pursuant to this circular, the countrywide pilot program of replacing business tax with value-added tax (VAT) (hereinafter referred to as "VAT reform") was implemented with effect from 1 May 2016, and all taxpayers of business tax in the construction, real estate, finance and consumer services industries are involved in the pilot program and liable to pay VAT instead of business tax. According to the Measures for the Pilot Program for Levying Value-Added Tax in Lieu of Business Tax and the requirements of the latest policies, a VAT tax rate of 5% is applicable to the REIT property leasing business, and a VAT rate of 6% is applicable to hotel and apartment services. Upon the implementation of the VAT reform, and separation of price and tax, our revenue for the first half of the year as per financial statements decreased by approximately RMB64,000,000, and the costs and expenses were adjusted accordingly. For example, payment for business tax was no longer required, property tax, leasing agent fees and withholding tax decreased in proportion to the decrease in income. Thus, the VAT reform has no material impact on the net profit of the Yuexiu REIT.

Top-up Payment

Top-up Payment received/receivable for the Reporting Year is approximately RMB52,626,000. After deducting the amount of RMB35,442,000 paid by Yuexiu Property on 9 August 2016, the balance amounting to RMB17,184,000 should be paid by Yuexiu Property within 7 business days after the announcement of Yuexiu REIT's annual result for the Reporting Year. Please refer to the Offering Circular dated 30 June 2012 for details.

Net Asset Value

The net assets attributable to the Unitholders per unit as at 31 December 2016 was approximately RMB4.63 (2015: RMB4.74), which represented a decrease of approximately 2.3%.

Deferred Units

According to the offering circular in relation to the acquisition of GZIFC dated June 30, 2012, commencing from 31 December 2016, the REIT will, on 31 December of each year, issue to Yuexiu Property (or YXP Nominee) such number of Deferred Units as shall be equal to the maximum number of Units that may be issued to Yuexiu Property (or YXP Nominee) and its concert parties which, when aggregated with the Manager Fee Units that are expected to be issued during the period of 12 months after the relevant Issue Date, will not trigger an obligation on the part of Yuexiu Property (and parties acting in concert with it) to make a mandatory general offer under Rule 26 of the Takeovers Code for all Units not already owned or agreed to be acquired by them at the relevant time. Based on the Illustrative Financing Structure and assuming that no additional Units are issued post-Completion (other than Manager Fee Units), it is expected that all of the deferred units will be issued by 31 December 2023.

New Units Issued and Unit Activity

In respect of the full settlement of the Manager's fees during the Reporting Year, Yuexiu REIT newly issued 15,674,865 and 12,339,245 units at HK\$4.13 and HK\$4.86 on 9 March 2016 and 18 August 2016 respectively. On 31 December 2016, referring to the terms disclosed from the Circular dated 30 June 2012, Yuexiu REIT issued 64,879,000 Units at a price of HK\$4.00 per Unit to Dragon Yield Holding Limited (a wholly-owned subsidiary of Yuexiu Property (a significant holder of the Yuexiu REIT)), in part satisfaction of the outstanding consideration from its investment in GZIFC in 2012.

As at 31 December 2016, a total of 2,921,780,484 units were issued by Yuexiu REIT.

The Unit price of the Yuexiu REIT reached a high of HK\$5.16 and a low of HK\$3.82 during the Reporting Year. The average trading volume amounted to approximately 4,350,650 Units per day during the Reporting Year (2015: 4,610,190 Units).

The closing price of the Units as at 31 December 2016 was HK\$4.09, represented a discount of approximately 21.0% as compared to the net assets (including net assets attributable to deferred Unitholders) attributable to Unitholders per Unit as at 31 December 2016.

CAPITAL AND FINANCIAL STRUCTURE

Group's borrowings are as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Bank borrowings and notes		
Denominated in RMB	4,165,500	2,660,000
Denominated in HKD	3,370,740	3,500,025
Denominated in USD	<u>4,388,746</u>	<u>4,817,920</u>
Total bank borrowings and notes	<u>11,924,986</u>	<u>10,977,945</u>
Maturity analysis		
Within one year	1,503,357	2,841,730
Two to five year	8,408,329	7,791,215
Beyond five year	2,013,300	345,000
The effective interest rate (per annum) of the borrowings and notes at the balance sheet		
RMB	4.34%	6.34%
HKD	2.52%	2.56%
USD	2.90%	2.97%

In 2016, Manager adopted the following financial arrangement to reduce the annual interest rate effectively and manage the foreign exchange risk.

- 1) In May 2016, Yuexiu REIT entered into a RMB600 million loan facility with a bank to repay partial HKD loan facility to manage the foreign exchange risk.
- 2) Yuexiu REIT extended the USD177 million loan facility for another two years to mitigate the risk of short-term refinancing and reduce the annual interest rate. Moreover, on 2 September 2016, Capped Forward hedging was applied to this loan facility to fix the RMB exchange rate and manage the foreign exchange risk.
- 3) Yuexiu REIT entered into a RMB3.3555 billion loan facility with certain PRC banks, to repay the balance of RMB4.5 billion PRC loan facility and part of the USD217 million loan facility. It reduced the annual interest rate and managed the foreign exchange risk.
- 4) In November 2016, Yuexiu REIT entered into a HKD2.3 billion loan facility with certain banks to repay the matured HKD loan facility. In December 2016, Capped Forward hedging was applied to part of this loan facility to fix the RMB exchange rate and manage the foreign exchange risk.

On 31 December 2016, Yuexiu REIT held certain hedging financial derivatives with a fair value of RMB74,626,000.

As at 31 December 2016, total borrowings of Yuexiu REIT amounted to approximately RMB11,925,000,000 (calculation of total borrowings based on bank loan and other borrowings, excluding capitalization of debt-related expenses), representing approximately 38.9% of total assets of Yuexiu REIT. The gearing ratio was below the maximum borrowing limit of 45% as stipulated in the REIT Code.

As at 31 December 2016, total liabilities of Yuexiu REIT (excluding net assets attributable to the Unitholders) amounted to approximately RMB16,986,891,000, representing approximately 55.5% of total assets of Yuexiu REIT.

CASH POSITION

Cash and cash equivalents and short-term bank deposits of Yuexiu REIT as at 31 December 2016 amounted to approximately RMB1,203,228,000. Yuexiu REIT has sufficient financial resources to satisfy its financial commitments and working capital requirements.

The Manager has adopted a prudent approach in cash management to ensure flexibility to meet the operational needs and the distributions of Yuexiu REIT.

ACCOUNTING TREATMENTS

Units recorded as Financial Liabilities; Distributions to Unitholders as Finance Costs

Pursuant to Rule 7.12 of the REIT Code and the terms of the Trust Deed, Yuexiu REIT is required to distribute to the Unitholders not less than 90% of its audited annual net income after tax (subject to certain adjustments as defined in the Trust Deed).

Yuexiu REIT has a limited life of 80 years from the date of establishment. Accordingly, the Units contain contractual obligations to pay cash distributions and, upon termination of the trust, a share of all net cash proceeds derived from the sale or realisation of the assets of Yuexiu REIT less any liabilities, in accordance with Unitholders' proportionate interests in Yuexiu REIT at the date of the termination of Yuexiu REIT.

In accordance with the Hong Kong Accounting Standards 32 ("HKAS 32"), Yuexiu REIT has, for accounting purposes, classified its Units as financial (not legal) liabilities.

On the basis of the HKAS 32, distributions to be paid to the Unitholders are represented as finance costs and are therefore presented as expenses in the consolidated statement of comprehensive income. Consequently, Yuexiu REIT has, for accounting purposes, recognised distributions as finance costs in its audited consolidated statement of comprehensive income.

The above accounting treatment does not have any impact on the net assets attributable to the Unitholders.

SUMMARY OF ALL REAL ESTATE SALES AND PURCHASES

Yuexiu REIT or any of its subsidiaries did not enter into any real estate sale and purchase during the Reporting Year.

REAL ESTATE AGENTS ENGAGED BY YUEXIU REIT

During the Reporting Year, Yuexiu REIT had engaged Guangzhou Yicheng Property Management Ltd ("Yicheng"), Guangzhou Baima Business Operation Management Co., Ltd ("Baima BM") and Guangzhou Yue Xiu Asset Management Company Limited ("GZAM") (collectively, "Leasing Agents") to provide designated leasing, marketing, tenancy management and property management services to the Properties.

During the Reporting Year, Yuexiu REIT paid/payable service fees to Yicheng, Baima BM and GZAM in the amounts of RMB10,455,000, RMB12,035,000 and RMB18,487,000 respectively.

REPURCHASE, SALE OR REDEMPTION OF UNITS

Yuexiu REIT may, subject to the fulfillment of certain requirements, purchase its own Units on the Stock Exchange.

During the Reporting Year, there was no repurchase, sale or redemption of Units by Yuexiu REIT or its subsidiaries.

EMPLOYEES

As at 31 December 2016, Yuexiu REIT employed 683 and 137 employees in China for hotel operation through its branch companies and for serviced apartments operation through its subsidiaries respectively, mainly to fulfill its operating functions and provision of services for hotel and serviced apartments.

Yuexiu REIT is managed by the Manager. Except for the abovementioned, Yuexiu REIT does not employ any staff.

REVIEW OF FINANCIAL RESULTS

The final results of Yuexiu REIT for the Reporting Year have been audited by the independent auditor of Yuexiu REIT and reviewed by the Disclosures Committee and the Audit Committee of the Manager.

CORPORATE GOVERNANCE

The Manager has adopted an overall corporate governance framework that is designed to promote the best operation of Yuexiu REIT in a transparent manner with internal audit and controls to evaluate the performance of the Manager, and consequently achieved the success of Yuexiu REIT.

The Manager has adopted a compliance manual (“Compliance Manual”) for use in relation to its management and operation of Yuexiu REIT which includes key policies and procedures for maintaining a high standard of corporate governance.

During the Reporting Year, the Manager has complied with the provisions of the Compliance Manual for its management of Yuexiu REIT.

ISSUANCE OF ANNUAL REPORT

The annual report of Yuexiu REIT for the Reporting Year will be dispatched to the Unitholders on or before 30 April 2017.

