联想控股

LEGEND HOLDINGS

BUILDING GREAT COMPANIES

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 3396

2016 Annual Report

Cover Design

“Two-Wheel-Drive Business Model”
Strategic Investments + Financial Investments

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DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meanings set forth below:

"ABS"	asset securitization, a kind of tradable security based on basic assets (specific asset portfolio or cash flows), which is issued in the form of similar bonds
"associate(s)"	for the purpose of this report, all entities over which the Group has significant influence. Significant influence represents the power to participate in the financial and operational policy decision of the investees, but without control or joint control rights over these policies
"Board"	board of directors of the Company
"Bybo Dental"	Bybo Dental Group Co., Ltd. (拜博醫療集團有限公司) (formerly known as Guangdong Bybo Dental Investment Management Co., Ltd. (廣州拜博口腔醫療投資管理有限公司)), a limited liability company incorporated on June 30, 1999 under the laws of the PRC, and our subsidiary
"CAR"	CAR Inc., an exempted company incorporated in the Cayman Islands on April 25, 2014 with limited liability and listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 699), and our associate
"Cloud Farm"	Beijing Tianchen Cloud Farm Corporation (北京天辰雲農場科技股份有限公司), an associate of Joyvio Group
"Company", "our Company" or "Legend Holdings"	Legend Holdings Corporation (聯想控股股份有限公司) (formerly known as "Chinese Academy of Sciences Computer Technology Research Institute New Technology Development Company" (中國科學院計算技術研究所新技術發展公司), "Beijing Legend Computer New Technology Development Company" (北京聯想計算機新技術發展公司), "Legend Group Holdings Company" (聯想集團控股公司) and "Legend Holdings Limited" (聯想控股有限公司), a joint stock limited liability company incorporated on February 18, 2014 under the laws of PRC and listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 3396)
"DMTO"	the technique for using coal or natural gas instead of oil for production of ethylene and propene
"Domestic Shares"	ordinary shares issued by our Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in RMB
"eloancn.com"	Beijing Tongcheng Eloancn Network Co., Ltd. (北京同城翼龍網絡科技有限公司), a limited liability company incorporated on April 12, 2005 under the laws of the PRC, and our associate
"EUR"	Euro, the official currency of the Eurozone which consists of certain state members of the European Union
"EVA"	ethylene-vinylacetate copolymer
"Funglian Group"	Funglian Holdings Co., Ltd. (豐聯酒業控股集團有限公司), a limited liability company incorporated on July 16, 2012 under the laws of the PRC, and our subsidiary
"Golden Wing Mau"	Golden Wing Mau Agricultural Produce Corporation (深圳市鑫榮懋農產品股份有限公司), a large fruit supply chain enterprise in China, an associate of Joyvio Group

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"Group", "our", "we" or "us"	our Company and all of its subsidiaries, or any one of them as the context may require or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries, or any one of them as the context may require, were or was engaged in and which were subsequently assumed by it
"Guozhuang Mining"	Tengzhou Guozhuang Mining Co., Ltd. (滕州郭莊礦業有限責任公司), a subsidiary of Levima Group
"H Share(s)"	overseas listed foreign shares in our ordinary share capital with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
"Hankou Bank"	Hankou Bank Co., Ltd. (漢口銀行股份有限公司), a joint stock limited liability company incorporated on December 15, 1997 under the laws of the PRC, and our associate
"HKD"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administration Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hony Capital" or "Hony"	a series of private equity investment funds, together with their respective management companies/general partner
"International Underwriters"	the group of international underwriters, led by the Joint Global Coordinators, that has entered into an international underwriting agreement
"Internet"	a global network of interconnected, separately administered public and private computer networks that uses the Transmission Control Protocol/ Internet Protocol for communications
"Internet Protocol"	an agreed set of rules, procedures and formats by which information is exchanged over the Internet
"IT"	information technology
"JC Finance & Leasing"	JC International Finance & Leasing Company Limited (君創國際融資租賃有限公司), a limited liability company incorporated on November 2, 2015 under the laws of the PRC, and our wholly-owned subsidiary
"Joint Global Coordinators"	China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司), UBS AG, Hong Kong Branch, Goldman Sachs (Asia) L.L.C. and Morgan Stanley Asia Limited
"Joyvio Group" or "Joyvio"	Joyvio Group Co., Ltd. (佳沃集團有限公司), a limited liability company incorporated on May 18, 2012 under the laws of the PRC, and our wholly-owned subsidiary
"Kaola Technology"	Tibet Kaola Science & Technology Development Co., Ltd. (西藏考拉科技發展有限公司), a limited liability company incorporated under the laws of the PRC, and our subsidiary