ANNUAL GENERAL MEETING

The Manager proposed that the annual general meeting of Yuexiu REIT for the Reporting Year to be held on 17 May 2017. Notice of the annual general meeting will in due course be published and issued to the Unitholders in accordance with the Trust Deed.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<i>Note</i>	2016 RMB'000	2015 RMB'000
Revenue	5	1,837,579	1,709,645
Operating expenses, net	6	(955,244)	(1,065,580)
Fair value gain on investment properties	15	952,422	1,074,920
Fair value gain on derivative financial instruments	20	74,626	—
Finance income	9	26,243	44,963
Finance expenses	10	<u>(938,299)</u>	<u>(763,232)</u>
Profit before income tax and transactions with unitholders		997,327	1,000,716
Income tax expense	11	<u>(285,183)</u>	<u>(260,033)</u>
Profit after income tax before transactions with unitholders		712,144	740,683
Transactions with unitholders	28	<u>(775,488)</u>	<u>(838,171)</u>
Loss after income tax and transactions with unitholders		<u>(63,344)</u>	<u>(97,488)</u>
Other comprehensive income for the year :			
<u>Items that will not be reclassified to profit or loss</u>			
Change in fair value of property, plant and equipment			
- Gross		98,182	143,670
- Tax		<u>(27,498)</u>	<u>(40,238)</u>
Other comprehensive income for the year, net of tax		<u>70,684</u>	<u>103,432</u>
Total comprehensive income for the year		<u>7,340</u>	<u>5,944</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Attributable to				Total RMB'000
	Unitholders Before transactions with unitholders RMB'000	Transactions with unitholders (Note 28) RMB'000	Unitholders After transactions with unitholders RMB'000	Non - controlling interests RMB'000	
Profit/(loss) for the year ended 31 December 2015	735,817	(838,171)	(102,354)	4,866	(97,488)
Other comprehensive income: <u>Items that will not be reclassified to profit or loss</u>					
Change in fair value of property, plant and equipment, net of tax	<u>102,354</u>	<u>—</u>	<u>102,354</u>	<u>1,078</u>	<u>103,432</u>
Total comprehensive income for the year ended 31 December 2015	<u>838,171</u>	<u>(838,171)</u>	<u>—</u>	<u>5,944</u>	<u>5,944</u>
Profit/(loss) for the year ended 31 December 2016	705,540	(775,488)	(69,948)	6,604	(63,344)
Other comprehensive income: <u>Items that will not be reclassified to profit or loss</u>					
Change in fair value of property, plant and equipment, net of tax	<u>69,948</u>	<u>—</u>	<u>69,948</u>	<u>736</u>	<u>70,684</u>
Total comprehensive income for the year ended 31 December 2016	<u>775,488</u>	<u>(775,488)</u>	<u>—</u>	<u>7,340</u>	<u>7,340</u>

Notes:

- (i) In accordance with the Trust Deed dated 7 December 2005, as amended by first supplemental deed on 25 March 2008, second supplemental deed on 23 July 2010 and third supplemental deed on 25 July 2012 (the "Trust Deed"), Yuexiu REIT is required to distribute to unitholders not less than 90% of its total distributable income for each financial year. Yuexiu REIT has a limited life of 80 years from the date of establishment. Accordingly, the units contain contractual obligations to pay cash distributions and also upon termination of the trust, a share of all net cash proceeds derived from the sale or realisation of the assets of Yuexiu REIT less any liabilities, in accordance with unitholders' proportionate interests in Yuexiu REIT at the date of the termination of Yuexiu REIT. The unitholders' funds are therefore classified as a financial liability rather than equity in accordance with HKAS 32, Financial Instruments: Disclosure and Presentation. Consistent with unitholders' funds being classified as a financial liability, the distributions to unitholders are part of finance costs which are recognised in the consolidated statement of comprehensive income. The classification does not have an impact on the net assets attributable to the unitholders. It only affects how unitholders' funds are disclosed in the consolidated balance sheet and how distributions are disclosed in the consolidated statement of comprehensive income. Total distributable income is determined in the Distribution Statement.
- (ii) Earnings per unit, based upon profit after income tax before transactions with unitholders attributable to unitholders and the average number of units in issue, are presented in Note 12.

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016**

	<i>Note</i>	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	13	2,413,699	2,412,453
Land use rights	14	1,478,539	1,527,824
Investment properties	15	24,197,500	23,194,000
Deferred assets	17	219,913	187,412
Goodwill	18	824,459	824,459
Top-up payment asset, non-current portion	19	—	32,237
Derivative financial instruments	20	74,626	—
		29,208,736	28,178,385
		<u>-----</u>	<u>-----</u>
Current assets			
Inventories		4,337	4,241
Trade receivables	21	14,865	13,168
Amounts due from related parties	31	131,351	292,172
Prepayments, deposits and other receivables	22	41,574	42,907
Top-up payment asset, current portion	19	17,184	64,314
Short-term bank deposits	23	22,400	57,269
Cash and cash equivalents	23	1,180,828	682,596
		1,412,539	1,156,667
		<u>-----</u>	<u>-----</u>
Total assets		30,621,275	29,335,052
		<u>-----</u>	<u>-----</u>
Current liabilities			
Trade payables	25	15,276	13,094
Rental deposits, current portion	26	106,676	127,160
Receipts in advance	26	71,366	77,016
Accruals and other payables	26	658,019	769,245
Amounts due to related parties	31	83,441	74,926
Borrowings	27	1,503,357	2,841,730
Tax payable		10,421	2,849
		2,448,556	3,906,020
		<u>-----</u>	<u>-----</u>
Non-current liabilities, other than net assets attributable to unitholders			
Rental deposits, non-current portion	26	213,109	175,842
Receipt in advance	26	12,233	12,669
Borrowings	27	10,421,629	8,136,215
Deferred tax liabilities	24	3,891,364	3,611,190
		14,538,335	11,935,916
		<u>-----</u>	<u>-----</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2016

	<i>Note</i>	2016 RMB'000	2015 RMB'000
Total liabilities, other than net assets attributable to unitholders		16,986,891	15,841,936
Net assets attributable to unitholders	28	<u>13,534,400</u>	<u>13,400,472</u>
Total liabilities		<u>30,521,291</u>	<u>29,242,408</u>
Net assets		<u>99,984</u>	<u>92,644</u>
Equity			
Revaluation reserve		373,831	303,883
Retained earnings		<u>(373,831)</u>	<u>(303,883)</u>
		—	—
Non-controlling interests		<u>99,984</u>	<u>92,644</u>
Total equity		<u>99,984</u>	<u>92,644</u>
Units in issue ('000)	28	<u>2,921,780</u>	<u>2,828,887</u>
Net assets attributable to unitholders per unit (RMB)		<u>RMB4.63</u>	<u>RMB4.74</u>

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<i>Note</i>	2016 RMB'000	2015 RMB'000
Profit after income tax before transactions with unitholders attributable to unitholders		705,540	735,817
Adjustments for the total distributable income (i)			
- Fair value gain on investment properties		(952,422)	(1,074,920)
- Fair value gain on derivative financial instruments		(74,626)	—
- Deferred taxation in respect of fair value gain on investment property charged to profit or loss		190,184	154,795
- Different depreciation and amortisation charge on investment properties, property, plant and equipment and land use rights under China Accounting Standards (“CAS”)		(271,081)	(281,147)
Total distributable loss		(402,405)	(465,455)
Additional items (ii)			
- Cash received and/or receivable according to the Deed of Top-up Payments		52,626	66,823
- Different depreciation and amortisation charge on investment properties, property, plant and equipment and land use rights under CAS		271,081	281,147
- Depreciation and amortisation of property, plant and equipment and land use rights under Hong Kong Financial Reporting Standards (“HKFRS”)		156,878	151,800
- Deferred taxation in respect of the depreciation and amortisation of investment properties, property, plant and equipment and land use rights		76,848	79,308
- Manager’s fee paid and payable in units in lieu of cash		110,421	101,955
- Interest income and fair value loss from top-up payment asset		15,194	28,304
- Foreign exchange loss in financing activities		544,074	375,543
- Expenses incurred in connection with the acquisition of subsidiaries		—	84,896
Distributable income after additional items		824,717	704,321
Distributable amount at 1 January		362,749	338,835
Distributions paid during the year (iii)	28	(747,221)	(680,407)
Final distribution declared		440,245	362,749
Distribution per unit, declared (iv)		RMB0.1506	RMB0.1282

**DISTRIBUTION STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Note:

- (i) Under the terms of the Trust Deed, the total distributable income is the consolidated profit after income tax before transactions with unitholders attributable to unitholders adjusted to eliminate the effects of certain non-cash adjustments which have been recorded in the consolidated statement of comprehensive income for the relevant year.
- (ii) Pursuant to the circular dated 30 June 2012, Yuexiu REIT Asset Management Limited, as the manager of Yuexiu REIT (the “Manager”) intends to distribute certain additional items on top of the total distributable income under the Trust Deed. For the year ended 31 December 2015, most of the expenses incurred in connection with the acquisition of subsidiaries of RMB84,896,000 will be distributed.
- (iii) A final distribution for the period from 1 July 2015 to 31 December 2015 of RMB0.1275 (equivalent to HK\$0.1522) per unit and interim distribution for the period from 1 January 2016 to 30 June 2016 of RMB0.1346 (equivalent to HK\$0.1570) per unit, totaling RMB747,221,000 (2015: RMB680,407,000), were paid to unitholders on 17 May 2016 and 28 October 2016 respectively.
- (iv) A final distribution for the period from 1 July 2016 to 31 December 2016 of RMB0.1506 (equivalent to HK\$0.1699) per unit, totaling RMB440,245,000 (equivalent to HK\$496,627,071) was declared by the Board of the Manager on 14 February 2017.

**CONSOLIDATED STATEMENT OF NET ASSETS ATTRIBUTABLE
TO UNITHOLDERS AND CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<u>Equity</u>				Total RMB'000
	Net assets attributable to unitholders RMB'000	Retained earnings RMB'000	Revaluation reserve RMB'000	Non- controlling interests RMB'000	
At 1 January 2015	13,141,954	(201,529)	201,529	86,700	13,228,654
Issuance of units	100,754	—	—	—	100,754
Profit/(loss) for the year ended 31 December 2015 attributable to:					
- Unitholders	838,171	—	—	—	838,171
- Equity holders	—	(102,354)	—	4,866	(97,488)
Distributions paid to unitholders	(680,407)	—	—	—	(680,407)
Change in fair value of property, plant and equipment, net of tax	—	—	102,354	1,078	103,432
At 31 December 2015	<u>13,400,472</u>	<u>(303,883)</u>	<u>303,883</u>	<u>92,644</u>	<u>13,493,116</u>
At 1 January 2016	13,400,472	(303,883)	303,883	92,644	13,493,116
Issuance of units	105,661	—	—	—	105,661
Profit/(loss) for the year ended 31 December 2016 attributable to:					
- Unitholders	775,488	—	—	—	775,488
- Equity holders	—	(69,948)	—	6,604	(63,344)
Distributions paid to unitholders	(747,221)	—	—	—	(747,221)
Change in fair value of property, plant and equipment, net of tax	—	—	69,948	736	70,684
At 31 December 2016	<u>13,534,400</u>	<u>(373,831)</u>	<u>373,831</u>	<u>99,984</u>	<u>13,634,384</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<i>Note</i>	2016	2015
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	29	1,182,902	899,470
Interest paid		(355,004)	(332,567)
Corporate income tax paid		(24,935)	(12,812)
Top-up payment received		<u>64,173</u>	<u>76,314</u>
Net cash generated from operating activities		<u>867,136</u>	<u>630,405</u>
Cash flows from investing activities			
Additions of investment properties		(51,078)	(50,080)
Additions of property, plant and equipment		(10,657)	(1,804)
Interest received		26,243	44,963
Decrease/(increase) in short-term bank deposits with original maturity of more than three months		34,869	(44,116)
Acquisition of subsidiaries, net of cash acquired	30	<u>—</u>	<u>(2,373,702)</u>
Net cash used in investing activities		<u>(623)</u>	<u>(2,424,739)</u>
Cash flows from financing activities			
Distributions paid		(747,221)	(680,407)
Proceeds from borrowings, net of transaction costs		6,075,015	3,401,037
Repayment of bank borrowings		<u>(5,696,075)</u>	<u>(1,230,000)</u>
Net cash (used in)/generated from financing activities		<u>(368,281)</u>	<u>1,490,630</u>
Net increase/(decrease) in cash and cash equivalents		498,232	(303,704)
Cash and cash equivalents at beginning of the year		<u>682,596</u>	<u>986,300</u>
Cash and cash equivalents at end of the year	23	<u><u>1,180,828</u></u>	<u><u>682,596</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Yuexiu Real Estate Investment Trust (“Yuexiu REIT”) and its subsidiaries (together, the “Group”) are mainly engaged in the leasing of commercial properties in Mainland China (“China”).