DEFINITIONS

"KB Food"	KB Food International Holding (Pte.) Limited, a limited liability company established under the laws of Singapore, and our subsidiary
"KB Seafoods"	KB Seafoods Pty Ltd (formerly known as Emgekay Investments Pty Ltd), a limited liability company incorporated under the laws of Australia, and a wholly-owned subsidiary of KB Food
"Lakala Payment"	Lakala Payment Corporation (拉卡拉支付股份有限公司) (formerly known as Lakala Payment Co., Ltd. (拉卡拉支付有限公司)), a limited liability company incorporated on January 6, 2005 under the laws of the PRC, and our associate
"Legend Capital"	a series of venture capital funds, together with their respective management companies/partners
"Legend Star"	Beijing Legend Star Investment Management Limited (北京聯想之星投資管理有限公司), a wholly-owned subsidiary of the Company which is an investment institution and manages certain angel investment funds
"Lenovo"	Lenovo Group Limited (聯想集團有限公司), a limited liability company incorporated on October 5, 1993 under the laws of Hong Kong and listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 992), and our subsidiary
"Levima Group" or "Levima"	Levima Group Limited (聯泓集團有限公司), a limited liability company incorporated on April 12, 2012 under the laws of the PRC, and our subsidiary
"Levima New Materials"	Levima New Materials Limited (聯泓新材料有限公司) (formerly known as Shandong Shenda Chemicals Co., Ltd. (山東神達化工有限公司)), a subsidiary of Levima Group
"Liquor Easy"	Henan Liquor Easy Commercial Corporation (河南酒便利商業股份有限公司), a limited liability company incorporated on April 2, 2010 under the laws of the PRC, and our associate
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Longguan Company"	Hangzhou Longguan Industrial Co., Ltd. (杭州龍冠實業有限公司), a limited liability company incorporated under the laws of the PRC, and a subsidiary of Joyvio Group
"Motorola"	Motorola Mobility Holdings LLC, a limited company incorporated in the State of Delaware, USA and a wholly-owned subsidiary of Lenovo and, where the context requires, its relevant subsidiaries or affiliates or the brand name under which their products are marketed
"N/A"	not applicable
"NEEQS"	National Equities Exchange and Quotations System (全國中小企業股份轉讓系統), a platform established on September 20, 2012 for the sale of existing shares or private placing of new shares by SMEs

DEFINITIONS

"neurology specialist"	the collective term of the clinical discipline studying organic and functional diseases of central nervous system (brain, spinal cord). Clinically, the correspondent branch is neurosurgery and neurology depending on the types of disease and treatment methods
"P2P"	peer-to-peer, a type of loan business
"PE"	private equity
"Phylion Battery"	Phylion Battery Co., Ltd. (星恒電源股份有限公司), a limited liability company incorporated on December 18, 2003 under the laws of the PRC, and our associate
"PIPE"	Private Investment in Public Equity
"PRC" or "China"	the People's Republic of China excluding, for the purpose of this report, Hong Kong, Macau and Taiwan
"Prospectus"	the prospectus dated June 16, 2015 being issued in connection with first listing of the shares of the Company on the Hong Kong Stock Exchange
"Qilerong"	the Internet finance strategic platform of Zhengqi Financial
"Raycom Property"	Raycom Property Investment Co., Ltd. (融科物業投資有限公司), a limited liability company incorporated on July 10, 2006 under the laws of the PRC, and our wholly-owned subsidiary
"Raycom Real Estate"	Raycom Real Estate Development Co., Ltd. (融科智地房地產股份有限公司), a joint stock limited liability company incorporated on June 11, 2001 under the laws of the PRC, and our subsidiary
"reporting period"	for the year ended December 31, 2016
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Shanghai Neuromedical Center"	Shanghai Neuromedical Center Co., Ltd. (上海德濟醫院有限公司), a limited liability company incorporated on May 15, 2012 under the laws of the PRC, and our subsidiary
"Shareholders"	holders of the shares of the Company
"SME(s)"	small and medium-sized enterprise(s)
"Social Touch"	Social Touch (Beijing) Technology Development Co., Ltd. (時趣互動(北京)科技有限公司), a limited liability company incorporated on September 22, 2011 under the laws of the PRC, and our associate
"SOE"	State-owned enterprise
"subsidiary"	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