Yuexiu REIT is a Hong Kong collective investment scheme constituted as a unit trust by the Trust Deed entered into between the Manager and HSBC Institutional Trust Services (Asia) Limited, as the Trustee of Yuexiu REIT (the “Trustee”) on 7 December 2005 (as amended by First Supplemental Deed dated 25 March 2008, Second Supplemental Deed dated 23 July 2010 and Third supplemental deed dated 25 July 2012) (the “Trust Deed”) and authorised under section 104 of the Securities and Futures Ordinance (“SFO”) subject to the applicable conditions imposed by Securities and Futures Commission (“SFC”) from time to time.

The address of its registered office is 24/F, Yue Xiu Building, 160-174 Lockhart Road, Wanchai, Hong Kong.

Yuexiu REIT is listed on The Stock Exchange of Hong Kong Limited. These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of Yuexiu REIT have been prepared in accordance with all applicable HKFRS, the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts (the “REIT Code”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of the investment properties and hotel and serviced apartment and derivative financial instruments, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

As at 31 December 2016, the Group’s current liabilities exceeded its current assets by RMB1,036,017,000 (2015: RMB2,749,353,000) mainly as the bank borrowings of RMB1,503,357,000 (2015: RMB2,841,730,000) fall due within twelve months from the balance sheet date. The Manager is in the process of discussing with the Group’s principal bankers and believes the Group will be able to refinance the bank borrowings based on the Group’s past experience, its asset base and low gearing ratio. Taking into account the refinancing of bank borrowings and other financial resources available including internally generated funds and existing or new facilities, the Manager considers the Group has adequate resources to meet its liabilities and commitments as and when they fall due as well as its working capital and operating requirements for the foreseeable future. Accordingly, the going concern basis has been adopted in preparing the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(i) New and amended standards effective for the year ended 31 December 2016

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

The adoption of these new and amended standards did not result in any significant impact on the results and financial position of the Group.

(ii) New and amended standards have been issued but are not yet effective for the year ended 31 December 2016 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Amendments to HKAS 12	Income taxes	1 January 2017
Amendments to HKAS 7	Statement of cash flow	1 January 2017
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The directors of the Manager anticipate that the adoption of these new and amended standards would not result in any significant impact on the results and financial position of the Group. The Group plans to adopt these new and amended standards when they become effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(b) Consolidation

(i) Subsidiaries

The consolidated financial statements include the financial statements of Yuexiu REIT and all of its subsidiaries made up to 31 December 2016.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(ii) Business Combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Manager that makes strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is Yuexiu REIT's functional currency and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income within "finance income" or "finance expenses". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "operating expenses".

(e) Property, plant and equipment

- (i) Hotel and serviced apartments comprise mainly buildings, leasehold improvements and fixtures and furniture of hotel and serviced apartment, and is stated at fair value less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is performed with sufficient regularity by independent professional qualified valuers. Changes arising on the revaluation are dealt with in other comprehensive income and are accumulated in the revaluation reserve, except that, when a deficit arises on revaluation, it will be charged to the profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to revaluation.

When a surplus arises on revaluation, it will be credited to the profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

When a revalued asset is sold, the amount included in the revaluation reserve is transferred to net assets attributable to unitholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(e) Property, plant and equipment (Continued)

- (ii) All other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Hotel and serviced apartment are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.

Leasehold improvements, furniture, fixtures and office supplies	3-5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "operating expenses" in the consolidated statement of comprehensive income.

(f) Investment properties

Investment property, principally comprising leasehold land, office buildings and shopping mall, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases.

Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition at cost, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flows projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value. Changes in fair values are recorded in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(g) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets of the acquired subsidiaries.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(h) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised immediately in profit or loss.

(i) Impairment of non-financial assets

Intangible assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(k) Inventories

Inventories comprise primarily food, beverages and operating supplies and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(l) Loan and other receivables

Loan and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

An allowance for impairment of loan and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the receivable is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables.

Subsequent recoveries of amounts previously written off are credited to the profit or loss.

If collection of loan and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(m) Land use rights

The upfront prepayments made for the land use rights are expensed in the profit or loss on a straight-line basis over the period of the rights or when there is impairment, the impairment is expensed in the profit or loss.

(n) Rental deposits

Rental deposits are financial liabilities with fixed or determinable repayments. They arise when the Group enters into lease agreement directly with tenants. They are included in current liabilities, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current liabilities.

Rental deposits are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. At initial recognition, the difference between the carrying amount of the financial liability and the actual consideration received is treated as initial premiums and recognised as rental income over the lease term, on a straight-line basis.

(o) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(p) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(q) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(s) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

(t) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in China where Yuexiu REIT and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(t) Current and deferred income tax (Continued)

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill and the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for rental income in the ordinary course of the Group's activities. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities as described below.

(i) Rental income

Operating lease rental income is recognised on a straight-line basis over the period of the lease. When the Group provides incentives to its tenants, the cost of incentives will be recognised over the lease term, on a straight-line basis, as a reduction of rental income. The difference between the gross receipt of rental and operating lease rental recognised over the lease term is recognised as deferred assets.

(ii) Hotel and serviced apartment income

Hotel and serviced apartment income are recognised when services are rendered.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(v) Distributions to unitholders

In accordance with the Trust Deed, Yuexiu REIT is required to distribute to unitholders not less than 90% of the Group's profit for each financial year subject to adjustments allowed under the REIT Code and the Trust Deed. These units are therefore classified as financial liabilities in accordance with HKAS 32 and, accordingly, the distributions paid to unitholders represent finance costs and are therefore presented as an expense in the profit or loss. Consequently, Yuexiu REIT has recognised distributions as finance costs in the profit or loss.

(w) Employee benefits

(i) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

3 Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Manager of Yuexiu REIT identifies and evaluates financial risks. The Manager provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, non-derivative financial instruments, and investing of excess liquidity.

(i) Market risk

(a) Foreign exchange risk

The Group operates in China with most of the transactions denominated in RMB. The Group's exposure to foreign exchange risk relates principally to its cash and cash equivalents, short-term bank deposits and bank borrowings denominated primarily in Hong Kong dollar ("HK\$") and United States dollar ("USD"). As RMB depreciated significantly against HK\$ and USD during 2016, the Group adjusted the currency mix of its loan portfolio and entered into several capped foreign exchange forward contracts during the year and has started to manage the expected foreign exchange losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

At 31 December 2016 and 2015, if RMB had weakened/strengthened by 5% against HK\$ and USD with all other variables held constant, post-tax profit for the year ended 31 December 2016 would have been approximately RMB411,199,000 (2015: RMB409,124,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HK\$ and USD denominated cash and cash equivalents, short-term bank deposits and borrowings.

(b) Cash flow interest rate risk

The Group's interest rate risk mainly arises from borrowings obtained at variable rates which expose the Group to cash flow interest rate risk.

Under the Group's interest rate management policy, the Group generally raises borrowings at floating rates and may use floating-to-fixed interest rate swaps to manage the risk where the Group forecasts a significant rise in interest charge in the foreseeable future. The Group did not enter into any swaps for its floating-rate borrowing for the year ended 31 December 2016 and 2015. At 31 December 2016 and 2015, if interest rates on borrowing had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been approximately RMB117,225,000 (2015: RMB109,029,000) lower/higher respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, trade receivables, amounts due from related parties, other receivables, top-up payment asset and deposits with banks and financial institutions, as well as credit exposures to tenants.

The table below shows the bank deposits balance of the three major banks at the balance sheet date. Management does not expect any losses from non-performance by these banks.

	2016 RMB'000	2015 RMB'000
Counterparty		
The Hongkong and Shanghai Banking Corporation Ltd.	19,096	5,413
Bank of China	911,462	488,394
DBS Bank Ltd. Hong Kong Branch	253,367	230,913
Other banks	<u>18,857</u>	<u>14,705</u>
Short-term bank deposits and cash and cash equivalent	<u>1,202,782</u>	<u>739,425</u>

The Group has no policy to limit the amount of credit exposure to any financial institution.

The Group has policies in place to ensure that sales are made to customers with an appropriate financial strength and appropriate percentage of down payment. It also has other monitoring procedures to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risks, with exposure spread over a number of counterparties and customers.

The carrying amount of the receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to these financial assets. The credit risk for bank deposits and bank balances is considered by the Group to be minimal as such amounts are generally placed with state-owned banks or banks with good ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and operating cash flow. The Group has short-term bank deposits and cash and cash equivalents of RMB1,203,228,000 as at 31 December 2016 (2015: RMB739,865,000). Due to the nature of the underlying business, the Manager maintains flexibility by adjusting the amount of distributions to be paid for the percentage in excess of 90% of the distributable income.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within one year	Between one and two years	Between two and five years	Over five years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2016					
Rental deposits	106,676	86,985	152,739	16,120	362,520
Trade payables	15,276	—	—	—	15,276
Accruals and other payables	658,019	—	—	—	658,019
Amounts due to related parties	83,441	—	—	—	83,441
Bank borrowings					
- Principal to be repaid	1,503,357	3,151,092	2,837,627	2,013,300	9,505,376
- Interest payables	296,300	221,769	362,916	174,447	1,055,432
Other borrowings					
- Principal to be repaid	—	2,419,610	—	—	2,419,610
- Interest payables	<u>75,008</u>	<u>31,253</u>	<u>—</u>	<u>—</u>	<u>106,261</u>
As at 31 December 2015					
Rental deposits	127,160	85,745	84,213	19,098	316,216
Trade payables	13,094	—	—	—	13,094
Accruals and other payables	754,419	—	—	—	754,419
Amounts due to related parties	74,926	—	—	—	74,926
Bank borrowings					
- Principal to be repaid	2,841,730	975,741	4,556,032	345,000	8,718,503
- Interest payables	566,152	480,690	435,549	100,965	1,583,356
Other borrowings					
- Principal to be repaid	—	—	2,259,442	—	2,259,442
- Interest payables	<u>70,043</u>	<u>70,043</u>	<u>29,184</u>	<u>—</u>	<u>169,270</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for unitholders and benefits for other stakeholders.

Consistent with others in the industry, the Manager monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings (including current and non-current borrowings) divided by total asset value as shown in the consolidated balance sheet.

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain a gearing ratio not exceeding 45%. The gearing ratio at 31 December 2016 and 2015 were as follows:

	2016	2015
	RMB'000	RMB'000
Total borrowings (Note 27)	<u>11,924,986</u>	<u>10,977,945</u>
Total asset value	<u>30,621,275</u>	<u>29,335,052</u>
Gearing ratio	<u>39%</u>	<u>37%</u>

The gearing ratio increased to 39% in 2016 (2015: 37%) due to the increase in borrowings during the year.

(c) Fair value estimation

The carrying amounts of the Group's current financial assets and current financial liabilities approximate their fair values due to their short maturities.

The fair value of non-current financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

See Note 13 for disclosures of property, plant and equipment, Note 15 for investment properties, and Note 20 for derivative financial instruments.

4 Critical accounting estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Manager makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Critical accounting estimates (Continued)

(a) Estimate of fair value of property, plant and equipment and investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the directors of the Manager determine the amount within a range of reasonable fair value estimates. In making its judgement, the directors of the Manager consider information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices of properties is not available, the fair values of properties are determined using discounted cash flow valuation techniques. The directors of the Manager use assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the directors of the Manager and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition. These valuations are reviewed annually by external valuers.

The fair value of property, plant and equipment and investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Notes 13 and 15 respectively.

(b) Estimate of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 18).

(c) Fair value of derivative financial instruments

The fair value of derivative financial instruments that are not traded in an active market is determined by using valuation techniques. The Group's management uses a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of fair value estimates on derivative financial instruments have been disclosed in Note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Revenue and segment information

The chief operating decision-maker has been identified as the executive directors of the Manager. Management determines the operating segments based on the Group's internal reports, which are then submitted to the executive directors for performance assessment and resources allocation.

The executive directors consider the business by nature of business activities and assess the performance of hotel and service apartments, office rental and wholesale and shopping mall.

The executive directors assess the performance of the operating segments based on a measure of segment results. This measurement basis excludes the effects of non-recurring expenditure from the operating segments and other unallocated operating costs. Other information provided, except as noted below, to the executive directors are measured in a manner consistent with that in the consolidated financial statements.

Total assets excluded corporate assets which are not directly attributable to segments.

The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the consolidated statement of comprehensive income.

	Hotel and serviced apartments RMB'000	Office rental RMB'000	Wholesale and shopping mall RMB'000	Group RMB'000
Year ended 31 December 2016				
Revenue from external customers	<u>483,921</u>	<u>815,300</u>	<u>538,358</u>	<u>1,837,579</u>
Segment results	<u>3,183</u>	<u>1,451,054</u>	<u>609,411</u>	<u>2,063,648</u>
Depreciation and amortisation	<u>155,125</u>	<u>1,753</u>	<u>—</u>	<u>156,878</u>
Fair value gain on investment properties	<u>—</u>	<u>785,384</u>	<u>167,038</u>	<u>952,422</u>
Year ended 31 December 2015				
Revenue from external customers	<u>491,224</u>	<u>708,752</u>	<u>509,669</u>	<u>1,709,645</u>
Segment results	<u>(18,067)</u>	<u>1,175,179</u>	<u>791,653</u>	<u>1,948,765</u>
Depreciation and amortisation	<u>149,955</u>	<u>1,845</u>	<u>—</u>	<u>151,800</u>
Fair value gain on investment properties	<u>—</u>	<u>633,296</u>	<u>441,624</u>	<u>1,074,920</u>
As at 31 December 2016				
Total reportable segments' assets	<u>4,382,545</u>	<u>16,503,352</u>	<u>8,892,882</u>	<u>29,778,779</u>
As at 31 December 2015				
Total reportable segments' assets	<u>4,620,454</u>	<u>15,201,013</u>	<u>8,676,834</u>	<u>28,498,301</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Revenue and segment information (Continued)

A reconciliation of total segment results to total profit before income tax and transactions with unitholders is provided as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Segment results	2,063,648	1,948,765
Fair value gain on dereviate financial instruments	74,626	—
Unallocated operating costs (Note)	<u>(228,891)</u>	<u>(229,780)</u>
Operating profit	1,909,383	1,718,985
Finance income	26,243	44,963
Finance expenses	<u>(938,299)</u>	<u>(763,232)</u>
Profit before income tax and transactions with unitholders	<u>997,327</u>	<u>1,000,716</u>

Note: Unallocated operating costs include mainly asset management fee, legal and professional expenses and other operating expenses.

A reconciliation of reportable segments' assets to total assets is provided as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Total reportable segments' assets	29,778,779	28,498,301
Corporate assets	<u>842,496</u>	<u>836,751</u>
Total assets	<u>30,621,275</u>	<u>29,335,052</u>

	Revenue		Total assets	
	Year ended 31 December		As at 31 December	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
China	<u>1,837,579</u>	<u>1,709,645</u>	29,778,779	28,498,301
Unallocated assets			<u>842,496</u>	<u>836,751</u>
			<u>30,621,275</u>	<u>29,335,052</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Revenue and segment information (Continued)

The Group's revenue by nature is as follows:

	2016 RMB'000	2015 RMB'000
Hotel and serviced apartments operations		
Room rentals	273,565	275,643
Food and beverages	195,694	200,346
Property rentals	1,353,658	1,218,431
Others	<u>14,662</u>	<u>15,225</u>
	<u><u>1,837,579</u></u>	<u><u>1,709,645</u></u>

6 Expenses by nature, net

	2016 RMB'000	2015 RMB'000
Property management fees (i)	40,977	37,473
Employee benefit expenses (Note 7)	111,992	116,795
Real estate tax	174,348	159,327
Business tax, flood prevention fee, urban construction and maintenance tax, education surcharge and local education surcharge	44,876	102,706
Withholding tax (ii)	80,501	62,725
Depreciation of property, plant and equipment (Note 13)	107,593	102,515
Amortisation of land use rights (Note 14)	49,285	49,285
Cost of inventories sold or consumed in operation	50,536	69,878
Other direct expenses on hotel and serviced apartment	130,789	122,569
Manager's fee (Note 8)	129,907	139,555
Trustee's fee	9,186	8,476
Valuation fees	1,000	1,118
Legal and professional fee	8,680	64,366
Auditor's remuneration	3,055	3,090
Bank charges	708	762
Foreign exchange (gain)/loss arising from operating activities	(9,619)	6,667
Others	<u>21,430</u>	<u>18,273</u>
Total operating expenses, net	<u><u>955,244</u></u>	<u><u>1,065,580</u></u>

Note:

- (i) The Group received leasing, marketing and tenancy management services from three leasing agents in Guangzhou, namely, Guangzhou Yicheng Property Management Ltd., Guangzhou Baima Business Operation Management Co. Ltd. (previously known as Guangzhou White Horse Property Management Co., Ltd.) and Guangzhou Yuexiu Asset Management Company Limited (Note 31).
- (ii) Withholding tax on the rental income and interest income in China is calculated based on the rental income and interest income at a rate of 10%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Employee benefit expenses

	2016 RMB'000	2015 RMB'000
Wages, salaries and bonus	77,316	79,500
Pension costs	4,303	4,472
Medical benefits costs	3,340	3,504
Social security costs	5,101	6,202
Staff welfare	<u>21,932</u>	<u>23,117</u>
	<u>111,992</u>	<u>116,795</u>

Pension scheme arrangements

Certain subsidiaries of Yuexiu REIT in China are required to participate in defined contribution retirement plans organised by the respective Provincial or Municipal Government, and make monthly contributions to the retirement plans in the range of 16% to 24% of the monthly salaries of the employees. The Group has no further obligations for the actual payment of pensions beyond its contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

8 Manager's fee

Pursuant to the Trust Deed, the Manager is entitled to receive remuneration for its services as manager of Yuexiu REIT, which is the aggregate of a base fee of 0.3% per annum of the carrying value of the deposited property; a service fee of 3% per annum of net property income and a transaction fee of 1% of the consideration for the acquisition of any real estate, as defined in the Trust Deed. A transaction fee of RMB26,272,000 in business combination in relation to the acquisition in Shanghai was included in manager's fee for the year ended 31 December 2015.

	2016 RMB'000	2015 RMB'000
Manager's fee:		
In the form of units	110,421	101,955
In the form of cash	<u>19,486</u>	<u>37,600</u>
	<u>129,907</u>	<u>139,555</u>

Pursuant to the circular of Yuexiu REIT dated 30 June 2012, a portion of the manager's fee for the period from 1 July 2012 to 31 December 2017 will be paid in the form of units.

9 Finance income

	2016 RMB'000	2015 RMB'000
Interest income from bank deposits	10,445	9,787
Interest income from a related company	15,798	30,327
Interest income from top-up payment asset (note 19)	<u>—</u>	<u>4,849</u>
	<u>26,243</u>	<u>44,963</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Finance expenses

	2016 RMB'000	2015 RMB'000
Interest expense for bank borrowings	283,221	265,207
Interest expense for other borrowings	71,783	67,360
Amortisation of transaction costs for borrowings	24,027	21,969
Fair value loss on top-up payment asset (note 19)	15,194	33,153
Foreign exchange loss on financing activities	<u>544,074</u>	<u>375,543</u>
	<u>938,299</u>	<u>763,232</u>

11 Income tax expense

For the subsidiaries incorporated and operate in China, they are subject to China corporate income tax at a rate of 25% under Corporate Income Tax Law of China.

For other subsidiaries with operations in China, the corporate income tax was paid by way of withholding tax as disclosed in Note 6 (ii).

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong.

	2016 RMB'000	2015 RMB'000
Current income tax		
– China corporate income tax	32,287	15,617
– Under-provision in prior years	220	246
Deferred income tax (Note 24)	<u>252,676</u>	<u>244,170</u>
	<u>285,183</u>	<u>260,033</u>

The tax on the Group's profit before income tax and transactions with unitholders differs from the theoretical amount that would arise using the corporate income tax rate of China as follows:

	2016 RMB'000	2015 RMB'000
Profit before income tax and transactions with unitholders	<u>997,327</u>	<u>1,000,716</u>
Tax calculated at domestic tax rate of 25%	249,332	250,179
Income not subject to tax	(235,945)	(195,007)
Expenses not deductible for tax purposes	233,189	183,922
Under-provision in prior years	220	246
Withholding tax on unremitted earnings of subsidiaries	<u>38,387</u>	<u>20,693</u>
	<u>285,183</u>	<u>260,033</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Earnings per unit based upon profit after income tax before transactions with unitholders attributable to unitholders

(a) Basic

Basic earnings per unit based upon profit after income tax before transactions with unitholders attributable to unitholders is calculated by dividing the profit after income tax before transactions with unitholders attributable to unitholders by the weighted average number of units in issue during the year.

	2016	2015
Profit after income tax before transactions with unitholders attributable to unitholders (RMB'000)	<u>705,540</u>	<u>735,817</u>
Weighted average number of units in issue ('000)	<u>2,854,211</u>	<u>2,817,730</u>
Basic earnings per unit (RMB)	<u>0.25</u>	<u>0.26</u>

(b) Diluted

Diluted earnings per unit based upon profit after income tax before transactions with unitholders attributable to unitholders is calculated by adjusting the weighted average number of units outstanding to assume conversion of all dilutive potential units. Yuexiu REIT has deferred units outstanding and manager's fee in form of units during the year which are dilutive potential units. The number of units calculated as above is compared with the number of units that would have been issued assuming the exercise of the units. For the purpose of calculating diluted earnings per unit, the number of units calculated for manager's fee in form of units was calculated based on the closing price of Yuexiu REIT as at 31 December 2016.