"Sunac China"	Sunac China Holdings Limited, a limited liability company incorporated under the laws of Cayman Islands and the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 1918)
"Sunac Real Estate"	Sunac Real Estate Group Co., Ltd. (融創房地產集團有限公司), a limited liability company established in the PRC, and an indirect wholly-owned subsidiary of Sunac China
"Suzhou Trust"	Suzhou Trust Co., Ltd. (蘇州信託有限公司), a limited liability company incorporated on September 18, 2002 under the laws of the PRC, and our associate
"Target Company(ies)"	the target company(ies) referred in the circular dated November 1, 2016 of the Company
"TMT"	technology, media, telecom
"Transmission Control Protocol"	an agreed set of rules, procedures and formats used along with the Internet Protocol to transmit information over the Internet
"UCAR Inc."	UCAR Inc. (神州優車股份有限公司), a company incorporated under the PRC law with limited liability and listed on the NEEQS in 2016, and is held as to 7.42% equity interests by CAR
"Union Insurance"	Union Insurance Broker Group Co., Ltd. (聯保投資集團有限公司), a limited liability company incorporated on September 5, 2012 under the laws of the PRC, and our associate
"USA"	The United States of America
"USD"	US dollar, the lawful currency of the USA
"Wanfu Biotechnology"	Wanfu Shengke (Hunan) Agriculture Development Company Limited (萬福生科(湖南)農業開發股份有限公司) a limited liability company incorporated under the laws of the PRC, the shares of which are listed on Shenzhen's ChiNext board (A share Stock Code: 300268), and is held as to 26.57% equity interests by Joyvio Group
"Wenkang Group"	Wenkang Group Co., Ltd. (聞康集團股份有限公司), and our associate
"XYWY.COM"	an online platform to provide one-stop Internet healthcare services which is operated by Wenkang Group
"Zeny Supply Chain"	Zeny Supply Chain Co., Ltd. (增益供應鏈有限公司), a limited liability company incorporated on July 24, 2012 under the laws of the PRC, and our subsidiary
"Zhengqi Financial"	Zhengqi Anhui Financial Holdings Co., Ltd. (正奇安徽金融控股有限公司), a limited liability company incorporated on October 10, 2012 under the laws of the PRC, and our subsidiary
"Zhongyin Electrochemical"	Jining Zhongyin Electrochemical Co., Ltd. (濟寧中銀電化有限公司)
"%"	percentage

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. LIU Chuanzhi
Mr. ZHU Linan
Mr. ZHAO John Huan

Non-executive Directors
Mr. WU Lebin
Mr. WANG Jin
Mr. LU Zhiqiang

Independent Non-executive Directors
Mr. MA Weihua
Mr. ZHANG Xuebing
Ms. HAO Quan

BOARD OF SUPERVISORS

Supervisors
Mr. LI Qin *(Chairman)*
Mr. SUO Jishuan
Mr. QI Zixin

NOMINATION COMMITTEE

Mr. LIU Chuanzhi *(Chairman)*
Mr. MA Weihua
Mr. ZHANG Xuebing

AUDIT COMMITTEE

Ms. HAO Quan *(Chairperson)*
Mr. ZHANG Xuebing
Mr. WANG Jin

REMUNERATION COMMITTEE

Mr. MA Weihua *(Chairman)*
Mr. LU Zhiqiang
Ms. HAO Quan

JOINT COMPANY SECRETARIES

Mr. NING Min
Ms. YEUNG Yee Har

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISOR

Somerley Capital Limited

REGISTERED OFFICE

Room 1701, 17/F,
Block 1, Court No. 2, Ke Xue Yuan Nanlu
Haidian District
Beijing
PRC

HEAD OFFICE IN THE PRC

Room 1701, 17/F,
Block 1, Court No. 2, Ke Xue Yuan Nanlu
Haidian District
Beijing
PRC

PRINCIPAL BANKS

China Construction Bank, Beijing Zhongguancun Branch
Bank of China, Beijing Branch
Agricultural Bank of China, Head Office
Industrial and Commercial Bank of China, Beijing Branch

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

27/F, One Exchange Square, Central, Hong Kong

COMPANY'S WEBSITE

www.legendholdings.com.cn

CHAIRMAN'S REPORT

Dear Shareholders of Legend Holdings,

In 2016, changes in political and economic conditions across the globe brought uncertainties to the domestic policy development, macroeconomic adjustment as well as system innovation and business models innovation. However, in terms of the development of Chinese economy over the past 30 years, private capital can always capture growth opportunities under uncertainties.