	2016	2015
Profit after income tax before transactions with unitholders attributable to unitholders (RMB'000)	<u>705,540</u>	<u>735,817</u>
Weighted average number of units in issue ('000)	<u>2,854,211</u>	2,817,730
Adjustments for deferred units ('000)	<u>668,401</u>	733,280
Adjustments for manager's fee in form of units ('000)	<u>13,761</u>	<u>15,604</u>
Weighted average number of units for diluted earnings per unit ('000)	<u>3,536,373</u>	<u>3,566,614</u>
Diluted earnings per unit (RMB)	<u>0.20</u>	<u>0.21</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Property, plant and equipment

	Hotel and serviced apartments	Office supplies	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015				
Cost	2,293,347	12,692	9,503	2,315,542
Accumulated depreciation	(212,014)	(12,544)	(4,374)	(228,932)
Fair value gain on revaluation	<u>282,884</u>	<u>—</u>	<u>—</u>	<u>282,884</u>
Net book amount	<u>2,364,217</u>	<u>148</u>	<u>5,129</u>	<u>2,369,494</u>
Year ended 31 December 2015				
Opening net book amount	2,364,217	148	5,129	2,369,494
Additions	1,804	—	—	1,804
Depreciation (Note 6)	(100,691)	(60)	(1,764)	(102,515)
Disposal	—	(15)	—	(15)
Acquisition of subsidiaries (Note 30)	—	15	—	15
Fair value gain on revaluation	<u>143,670</u>	<u>—</u>	<u>—</u>	<u>143,670</u>
Closing net book amount	<u>2,409,000</u>	<u>88</u>	<u>3,365</u>	<u>2,412,453</u>
At 31 December 2015				
Cost	2,295,151	12,692	9,503	2,317,346
Accumulated depreciation	(312,705)	(12,604)	(6,138)	(331,447)
Fair value gain on revaluation	<u>426,554</u>	<u>—</u>	<u>—</u>	<u>426,554</u>
Net book amount	<u>2,409,000</u>	<u>88</u>	<u>3,365</u>	<u>2,412,453</u>
Year ended 31 December 2016				
Opening net book amount	2,409,000	88	3,365	2,412,453
Additions	10,657	—	—	10,657
Depreciation (Note 6)	(105,840)	(23)	(1,730)	(107,593)
Fair value gain on revaluation	<u>98,182</u>	<u>—</u>	<u>—</u>	<u>98,182</u>
Closing net book amount	<u>2,411,999</u>	<u>65</u>	<u>1,635</u>	<u>2,413,699</u>
At 31 December 2016				
Cost	2,305,808	12,692	9,503	2,328,003
Accumulated depreciation	(418,545)	(12,627)	(7,868)	(439,040)
Fair value gain on revaluation	<u>524,736</u>	<u>—</u>	<u>—</u>	<u>524,736</u>
Net book amount	<u>2,411,999</u>	<u>65</u>	<u>1,635</u>	<u>2,413,699</u>

If hotel and serviced apartments had not been revalued, it would have been included in these consolidated financial statements at historical cost less accumulated depreciation of RMB1,887,263,000 (2015: RMB1,982,446,000).

As at 31 December 2016, property, plant and equipment with an aggregate carrying amount of RMB2,138 million (2015: RMB2,136 million) were pledged as collateral for the Group's bank borrowings (Note 27).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Property, plant and equipment (Continued)

The following table analyses the property, plant and equipment carried at fair value:

	31 December	
	2016	2015
	RMB'000	RMB'000
Opening balance	2,409,000	2,364,217
Additions	10,657	1,804
Depreciation	(105,840)	(100,691)
Unrealised gains recognised in reserve	<u>98,182</u>	<u>143,670</u>
Closing balance	<u>2,411,999</u>	<u>2,409,000</u>
Unrealised gains for the year included in other comprehensive income during the year	<u>98,182</u>	<u>143,670</u>

Valuation processes of the Group

The Group measures hotel and serviced apartments at fair value. Hotel and service apartments were revalued by Vigers Appraisal and Consulting Limited, being independent qualified valuer not related to the Group at 31 December 2016 and 2015 respectively.

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuer at least once every six months, in line with the Group's interim and annual reporting dates.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report
- Assesses property valuations movements when compared to the prior year valuation report
- Holds discussions with the independent valuer

Valuation techniques

Fair value measurements using significant unobservable inputs

Fair value of building portion of hotel and serviced apartments of Guangzhou International Financial Center ("Guangzhou IFC") is derived using depreciated replacement cost method.

The depreciated replacement costs method involves estimation of the market redevelopment costs of the building portion of hotel and serviced apartments of Guangzhou IFC which includes building costs, finance costs and professional fee. Depreciation is also considered to reflect the physical deterioration, functional and economic obsolescence to derive the fair value.

The overall fair value (including land and building elements) of hotel and serviced apartments in China is generally derived using the discounted cash flow analysis. Due to lack of land transaction in market, fair value of land, for disclosure purpose only as set out in Note 14, is therefore calculated as the difference between the fair value under discounted cash flow analysis and the fair value under depreciated replacement costs method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Property, plant and equipment (Continued)

In the course of discounted cash flow analysis, both income and expenses over the coming 10 years from the date of valuation are itemised and projected annually taking into account the rental revenue, associated revenues and the expected growth of income and expenses. The net cash flow over the ten-year period is discounted at an appropriate rate of return.

The net cash flow from eleventh year onwards to the expiry date of the land use rights from the government under which both portions are held is capitalised at a market yield expected for the particular type of property investment in the market.

There were no changes to the valuation techniques during the year.

Significant inputs used to determine fair value

Building costs are estimated by reference to market construction costs of other similar buildings. The higher costs, the higher the fair value.

As at 31 December 2015

	Depreciated replacement cost method			Discounted cash flow analysis		
	Building cost (RMB /m ²)	Finance cost (% on construction cost)	Professional fee (% on construction cost)	Unit rate/day (RMB)	Discount rate (%)	Stabilised occupancy Rate (%)
Hotel	13,850	5	5	2,010	8.0	73.0
Serviced apartments	11,160	5	5	964	7.5	95.0

As at 31 December 2016

	Depreciated replacement cost method			Discounted cash flow analysis		
	Building cost (RMB /m ²)	Finance cost (% on construction cost)	Professional fee (% on construction cost)	Unit rate/day (RMB)	Discount rate (%)	Stabilised occupancy Rate (%)
Hotel	14,000	5	5	1,930	7.5	75.0
Serviced apartments	11,300	5	5	967	7.0	95.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	1,527,824	1,577,109
Amortisation (Note 6)	<u>(49,285)</u>	<u>(49,285)</u>
At 31 December	<u>1,478,539</u>	<u>1,527,824</u>

The Group's land use rights at their net book amounts are analysed as follows:

	31 December	31 December
	2016	2015
	RMB'000	RMB'000
In China:		
Land use rights of between 10 and 50 years	<u>1,478,539</u>	<u>1,527,824</u>

As at 31 December 2016, the fair value of land use rights is approximately RMB2,048 million (2015: RMB1,971 million). The change in fair value is not reflected in the consolidated financial statements.

As at 31 December 2016, land use rights were pledged with an aggregate net book amount of approximately RMB1,393 million (2015: RMB1,443 million) as collateral for the Group's bank borrowings (Note 27).

15 Investment properties

	2016	2015
	RMB'000	RMB'000
At 1 January	23,194,000	19,299,000
Additions during the year	51,078	50,080
Acquisition of subsidiaries (Note 30)	—	2,770,000
Fair value gains during the year, included in profit or loss under 'Fair value gain on investment properties'	<u>952,422</u>	<u>1,074,920</u>
At 31 December	<u>24,197,500</u>	<u>23,194,000</u>

Fair value gains for the year included in profit or loss for assets held at the end of the year, under 'Fair value gain on investment properties'

<u>952,422</u>	<u>1,074,920</u>
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The investment properties were located in China held on land use rights of 40 years to 50 years, expiring in 2045 through 2055.

In the consolidated statement of comprehensive income, direct operating expenses relating to investment properties amounted to RMB223,337,000 (2015: RMB201,949,000). Included in the direct operating expenses, RMB2,919,000 (2015: RMB4,811,000) was related to investment properties that were vacant.

Yuexiu REIT acquired Yuexiu Tower (previously known as Hongjia Tower) on 31 August 2015. In accordance with the REIT Code, Yuexiu REIT is prohibited from disposing of its properties for at least two years from the time such properties are acquired, unless the unitholders have passed a special resolution consenting to the proposed disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Investment properties (Continued)

As at 31 December 2016, investment properties with an aggregate carrying value of approximately RMB3,317 million (2015: RMB3,177 million) were pledged as collateral for the Group's bank borrowings (Note 27).

Valuation processes of the Group

The Group measures its investment properties at fair value. The investment properties were revalued by Vigers Appraisal and Consulting Limited, being independent qualified valuer not related to the Group at 31 December 2016 and 2015 respectively.

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuer at least once every six months, in line with the Group's interim and annual reporting dates.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report
- Assesses property valuations movements when compared to the prior year valuation report
- Holds discussions with the independent valuer.

Valuation techniques

Fair value measurements using significant unobservable inputs

Fair values of completed commercial properties in China are derived using both the income capitalisation method and discounted cash flow analysis.

The income capitalisation method is used to capitalise the unexpired rental income of contractual tenancies. It has also taken into account the reversionary market rent after the expiry of tenancies in capitalisation. The prevailing market rents adopted in the valuation have made reference to recent lettings and other similar comparable properties in the vicinity.

For the discounted cash flow analysis, both income and expenses over the coming ten years from the date of valuation are itemised and projected annually taking into account the current rental revenue and the expected growth of income and expenses of each of the properties. The net cash flow over the ten-year period is discounted at an appropriate rate of return.

The net cash flow from eleventh year onwards to the expiry date of the land use rights from the government under which each of the properties is held is capitalised at a market yield expected for the particular type of property investment in the market.

There were no changes to the valuation techniques during the year.

Significant inputs used to determine fair value

Capitalisation and discount rates are estimated by Vigers Appraisal and Consulting Limited for 2016 and 2015 based on the risk profile of the properties being valued. The higher the rates, the lower the fair value.

Prevailing market rents are estimated based on recent lettings, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Investment properties (Continued)

The adopted valuation assumptions in the income capitalisation method are summarised as follows:

As at 31 December 2015

	Monthly Market Unit Rent (RMB per sq.m.)	Capitalisation Rate (per annum)
Office	104 to 360	4.75% to 8.00%
Wholesale and shopping mall	49 to 1,207	4.75% to 8.50%

As at 31 December 2016

	Monthly Market Unit Rent (RMB per sq.m.)	Capitalisation Rate (per annum)
Office	52 to 328	4.25% to 7.50%
Wholesale and shopping mall	85 to 1,250	4.25% to 8.00%

The adopted valuation assumptions in discounted cash flow analysis are summarised as follows:

As at 31 December 2015

	Monthly Market Unit Rent (RMB per sq.m.)	Discount Rate	Stabilised Occupancy Rate
Office	104 to 360	7.25% to 9.25%	97.30% to 100.00%
Wholesale and shopping mall	49 to 1,207	7.50% to 9.50%	86.81% to 100.00%

As at 31 December 2016

	Monthly Market Unit Rent (RMB per sq.m.)	Discount Rate	Stabilised Occupancy Rate
Office	52 to 328	6.75% to 8.75%	90.00% to 98.96%
Wholesale and shopping mall	85 to 1,250	7.00% to 9.00%	95.00% to 99.48%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 Subsidiaries