Private capital is an important driver of productivity. The development of private capital not only creates job opportunities and contributes tax income, but also promotes the industrialization of technological achievements and innovations to business models, which pushed forward the sustained and rapid development of the real economy. As a diversified investment holding company, Legend Holdings developed a unique business model

CHAIRMAN'S REPORT

driven by both strategic investments and financial investments. Starting from exploring financial investments including venture capital and private equity which continuously generated fruitful returns, Legend Holdings further focused on strategic investments in sectors such as financial services, innovative consumption and services as well as agriculture and food. With financial investments run first, we keep on rewarding investors with positive returns while continuously taking advantages of the industry experience, investment opportunities and funds arising therefrom for our strategic investments. Our strategic investments have always been focused on industrial sectors which are in line with the upgrade of consumption and are actively encouraged by the government. Based on the two-wheel-drive model, we will continue to build leading enterprises in different industries by leveraging the capital market whilst creating value for shareholders. Spinning off and public listing of our portfolio companies will be an important channel for us to realize the value of our strategic investments in the future.

For 2016, I concur with the Board that the strategy formulated by the management is clear enough and the overall strategy is implemented at a solid pace. The management of Legend Holdings, which is led by Mr. Zhu Linan, has demonstrated strong execution capability in terms of the implementation of the strategy, such as the disposal of property development business as well as overseas investments in financial services and agriculture and food sectors. Furthermore, with the proactive control and adjustment by the management team, there are several individual businesses within strategic investments meeting listing requirements. One of the important responsibilities of the Board is to ensure both the development of the correct strategy and the consistent implementation and direction by the management. While the development of the Company is moving forward, the Board is also planning the next step in an iterative manner.

On the basis of business development, Legend Holdings also attaches great importance to corporate social responsibilities. We performed corporate social responsibilities by subsidizing the operation of schools in poverty areas as well as establishing and making donation to social charity funds, and we will continue to do so in the future.

Last but not least, I would like to express my gratitude to our shareholders for their long-term trust and support to the Company.

Legend Holdings Corporation
LIU Chuanzhi
Chairman

PRESIDENT'S STATEMENT

We once mentioned the word "uncertainty" in early 2016, but few expected that there came up so many "unexpected" events in international politics, macro-economy and financial markets throughout 2016. However, we are delighted to see that even though there were various changes, the overall environment still developed towards the positive direction: stabilization of China's economy, positive sentiments on domestic and overseas capital markets, and improvements on regulatory system in financial markets, which provided stable environment and solid support for the development of enterprises. Despite changes in external environment, Legend Holdings focused on strengthening our value basis over the past year. On one hand, we made timely optimizations and adjustments to our investment portfolio in accordance with our strategies, and promoted post-investment management and value-added services; on the other hand, we positioned in China, and eyed for the world, deepened industry research, operation optimization, and project sourcing to capture new opportunities with deliberate insight and comprehensive consideration. We believe this will accumulate solid momentum for the long-term development of Legend Holdings.

Through efforts of the team in 2016, Legend Holdings achieved continued growth. In 2016, the net profit attributable to equity holders of the Company amounted to RMB4,859 million, representing an increase of 4.3% as compared with the corresponding period of last year, with earnings per share at RMB2.06; the net profit in continuing operations attributable to equity holders of the Company amounted to RMB4,852 million, representing an increase of 10.5% as compared with the corresponding period of last year. In particular, our strategic investments recorded strong growth with more than RMB3 billion increase in the net profit attributable to equity holders of the Company. Despite market fluctuations, the net profit attributable to equity holders of the Company from financial investments sector still amounted to RMB2,901 million.

Our strategic investment segments recorded outstanding performance and have achieved pre-set strategy objectives: IT sector turned around to be profitable during the reporting period; financial services segment recorded robust revenue and profit growth; innovative consumption and services business scale continued to grow; agriculture and food business was more comprehensive; new materials segment entered the profitable growth track; meanwhile, we made breakthroughs in overseas investment in financial services sector and agriculture and food sector.