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/registered capital	Interest held (Note)
GZI REIT (Holding) 2005 Company Limited (“HoldCo 2005”)	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share	100%
Yuexiu REIT 2012 Company Limited (“HoldCo 2012”)	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of USD1	100%
Yuexiu REIT MTN Company Limited (“REIT MTN”)	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of USD1	100%
Yuexiu REIT 2013 Company Limited (“REIT 2013”)	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of USD1	100%
Partat Investment Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of USD1	100%
Moon King Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of USD1	100%
Full Estates Investment Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of USD1	100%
Keen Ocean Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of USD1	100%
Metrogold Development Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	100 ordinary share of USD1	100%
Guangzhou Jieyacheng Properties Company Limited	China, limited liability company	Leasing of commercial properties in China	Registered capital of RMB92 million	100%
Tower Top Development Ltd. (“Tower Top”)	British Virgin Islands, limited liability company	Investment holding	10,000 ordinary share of USD1	99.99%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 Subsidiaries (Continued)

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/registered capital	Interest held (Note)
Bliss Town Holdings Ltd.	British Virgin Islands, limited liability company	Investment holding	1 ordinary share of USD1	99.99%
Hoover Star International Ltd.	British Virgin Islands, limited liability company	Investment holding	1 ordinary share of USD1	99.99%
Miller Win Group Ltd.	British Virgin Islands, limited liability company	Investment holding	1 ordinary share of USD1	99.99%
Shinning Opal Management Ltd.	British Virgin Islands, limited liability company	Investment holding	1 ordinary share of USD1	99.99%
Ever Joint Investment International Limited	Hong Kong, limited liability company	Investment holding	1 ordinary share of HK\$1	99.99%
Long Grace Holdings Limited	Hong Kong, limited liability company	Investment holding	1 ordinary share of HK\$1	99.99%
Profit Link Investment International Limited	Hong Kong, limited liability company	Investment holding	1 ordinary share of HK\$1	99.99%
San Bright Holdings Limited	Hong Kong, limited liability company	Investment holding	1 ordinary share of HK\$1	99.99%
Guangzhou Yuecheng Industrial Ltd.	China, Limited liability company	Investment holding	Registered capital of HK\$300 million	99.99%
Guangzhou Yuesheng Industrial Ltd.	China, limited liability company	Investment holding	Registered capital of HK\$300 million	99.99%
Guangzhou Yuehui Industrial Ltd.	China, limited liability company	Investment holding	Registered capital of HK\$300 million	99.99%
Guangzhou Yueli Industrial Ltd.	China, limited liability company	Investment holding	Registered capital of HK\$300 million	99.99%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 Subsidiaries (Continued)

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/registered capital	Interest held (Note)
Guangzhou Yue Xiu City Construction International Finance Centre Co., Ltd	China, limited liability company	Property management and property leasing	Registered capital of RMB2,650 million	98.99%
Guangzhou IFC Hospitality Management Co. Ltd	China, limited liability company	Hospitality management	Registered capital of RMB5 million	98.99%
Shanghai Hong Jia Real Estate Development Co., Ltd. ¹	China, limited liability company	Leasing of commercial properties in China	Registered capital of USD28.5 million	100%
Bestget Enterprises Limited ¹	Hong Kong, limited liability company	Investment holding	257,614,000 ordinary shares of HK\$257,614,000	100%

¹ These subsidiaries are acquired during the year ended 31 December 2015.

Note:

Shares of HoldCo 2005, HoldCo 2012, REIT MTN, REIT 2013 and Metrogold Development Limited are held directly by Yuexiu REIT. Shares of all the other subsidiaries are held indirectly by Yuexiu REIT.

17 Deferred assets

Rental income is recognised on an accruals basis by averaging out the impact of rent-free periods, contracted rental escalations and such other terms affecting the cash received from rental income under each tenancy agreement. Thus, rental income is recognised on a straight-line basis for the entire lease term of each tenancy agreement, which effectively amortises the impact of rent-free periods, contracted rental escalations and other relevant terms on the rental income over the relevant lease periods. The temporary difference between the rental income as set out in the lease agreements and accounting rental income is reflected as deferred assets. Deferred assets which are expected to be realised twelve months after the balance sheet date are classified as non-current assets. The deferred assets are denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Goodwill

	2016 RMB'000	2015 RMB'000
At 1 January		
Cost	824,459	160,324
Accumulated impairment	<u>—</u>	<u>—</u>
Net book amount	<u>824,459</u>	<u>160,324</u>
Year ended 31 December		
Opening net book amount	824,459	160,324
Acquisition of subsidiaries (Note 30)	<u>—</u>	<u>664,135</u>
Net book amount	<u>824,459</u>	<u>824,459</u>
At 31 December		
Cost	824,459	824,459
Accumulated impairment	<u>—</u>	<u>—</u>
Net book amount	<u>824,459</u>	<u>824,459</u>

Impairment test for goodwill

For the purpose of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget.

Key assumptions used in the cash flow projections are as follows:

	2016	2015
<i>Growth rate per annum</i>	<i>4.00%-5.50%</i>	<i>3.80%</i>
Discount rate per annum	8.50% - 8.75%	9.00% - 9.25%

These assumptions have been used for the analysis of the cash-generating unit ("CGU"). Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Management estimates the discount rate using pre-tax rates that reflect market assessments of the time value of money and the specific risks relating to the CGU. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Top-up payment asset

During 2012, the Group acquired Guangzhou IFC from Yuexiu Property Company Limited (“YXP”). Pursuant to the acquisition, YXP agreed to provide income support to Yuexiu REIT for the period from 1 July 2012 until 31 December 2016 for the hotel and serviced apartments business. The top-up payment is the shortfall of actual gross operating profits (“GOP”) and the guaranteed GOP of hotel and serviced apartments.

Top-up payment asset is recognised as financial assets in Yuexiu REIT, which is denominated in RMB. The fair value of the balance approximates its carrying amount.

It is initially recognised at fair value. In determining the fair value of the top-up payment asset, Yuexiu REIT applied a valuation model that has taken into account the expected future cashflows due to the shortfall for the period from 1 July 2012 until 31 December 2016, discounted at the market interest rate of 1.65% (2015: 1.65%) per annum. Top-up payment asset is subsequently carried at amortised cost using the effective interest method. The expected future cash flows are revisited regularly. The carrying amount of top-up payment asset will be adjusted to reflect the actual and revised estimated cash flows, by computing the present value of estimated future cash flows at the original effective interest rate. The adjustment is recognised in “finance expense”/“finance income”.

The top-up payment for the year ended 31 December 2016 was RMB52,626,000 (2015: RMB66,823,000).

20 Derivative financial instruments

	2016 HK\$'000	2015 HK\$'000
Capped forward foreign exchange contracts	<u>74,626</u>	<u>—</u>

The fair value of the derivative financial instrument is classified as a non-current asset or liability if the settlement date is beyond 12 months after balance sheet date.

The notional principal amounts of the outstanding capped foreign exchange forward contracts at 31 December 2016 were USD177,000,000 and HK\$1,000,000,000 (2015: Nil).

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

The fair values of capped forward exchange contracts are calculated by reference to the present value of the estimated future cash flows, taking into account market observable forward exchange rates at each reporting date. If significant inputs required to fair value on instrument are observable, the instrument is included in level 2 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 Trade receivables

	2016	2015
	RMB'000	RMB'000
Trade receivables	<u>14,865</u>	<u>13,168</u>

The fair values of trade receivables approximate their carrying amounts.

The credit terms of the Group are generally within three months. The ageing analysis of trade receivables is as follows:

	2016	2015
	RMB'000	RMB'000
0-30 days	11,566	11,120
31-90 days	3,196	1,796
91-180 days	<u>103</u>	<u>252</u>
	<u>14,865</u>	<u>13,168</u>

As at 31 December 2016, trade receivables of approximately RMB14,865,000 (2015: RMB13,168,000) were fully performing.

As at 31 December 2016, the Group has insignificant trade receivables which are past due but not impaired.

Majority of the Group's trade receivables are denominated in RMB.

22 Prepayments, deposits and other receivables

The balance of prepayments, deposits and other receivables mainly represents prepaid business tax on rental deposits and deposits for utilities. The carrying amounts of prepayments, deposits and other receivables approximate their fair values.

All prepayments, deposits and other receivables are denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 Short-term bank deposits and cash and cash equivalents

	2016	2015
	RMB'000	RMB'000
Cash at bank and on hand	1,162,327	572,621
Short-term bank deposits with original maturity of less than three months	<u>18,501</u>	<u>109,975</u>
Cash and cash equivalents	1,180,828	682,596
Short-term bank deposits with original maturity of more than three months	<u>22,400</u>	<u>57,269</u>
Total	<u><u>1,203,228</u></u>	<u><u>739,865</u></u>
Maximum exposure to credit risk	<u><u>1,202,781</u></u>	<u><u>739,425</u></u>

As at 31 December 2016, included in the cash and cash equivalents of the Group are bank deposits of approximately RMB999,684,000 (2015: RMB572,004,000) denominated in RMB, which is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China. The remittance of these funds out of China is subject to exchange control restrictions imposed by the Chinese government.

The credit quality of short-term bank deposits and cash and cash equivalents has been assessed by reference to external credit ratings (if available) or to historical information about the counterparty default rates as disclosed in Note 3(a)(ii). The existing counterparties do not have defaults in the past.

Short-term bank deposits and cash and cash equivalents are denominated in the following currencies:

	2016	2015
	RMB'000	RMB'000
HK\$	143,895	63,575
RMB	1,000,130	572,444
USD	<u>59,203</u>	<u>103,846</u>
	<u><u>1,203,228</u></u>	<u><u>739,865</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Deferred tax liabilities

	2016 RMB'000	2015 RMB'000
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	<u>3,891,364</u>	<u>3,611,190</u>

The movements in the deferred tax liabilities are as follows:

	2016 RMB'000	2015 RMB'000
Beginning of the year	3,611,190	2,607,530
Deferred taxation charged to profit or loss (Note 11)	252,676	244,170
Deferred taxation charged to reserve	27,498	40,238
Acquisition of subsidiaries (Note 30)	<u>—</u>	<u>719,252</u>
End of the year	<u>3,891,364</u>	<u>3,611,190</u>

The movements in deferred tax assets (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

	Tax losses RMB'000
At 1 January 2015	72,008
Credited to profit or loss	<u>14,477</u>
At 31 December 2015	<u>86,485</u>
At 1 January 2016	86,485
Credited to profit or loss	<u>27,404</u>
At 31 December 2016	<u>113,889</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Deferred tax liabilities (Continued)

The movements in deferred tax liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

	Fair value gains RMB'000	Withholding tax in respect of unremitted earnings of subsidiaries RMB'000	Accelerated depreciation allowance and others RMB'000	Total RMB'000
Year ended 31 December 2015				
At 1 January 2015	2,149,809	261,238	268,491	2,679,538
Charged to profit or loss	154,795	12,252	91,600	258,647
Charged to reserve	40,238	—	—	40,238
Acquisition of subsidiaries (Note 30)	<u>534,698</u>	<u>166,610</u>	<u>17,944</u>	<u>719,252</u>
At 31 December 2015	<u>2,879,540</u>	<u>440,100</u>	<u>378,035</u>	<u>3,697,675</u>
Year ended 31 December 2016				
At 1 January 2016	2,879,540	440,100	378,035	3,697,675
Charged/(credited) to profit or loss	190,184	(1,832)	91,728	280,080
Charged to reserve	<u>27,498</u>	<u>—</u>	<u>—</u>	<u>27,498</u>
At 31 December 2016	<u>3,097,222</u>	<u>438,268</u>	<u>469,763</u>	<u>4,005,253</u>

There is no significant unprovided deferred taxation as at 31 December 2016 (2015: nil).

25 Trade payables

	2016 RMB'000	2015 RMB'000
Trade payables	<u>15,276</u>	<u>13,094</u>

The fair values of trade payables approximate their carrying amounts.

The ageing analysis of the trade payables is as follows:

	2016 RMB'000	2015 RMB'000
0 - 30 days	10,656	11,061
31 - 90 days	2,901	2,026
91 - 180 days	<u>1,719</u>	<u>7</u>
	<u>15,276</u>	<u>13,094</u>

Majority of the Group's trade payables are denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Rental deposits, receipts in advance, accruals and other payables

	2016 RMB'000	2015 RMB'000
Rental deposits		
Current portion	106,676	127,160
Non-current portion	<u>213,109</u>	<u>175,842</u>
	319,785	303,002
	-----	-----
Receipts in advance		
Current portion	71,366	77,016
Non-current portion	<u>12,233</u>	<u>12,669</u>
	83,599	89,685
	-----	-----
Provision for urban real estate tax	16,550	10,398
Provision for withholding tax payable	13,816	9,353
Provision for value-added tax, urban construction and maintenance tax, education surcharge and local education surcharge	14,147	—
Provision for business tax, flood prevention fee, urban construction and maintenance tax, education surcharge and local education surcharge	—	5,473
Construction fee payable	497,148	645,072
Accruals for operating expenses	<u>116,358</u>	<u>98,949</u>
	658,019	769,245
	-----	-----
Accruals and other payables	<u>658,019</u>	<u>769,245</u>
	<u>1,061,403</u>	<u>1,161,932</u>

The carrying amounts of rental deposits, receipts in advance and accruals and other payables approximate their fair values.

Majority of the Group's rental deposits, receipts in advance and accruals and other payables are denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Borrowings

	2016 RMB'000	2015 RMB'000
Current portion of long term borrowings, secured	268,440	2,841,730
Current portion of long term borrowings, unsecured	<u>1,234,917</u>	<u>—</u>
	<u>1,503,357</u>	<u>2,841,730</u>
Long-term borrowings		
Bank borrowings		
- Secured (Note a)	3,355,500	2,360,000
- Unsecured	6,149,876	6,358,503
Other borrowings, unsecured (Note b)	<u>2,419,610</u>	<u>2,259,442</u>
	11,924,986	10,977,945
Less: current portion of long-term borrowings	<u>(1,503,357)</u>	<u>(2,841,730)</u>
Total long-term borrowings	<u>10,421,629</u>	<u>8,136,215</u>
Analysed into:		
Unsecured	8,569,486	8,617,945
Secured	<u>3,355,500</u>	<u>2,360,000</u>
	<u>11,924,986</u>	<u>10,977,945</u>

Note a:

Bank borrowings of the Group of RMB2,360 million in 2015 are guaranteed on a joint and several basis¹ and also secured by the following:

- certain parts of Guangzhou IFC amounting to RMB6,755 million;
- present and future assets (including but not limited to: (a) a charge over any interest-bearing accounts (the “Charged Accounts”), (b) a floating charge over all assets, (c) an assignment of dividends and all other revenue generated) of Yuexiu REIT 2012 Company Limited (“Yuexiu REIT 2012”), Tower Top Development Ltd. (“Tower Top”), BVI Holdcos² and HK Holdcos³, subsidiaries of the Group;
- all right, title and interest in all present and future loans of Yuexiu REIT 2012, Tower Top, BVI Holdcos² and HK Holdcos³;

¹ A syndicated loan amounting to RMB2,360 million is jointly and severally guaranteed by related parties, namely Guangzhou City Construction and Development Co., Ltd., Guangzhou Charcon Real Estate Co., Ltd. and Guangzhou City Construction and Development Group Co., Ltd. with an effective period expiring on the date two years after full repayment of the syndicated loan. A syndicated loan amounting to RMB2,377 million is jointly and severally guaranteed by Tower Top, BVI Holdcos² and HK Holdcos³.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Borrowings (Continued)

² “BVI Holdcos” include Bliss Town Holdings Ltd., Hoover Star International Ltd., Miller Win Group Ltd. and Shinning Opal Management Ltd.

³ “HK Holdcos” include Ever Joint Investment International Limited, Long Grace Holdings Limited, Profit Link Investment International Limited and San Bright Holdings Limited.

During the year, the Group fully repaid the secured bank loan of RMB2,360 million and entered into new syndicated and entrustment loans totalling to RMB3,356 million which are secured by certain parts of Guangzhou IFC with carrying value of RMB6,848 million.

The Group’s borrowings are repayable as follow:

	2016	2015
	RMB’000	RMB’000
Within one year	1,503,357	2,841,730
Between one year and five years	8,408,329	7,791,215
Over five years	<u>2,013,300</u>	<u>345,000</u>

The effective interest rates (per annum) of the borrowings at the balance sheet date were as follows:

	2016	2015
RMB	4.34%	6.34%
HK\$	2.52%	2.56%
USD	2.90%	2.97%

The carrying amounts of the borrowings are denominated in RMB, HK\$ and USD and approximate their fair values.

	2016	2015
	RMB’000	RMB’000
RMB	4,165,500	2,660,000
HK\$	3,370,740	3,500,025
USD	<u>4,388,746</u>	<u>4,817,920</u>
	<u>11,924,986</u>	<u>10,977,945</u>

The Group has no undrawn bank borrowing facility as at 31 December 2016 (2015: RMB126 million).

Note b:

On 14 May 2013, Yuexiu REIT MTN Company Limited, a wholly owned subsidiary of Yuexiu REIT, issued and sold a total of US\$350 million principal amount of 3.10% notes due 2018 (the “USD Bond”) to investors under the US\$1 billion guaranteed medium term note programme established on 21 March 2013 pursuant to the subscription agreement dated 7 May 2013. All of the USD Bond remained outstanding at 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Net assets attributable to unitholders

	2016	2015
	RMB'000	RMB'000
At 1 January	13,400,472	13,141,954
Issuance of units	105,661	100,754
Transfer from the consolidated statement of comprehensive income	775,488	838,171
Distributions paid during the year	<u>(747,221)</u>	<u>(680,407)</u>
At 31 December	<u>13,534,400</u>	<u>13,400,472</u>

The movement of numbers of existing units is as below:

Units in issue ('000)	2016	2015
At 1 January	2,828,887	2,799,796
Units issued during the year (Note a)	28,014	29,091
Issuance of deferred units during the year (Note b)	<u>64,879</u>	<u>—</u>
At 31 December	<u>2,921,780</u>	<u>2,828,887</u>

Note a:

During 2016, 28,014,000 units were issued for payment of manager's fee (2015: 29,091,000 units).

Note b:

Pursuant to the terms disclosed in the circular dated 30 June 2012, Yuexiu REIT will, on 31 December of each year, issue to YXP certain number of units starting from 31 December 2016. The number of units to be issued each year, when aggregated with the Manager Fee Units to be issued with 12 months of the issue, will be limited to the maximum number of units that may be issued to YXP which will not trigger an obligation on the part of YXP to make a mandatory general offer under Rule 26 of the Takeovers Code for all units not already owned or agreed to be acquired by YXP at the relevant time. During 2016, 64,879,000 units were issued and the outstanding deferred units at 31 December 2016 was 668,401,000 units (31 December 2015: 733,280,000 units).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 Notes to the consolidated statement of cash flows

(a) Reconciliation of profit before income tax and transactions with unitholders to cash generated from operations:

	2016 RMB'000	2015 RMB'000
Profit before income tax and transactions with unitholders	997,327	1,000,716
Adjustments for:		
- Depreciation expenses	107,593	102,515
- Amortisation of land use right	49,285	49,285
- Amortisation of transaction costs for bank borrowings	24,027	21,969
- Foreign exchange losses on financing activities	544,074	375,543
- Fair value gain on investment properties	(952,422)	(1,074,920)
- Fair value gain on derivative financial instruments	(74,626)	—
- Fair value loss on top-up payment asset	15,194	33,153
- Interest income	(26,243)	(44,963)
- Interest income from top-up payment asset	—	(4,849)
- Interest expenses	355,004	332,567
Changes in working capital:		
- Deferred assets	(32,501)	(7,633)
- Inventories	(96)	197
- Trade receivables	(1,697)	(1,604)
- Amounts due from related parties	160,821	239,683
- Prepayments, deposits and other receivables	1,333	(1,935)
- Trade payables	2,182	(1,424)
- Rental deposits	16,783	18,361
- Receipts in advance	(6,086)	(4,889)
- Accruals and other payables	(5,565)	(137,857)
- Amounts due to related parties	8,515	5,555
Cash generated from operations	<u>1,182,902</u>	<u>899,470</u>

(b) Major non-cash transaction:

During the year ended 31 December 2016, 28,014,000 units (2015: 29,091,000 units) amounting to RMB105,661,000 (2015: RMB100,754,000) were issued for payment of manager's fee.

30 Business combinations

On 31 July 2015, the Group, through a wholly-owned subsidiary, entered into a sale and purchase agreement with Century Holding Company Ltd, an independent third party, to acquire Bestget Enterprises Limited and its subsidiary, Shanghai Hong Jia Real Estate Development Co., Ltd. (hereafter collectively referred to as "Bestget Group"). The Bestget Group holds 100% interest in Shanghai Hongjia Tower. The transaction was completed on 31 August 2015.

The revenue included in the consolidated statement of comprehensive income since 31 August 2015 to 31 December 2015 contributed by Bestget Group was RMB42,977,000. Bestget Group also contributed profit of RMB59,330,000 over the same period.

Had Bestget Group been consolidated from 1 January 2015 to 31 December 2015, the consolidated statement of comprehensive income would show pro-forma revenue of RMB1,794,283,000 and loss after income tax and transaction with unitholders of RMB742,537,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Business combinations (Continued)

The following table summarises the consideration paid for Bestget Group, the fair value of assets acquired and liabilities assumed at the acquisition date.

	2015
	RMB'000
Purchase consideration	
At 31 August 2015	
— Cash	<u>2,430,963</u>
Total consideration	<u>2,430,963</u>
Fair values of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	57,261
Property, plant and equipment (Note 13)	15
Investment properties (Note 15)	2,770,000
Deferred asset (Note 17)	4,109
Prepayment and other receivables	9,604
Bank borrowings	(300,000)
Receipts in advance	(9,262)
Rental deposits	(40,188)
Accrual and other payables	(4,486)
Tax payables	(973)
Deferred tax liabilities (Note 24)	<u>(719,252)</u>
Total identifiable net assets	<u>1,766,828</u>
Goodwill (Note 18)	<u>664,135</u>

The goodwill from the acquisition was calculated based on the total consideration less the fair value of total identifiable net assets acquired. As a result of the acquisition, the Group expanded its footprint beyond Guangzhou and diversified its property portfolio. It also benefits through economies of scale. None of the goodwill recognised is expected to be deductible for income tax purposes.

	2015
	RMB'000
Cash outflow to acquire business, net of cash acquired:	
Purchase consideration	(2,430,963)
Cash and cash equivalents in the subsidiary acquired	<u>57,261</u>
Cash outflow on acquisition	<u>(2,373,702)</u>

Acquisition-related costs of RMB84,896,000 have been charged to operating expenses in the consolidated statement of comprehensive income for the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Connected party transactions and significant related party transactions and balances

As at 31 December 2016, the Group was significantly influenced by Yuexiu Property Company Limited (incorporated in Hong Kong), which owns approximately 39% (2015: 37%) of Yuexiu REIT's units. The remaining 61% (2015: 63%) of the units are widely held.