PRESIDENT'S STATEMENT

We have made detailed definition and explanation on our strategic investments and financial investments. What we would like to emphasize repeatedly is that the most unique business model and advantage of Legend Holdings lies in the synergies between these two wheels. Persisting and reinforcing our unique two-wheel-drive business model in the long term, we progressed along with our established strategic directions in the medium and short term, which are to deepen strategical research, to allocate resources efficiently, and to continuously optimize investment portfolio; to focus on three sectors and overseas within strategic investments, and to cultivate high quality assets and new pillar businesses; and to strengthen value-added services and capital operations, and to improve assets value and capital returns effectively. The team has achieved satisfactory results in execution level in 2016.

- **Business sectors were further focused, investment portfolio was timely optimized.** Our new strategic investments fully focused on three major sectors, namely financial services, innovative consumption and services, as well as agriculture and food, with significant growth in individual project size and total investment size. Meanwhile, we actively explored cross-border investments to elevated allocation of oversea assets in the portfolio.

  1) Newly invested strategic assets focused on three major sectors: In 2016, we completed the founding of Kaola Technology (invested capital of RMB1.34 billion), and achieved the controlling position to its innovative financial business through spin-offs of Lakala; increased capital of JC Finance & Leasing (registered capital increased by RMB500 million to RMB1.5 billion); strategically invested in Shanghai Neuromedical Center (investment size of RMB237 million); capital injection of RMB3.3 billion to Joyvio Group to support its future investment and business development; made positive exploration of cross-border investments through investment in UK bulk annuity company Pension Insurance Corporation (investment size of GBP110 million) and controlling KB Seafoods, the Australian seafood enterprise (investment size of AUD203 million).

  2) In September 2016, we successfully divested our property development business. This decision was based on our judgements of the industry and the company, and more important, considerations on our strategy and resource allocation, and the proceeds from the transaction will be used in the adjustment of Legend Holdings' capital structure and reserve for future investments in strategically focused areas.

- **Post-investment management and services were deepened to boost the development of business fundamentals.** In the year of 2016, we further deepened management and services on corporate governance, strategic planning, operational improvement and organization scheme and other aspects, and improvements were effectively reflected in invested enterprises' performance.

  1) We improved its capital structure through debt-to-equity swap of Levima Group so as to provide a solid financial foundation for its independent development. We helped Levima to focus on new materials of fine chemicals business through assets disposal of Zhongyin Electrochemical and Guozhuang Mining. Legend Holdings will also support enrichment of Levima's product structure, development of market competitive advantage as well as introduction of high-quality strategic resources. The new materials business of Levima Group turned around as expected through continuous improvement in operation management level and the successful marketing of new products.

PRESIDENT'S STATEMENT

2) We undertook the transformation of Joyvio Group into the investment holding platform of our agriculture and food sector through professional investment and operation under independent corporate scheme. In 2016, we have injected Funglian Group and others assets into Joyvio Group, and the remaining assets of the sector will be injected gradually. The relatively independent subsidiary operating structure after reconstruction will greatly promote synergies and efficiency of the sector's industrial chains in the future. During the reporting period, Joyvio Group turned around to be profitable resulting from effective adjustment and management.

3) We made significant adjustments to the business direction of Zeny Supply Chain to promote its focus on the integrated cold chain operations, and helped it to further explore the light asset business model. With improved revenue level of projects through fine-tuned operations during the reporting period, the losses in Zeny Supply Chain were significantly narrowed.

- **Capital operation was more emphasized to elevate explicit corporate value.** While paying attention to fundamentals of portfolio companies, we encouraged and helped them to introduce new resources required for their developments through follow-on financing, spin-offs, public listing and other means of capital operations. It could also elevate the explicit value of our investment portfolio, and present a clearer valuation of Legend Holdings to the market.

1) On December 28, 2016, Zhengqi Financial introduced two strategic investors, with the total investment size of RMB801 million, and a post-investment valuation of RMB9.3 billion. In the future, Zhengqi Financial will consolidate diversified strategic resources to further explore layout of new business and regions, striving to become a benchmarking enterprise in SME oriented financial industry.

2) In 2016, the original Lakala Group completed spin-offs of payment business and financial business, among which the financial business named Kaola Technology became a subsidiary of Legend Holdings. With the independent development of Lakala's third-party payment business and innovative financial business on different platforms, it has greatly strengthened its focus on the development of each business unit and the overall value was elevated.

3) The successful listing of Liquor Easy on NEEQS, and Joyvio Group becoming the effective controller of ChiNext listed company Wanfu Biotechnology, laid the foundation for business development and value growth of our agriculture and food business. Phylion Battery also completed its F-round of financing successfully with a post-investment valuation of RMB1.5 billion.

- **The financial investment platforms provided continuous cash inflow, and new funds raising was carried forward smoothly.** Despite challenges of market volatility, the financial investments sector continued to significantly contribute to profits and cash flow of Legend Holdings during the reporting period. The net profit attributable to equity holders of the Company from financial investments sector amounted to RMB2,901 million during the reporting period. Although there will always be volatility in the fair value of financial investment platforms due to overall performance of domestic and overseas capital markets, their continuous cash inflow will always be an important capital source for Legend Holdings. In the year of 2016, the cash inflow provided by our venture capital platform Legend Capital and private equity investment platform Hony Capital was about RMB1.4 billion in total. In addition, the AUM of Legend Capital and Hony Capital was further expanded: during the year, Legend Capital newly raised two RMB funds and one USD fund, raising approximately RMB7.44 billion in total, while Hony Capital completed the raising of its eighth fund, raising USD2.2 billion in total, and its raising of the real estate fund is also smoothly underway with RMB1.75 billion committed already.

PRESIDENT'S STATEMENT

Looking back the year of 2016, Legend Holdings pushed forward execution according to our strategic targets, and has achieved certain positive outcomes in both new investments and post-investment management. However, we are fully aware that the uncertainty of the external environment still exists and will last for a long time and we also need to evaluate the invested companies from the perspectives of value, profits, cash flow, capital structure, and investment return, etc., to optimize and elevate investment portfolio through continuously dynamic adjustments.

During 2016, the management reconsidered and adjusted strategic goals and directions for the five-year strategic period from 2016 to 2020 of Legend Holdings. Looking forward, the unique two-wheel-drive business model of Legend Holdings will continue to fuel value growth. We will strengthen synergistic interactions between strategic investments and financial investments from mechanism and execution level, further developing its strong multi-level synergy in business alignment, funding support and resource sharing, which we believe to be the key to expand our capability of value creation. In comprehensive consideration from perspectives of capital structure, business layout and risk dispersion, we strive to develop new pillar businesses which is crucial for the stability of business development and growth of portfolio value of Legend Holdings. We will endeavor to meet this target in three major strategic sectors, namely financial services, innovative consumption and services, and agriculture and food with both home and abroad in view. Meanwhile, Legend Holdings will continuously realize value growth and more explicit value by helping invested companies to carry out various capital operations, including follow-on financing, merger and acquisition, spin-off and public listing, etc. Such actions can contribute to forming a clearer valuation on the portfolio value of Legend Holdings by capital markets. This is also, in my opinion, one of the responsibilities of Legend Holdings as a listed company to shareholders.

The further clarification of strategic goals and directions also set higher requirements to our managements and team. "People-oriented" is one of the cultures of Legend Holdings, and we believe that people, as capitals, are the important foundation of the Company's long-term development. Therefore, in 2016, the management authorized by the board of directors, awarded medium and long-term incentives to core employees of the Company with restricted shares, and will make comprehensive assessment on individual performance and potential development during the strategic period. "People-oriented" is a two-way commitment, and we believe that the implementation of the medium and long-term incentives will further stimulate the staff's sense of ownership and the long-term commitment to the Company, and will also bind personal interests with corporate interests closely for the long term, making them to devote themselves to the value creation of Legend Holdings.

Legend Holdings will, as always, pursue value creation as our due responsibility and with clear strategic goals and directions, continue to leverage and enhance the two-wheel-drive business model and our cutting edge in value enhancement, in order to reward our shareholders with positive returns from an ever-growing business and enhanced value in the medium and long run.