The table set forth below summarised the names of connected/related companies and nature of relationship with Yuexiu REIT as at 31 December 2016:

Connected/related companies	Relationship with Yuexiu REIT
Yuexiu Property Company Limited ("YXP") ¹	A major unitholder of Yuexiu REIT
Yuexiu REIT Asset Management Limited (the "Manager") ¹	A subsidiary of YXP
Guangzhou Yuexiu Asset Management Company Limited ("GZAM") ¹	A subsidiary of YXP
Guangzhou Yicheng Property Management Limited ("Yicheng") ¹	A subsidiary of YXP
Guangzhou White Horse Clothings Market Ltd. ("White Horse JV") ¹	A subsidiary of YXP
Guangzhou Baima Business Operation Management Co. Ltd. (previously known as Guangzhou White Horse Property Management Co., Ltd). ("Baima BM") ¹	A subsidiary of YXP
Guangzhou City Construction & Development Xingye Property Agent Ltd. ("Xingye") ¹	A subsidiary of YXP
Guangzhou City Construction and Development Co. Ltd. ("GCCD") ¹	A subsidiary of YXP
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") ¹	A major shareholder of YXP
廣州越秀企業集團有限公司	A subsidiary of GZYX
Guangzhou City Construction and Development Group Co., Ltd. ¹	A subsidiary of GZYX
Golden Eagle Asset Management Co. Ltd. ("Golden Eagle") ^{1,2}	A subsidiary of GZYX
Guangzhou Grandcity Development Ltd. ¹	A subsidiary of YXP
Guangzhou Yue Xiu City Construction Jones Lang LaSalle Property Services Co., Ltd. ("GZ JLL") ¹	A subsidiary of YXP
廣州市祥港房地產開發有限公司 ¹	A subsidiary of YXP
廣州市宏錦房地產開發有限公司 ¹	A subsidiary of YXP
廣州東耀房地產開發有限公司 ¹	A subsidiary of YXP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Connected party transactions and significant related party transactions and balances (Continued)

Connected/related companies	Relationship with Yuexiu REIT
Guangzhou Guang Zheng Hang Seng Research Co., Ltd. (“Guang Zheng”) ^{1,2}	A subsidiary of GZYX
Guangzhou Suiqiao Development Co., Ltd (“Suiqiao”) ¹	A subsidiary of GZYX
Guangzhou Securities Company Limited ^{1,2}	A subsidiary of GZYX
Guangzhou Futures Co. Ltd. ^{1,2}	A subsidiary of GZYX
Guangzhou Yuexiu Industrial Investment Fund Management Co., Ltd. ^{1,2}	A subsidiary of GZYX
Guangzhou Yuexiu Financial Leasing Co., Ltd. ^{1,2}	A subsidiary of GZYX
Guangzhou Yuexiu Financial Holdings Group Co., Ltd ^{1,2}	A subsidiary of GZYX
Guangzhou Yue Tong Expressway Operations and Management Company Limited ¹	A subsidiary of GZYX
廣州越秀小額貸款有限公司 ^{1,2}	A subsidiary of GZYX
Beijing Jones Lang LaSalle Property Management Services Company Limited Guangzhou Branch (“Beijing JLL”) ¹	A subsidiary of GZYX
Guangzhou Yue Peng Information Ltd. ¹	A subsidiary of GZYX
Yuexiu (China) Transport Infrastructure Investment Company Limited ¹	A subsidiary of GZYX
Chong Hing Bank Limited Guangzhou Tianhe Sub-Branch (previously known as Chong Hing Bank Ltd. Guangzhou Sub-branch) (“Chong Hing Guangzhou”) ¹	A subsidiary of GZYX
Chong Hing Bank Limited Shanghai Branch (“Chong Hing Shanghai”) ¹	A subsidiary of GZYX
Guangzhou Paper Group Ltd. ¹	A subsidiary of GZYX
Guangzhou Building Materials Enterprise Group Co. Ltd. ¹	A subsidiary of GZYX
Guang Zhou Titanium Dioxide Factory ¹	A subsidiary of GZYX
HSBC Institutional Trust Services (Asia) Limited (the “Trustee”)	The Trustee of Yuexiu REIT
Vigers Appraisal and Consulting Limited (the “Incumbent Valuer”)	The current principal valuer of Yuexiu REIT
The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries (the “HSBC Group”)	Associates of the Trustee

¹ These connected companies are also considered as related companies of the Group, transactions and balances carried out with these related companies are disclosed in notes (a) and (b) below.

² These connected companies ceased to be related companies of the Group from 1 May 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Connected party transactions and significant related party transactions and balances (Continued)

The following transactions and balances were carried out with connected companies and related companies:

(a) Transactions with connected/related companies

	2016 RMB'000	2015 RMB'000
Manager's fee paid/payable to the Manager (ii)	(129,907)	(139,555)
Management fee paid/payable to Yicheng	(10,455)	(10,406)
Management fee paid/payable to Baima BM	(12,035)	(12,206)
Management fee paid/payable to GZAM	(18,487)	(14,861)
Rental income received/receivable from Xingye	5,241	5,509
Rental income received/receivable from Yicheng	4,216	2,552
Rental income received/receivable from GCCD	12,741	31,138
Rental income received/receivable from White Horse JV	1,263	1,200
Rental income received/receivable from Golden Eagle	835	4,550
Rental income received/receivable from 廣州越秀企業集團有限公司	32,402	32,142
Rental income received/receivable from Guangzhou Grandcity Development Ltd.	2,155	19,207
Rental income received/receivable from Guang Zheng	1,115	3,474
Rental income received/receivable from Suiqiao	603	622
Rental income received/receivable from Guangzhou Securities Company Limited	11,146	27,717
Rental income received/receivable from Guangzhou Futures Company Limited	993	—
Rental income received/receivable from Guangzhou Yuexiu Industrial Investment Fund Management Co., Ltd.	992	3,077
Rental income received/receivable from GZ JLL	14,612	14,480
Rental income received/receivable from Guangzhou Yuexiu Financial Leasing Co., Ltd.	2,177	6,322
Rental income received/receivable from GZAM	9,257	9,976
Rental income received/receivable from 廣州市祥港房地產開發有限公司	8,080	—
Rental income received/receivable from 廣州市宏錦房地產開發有限公司	17,968	—
Rental income received/receivable from 廣州東耀地產開發有限公司	2,227	—
Rental income received/receivable from Guangzhou Yuexiu Financial Holdings Group Co., Ltd	3,025	8,097
Rental income received/receivable from Guangzhou Yue Tong Expressway Operations and Management Company Limited	784	808
Rental income received/receivable from Guangzhou Yue Peng Information Ltd.	801	825
Rental income received/receivable from Yuexiu (China) Transport Infrastructure Investment Company Limited	8,483	6,969
Rental income received/receivable from 廣州越秀小額貸款有限公司	220	664
Rental income received/receivable from Beijing JLL	886	1,248
Rental income received/receivable from Chong Hing Shanghai	304	—
Rental income received/receivable from Chong Hing Guangzhou	2,916	3,807
Rental income received/receivable from Guangzhou Paper Group Ltd.	278	288

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Connected party transactions and significant related party transactions and balances (Continued)

(a) Transactions with connected/related companies (Continued)

	2016 RMB'000	2015 RMB'000
Rental income received/receivable from Guangzhou Building Materials Enterprise Group Co. Ltd.	278	288
Rental income received/receivable from Guang Zhou Titanium Dioxide Factory	278	288
Interest income received/receivable from GCCD	15,798	30,327
Trustee's fee paid/payable to the Trustee	(9,186)	(8,476)
Valuation fee paid/payable to the Valuer	(1,000)	(1,118)
Transactions with the HSBC Group		
- Interest expense paid/payable to the the HSBC Group	(6,007)	(7,025)
- Interest income received/receivable from the HSBC Group	1	—
Transactions with Chong Hing Guangzhou		
- Interest expense paid/payable to Chong Hing Guangzhou	<u>(2,812)</u>	<u>—</u>

Note:

- (i) All transactions with connected/related companies were carried out in accordance with the terms of the relevant agreements governing the transactions.
- (ii) The Manager's fee is calculated as the aggregate of a base fee of 0.3% per annum of the value of the deposited property, a service fee of 3% per annum of net property income and a transaction fee of 1% of the consideration for the acquisition of any real estate, as defined in the Trust Deed (Note 8).

(b) Balances with related companies

	2016 RMB'000	2015 RMB'000
Amount due from GCCD (i)	131,351	292,172
Amount due to Yicheng	(1,087)	(1,927)
Amount due to Baima BM	(1,100)	(1,037)
Amount due to the Manager	(69,580)	(60,426)
Amount due to GZAM	(1,674)	(1,536)
Amount due to Guangzhou City Construction and Development Group Co., Ltd.	(10,000)	(10,000)
Bank borrowing from Chong Hing Guangzhou	(400,000)	—
Rental deposits from related companies (ii)	<u>(20,875)</u>	<u>(33,201)</u>

Except for an amount due from GCCD of approximately RMB 125 million (2015: RMB278 million) which is unsecured, interest bearing at 9% per annum and repayable on settlement of the related construction fee payable, all other balances with related companies are unsecured, interest-free, repayable on demand and a reasonable approximation to their fair values. All the balances are denominated in RMB, except for the amount due to the Manager which is denominated in HK\$.

Note:

- (i) Pursuant to the settlement agency agreement entered into between GCCD and Tower Top, GCCD would be responsible for settling the outstanding construction costs related to the construction of Guangzhou IFC. On 7 May 2012, an initial amount of RMB1,293 million was transferred to GCCD by Tower Top. The receivable balance of RMB131 million (2015: RMB292 million) as at year end represents the initial amount transferred to GCCD less the settlement of construction payable. The remaining amount will be paid to GCCD when the receivable balance is less than or equal to RMB100 million.
- (ii) Rental deposits from related companies are included as rental deposits in the consolidated balance sheet.

(c) Key management compensation

There was no key management compensation for the year ended 31 December 2016 (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 Capital commitments

	2016 RMB'000	2015 RMB'000
Capital commitments in respect of property, plant and equipment and investment properties		
Contracted but not provided for	<u>31,258</u>	<u>45,937</u>

33 Future minimum rental receivable

The future minimum rental receivable under non-cancellable operating leases are as follows:

	2016 RMB'000	2015 RMB'000
Within one year	1,179,765	1,053,541
Between one year and five years	1,623,765	1,736,437
Over five years	<u>183,953</u>	<u>241,282</u>
	<u>2,987,483</u>	<u>3,031,260</u>

By order of the board of directors of
Yuexiu REIT Asset Management Limited
 (as manager of Yuexiu Real Estate Investment Trust)
LIN Zhaoyuan
Chairman

Hong Kong, 14 February 2017

As at the date of this announcement, the board of directors of the Manager is comprised as follows:

<i>Executive Directors:</i>	<i>Messrs. LIN Deliang and CHENG Jiuzhou</i>
<i>Non-executive Directors:</i>	<i>Messrs. LIN Zhaoyuan (Chairman) and LI Feng</i>
<i>Independent Non-executive Directors:</i>	<i>Messrs. CHAN Chi On, Derek, CHAN Chi Fai, Brian CHEUNG Yuk Tong and CHEN Xiaoou</i>