Legend Holdings Corporation
ZHU Linan
Executive Director and President

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue contribution from the Group's businesses

Unit: RMB million

	2016	2015	Change in amount	Change %
Continuing operations	294,746	299,542	(4,796)	(2%)
Strategic investments	294,234	299,133	(4,899)	(2%)
IT	282,551	293,255	(10,704)	(4%)
Financial services	1,583	905	678	75%
Innovative consumption and services	2,132	1,495	637	43%
Agriculture and food	3,266	1,639	1,627	99%
New materials	4,702	1,839	2,863	156%
Financial investments	539	418	121	29%
Elimination	(27)	(9)	(18)	N/A
Discontinued operations	12,207	10,284	1,923	19%
Total	306,953	309,826	(2,873)	(1%)

Net profit contribution attributable to equity holders of the Company from the Group's businesses

Unit: RMB million

	2016	2015	Change in amount	Change %
Continuing operations	4,852	4,391	461	10%
Strategic investments	2,692	(327)	3,019	N/A
IT	1,335	(476)	1,811	N/A
Financial services	1,536	960	576	60%
Innovative consumption and services	(390)	(236)	(154)	N/A
Agriculture and food	70	138	(68)	(49%)
New materials	141	(713)	854	N/A
Financial investments	2,901	5,510	(2,609)	(47%)
Unallocated	(741)	(792)	51	N/A
Discontinued operations	7	268	(261)	(97%)
Total	4,859	4,659	200	4%

Asset allocation of businesses of the Group

Unit: RMB million

	2016	2015	Change in amount	Change %
Continuing operations	322,259	277,979	44,280	16%
Strategic investments	242,656	206,441	36,215	18%
IT	180,179	168,137	12,042	7%
Financial services	37,127	16,615	20,512	123%
Innovative consumption and services	8,727	7,657	1,070	14%
Agriculture and food	7,815	4,321	3,494	81%
New materials	8,808	9,711	(903)	(9%)
Financial investments	70,585	62,995	7,590	12%
Unallocated	15,822	20,149	(4,327)	(21%)
Elimination	(6,804)	(11,606)	4,802	N/A
Discontinued operations	–	41,071	(41,071)	(100%)
Elimination	–	(12,807)	12,807	N/A
Total	322,259	306,243	16,016	5%

Business Review

For the twelve months ended December 31, 2016, Legend Holdings realized revenue of RMB306.953 billion, representing a decrease of 1% as compared with the corresponding period of last year, net profit attributable to equity holders of the Company amounting to RMB4,859 million, representing an increase of 4% as compared with the corresponding period of last year, net profit from continuing operations attributable to equity holders of the Company amounting to RMB4,852 million, representing an increase of 10% as compared with the corresponding period of last year. The decrease in revenue was mainly due to the revenue decline in our IT segment. The main reasons for the increase in net profit attributable to equity holders of the Company include: 1) the loss incurred from the restructuring costs and one-time charges as a result of the integration of Motorola business by Lenovo during 2015 and no such expense is recorded during the reporting period; 2) business of the financial services segment grew rapidly, leading to a significant increase of 60% in terms of net profit attributable to equity holders of the Company; 3) new materials segment made a provision for asset impairment of Zhongyin Electrochemical and Guozhuang Mining during 2015 and no such expense is recorded during the reporting period. With the strong growth in operating results, the new materials segment achieved a turnaround to profitability.

During the reporting period, our business segments and financial reporting segments underwent relatively significant changes: the property segment was no longer included in the strategic investments business, whereas the property development business was accounted for as a discontinued operation. Investment properties under the original property segment, namely Raycom Info Tech Park Tower A, Tower B and Tower C, a premium office building located in Beijing's Zhongguancun area, had been transferred to the financial investments segment. The comparative figures for the corresponding period in 2015 had been adjusted retrospectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Strategic Investment

IT

We are engaged in IT business through our subsidiary Lenovo. Lenovo is a Fortune 500 company which develops, manufactures and sells high-end technology products and provides related services to the consumers and corporate customers. As of December 31, 2016, we held 31.48% equity interests in Lenovo.

In 2016, the macro-economy and global markets remained challenging. In addition, component supply constraints across the industries where Lenovo operates impacted corporate performance. Nevertheless, Lenovo continued to deliver solid performance in its PC and Smart Device (PCSD) business, while transforming its mobile and data center businesses. Lenovo remained number one in PCs with record high market share and demonstrated strong growth in fast growing segments including gaming and detachable PC. This brought Lenovo's PCSD business a turnaround to a positive year-on-year revenue growth while maintaining a stable margin. Lenovo's mobile business was driven by key markets outside of China while transforming its China business. For the data center business, with new leadership in place, Lenovo is focused on putting the transformation into practice to build and revamp its long-term competitiveness.

During the reporting period, the revenue and net profit/(loss) of the IT segment are set out as follows:

Unit: RMB million

	2016	2015
Revenue	282,551	293,255
Net profit/(loss)	4,186	(1,330)
Net profit/(loss) attributable to equity holders of Legend Holdings	1,335	(476)

During the reporting period, the revenue of IT segment fell 3.7% to RMB282,551 million; benefiting from its enhanced product portfolio, the better expense control, and the one-time items including the gain on property disposal and restructuring charges during the year, the net profit significantly increased to RMB4,186 million. We recorded a loss of RMB1,330 million in our IT segment last year, which is mainly due to restructuring costs of approximately RMB3,728 million and one-time charges (including additional spending for smartphone stock clearance and inventories written off) of approximately RMB2,017 million.

MANAGEMENT DISCUSSION AND ANALYSIS

PC and Smart Device Business Group (PCSD)

During 2016, despite the ongoing macro-economic and currency volatility, the global PC industry continued to see a gradually stabilizing trend, along with supply constraint in key components. Despite the market challenges, Lenovo continued to outperform the PC market through solid execution of its strategy, and focused innovation for fast growing product segments, reached record-high global market share and further consolidated its top market position.

Lenovo's market share continued to increase, and its worldwide PC market share reached another record-high level of 22.4% in the fourth quarter of 2016, an increase of 0.8% year-on-year, according to preliminary industry estimates. Lenovo commercial PC unit's market share in the worldwide commercial PC market has increased by 0.8% year-on-year to 24.7%. Lenovo consumer PC unit's market share was up 0.6% year-on-year to hit 20.0%.

Besides, Lenovo drove a double-digit growth in gaming and detachable PC segments, thus resumed positive revenue growth year-on-year for its PCSD business in the fourth quarter of 2016, as the first turnaround from the decline trend in the past seven quarters, while remaining its top position in the aggregate PC and PC plus Tablet market.

Lenovo will maintain leadership and strong profitability in the core PC business through leveraging industry integration, while driving growth by launching more innovative products, and focusing on fast growing segments and vertical markets.

Mobile Business Group (MBG)

In 2016, Lenovo conducted the strategic shift in its mobile business, showing signs of positive momentum, which was driven by solid performance in ROW (rest of the world/outside China) market, along with the transformation of its China business.

Despite the supply constraint in key components in the industry, Lenovo's mobile business in ROW continues to show solid growth, with particularly strong growth in EMEA (Europe-Middle East-Africa) and Latin America. Lenovo's innovative new products such as Moto Z, Moto Mods, and the new generation of Moto G, continued to receive encouraging customer response and the activation rates have been increasing. Lenovo will extend its foothold in the smartphone market outside China by leveraging its innovative new product portfolios, global carrier relationships, broader channel coverage and stronger consumer brand. In China, Lenovo recorded a decline in revenue as a result of adopting its strategy in focusing on higher price-band product portfolio. As part of its strategy in rebuilding the business, it will continue to enhance its product competitiveness as well as to invest in building its open market distribution channel. Lenovo's worldwide smartphone market share was 3.5 percent as of the fourth quarter of 2016, representing a decrease of 1.6% year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS

Data Center Business Group (DCG)

In 2016, Lenovo was still executing its transformation plan of the data center business, the new business leader has been on board in fourth quarter while actions previously taken will take time to show effect. Nevertheless, the business has started seeing early signs of stabilization, especially in key markets outside of China. Lenovo's data center business in both North and Latin America, and EMEA demonstrated that its business model transition and sales coverage adjustments are taking effect. In China, Lenovo has also kick-started transformation exercises to refine its hyperscale business model to strike a balance between growth and profitability.

Looking ahead, Lenovo will develop new sales channel programs with more direct sales coverage and a dedicated field sales force globally. It is leveraging its excellence in the supply chain, product quality and operating efficiency to ensure successful product launches. It also will focus on increasing its attach rate in networking, storage and services to enhance its profit level. These transformation strategies may require time to be effective.

Lenovo Capital and Incubator Group (LCIG) and Others

In 2016, Lenovo Capital and Incubator Group began during the reporting period with a mission to drive innovation through investment in start-ups and exploring new technologies. Lenovo continues to invest in several new smart devices developers and obtained great recognition from the venture capital industry in 2016.

Lenovo will continue to develop new smart devices, powered by cloud and enriched with services. It is exploring smart home, smart office, smart healthcare and other areas, as well as leveraging artificial intelligence, AR, VR and other new technologies.

Looking forward, market conditions may remain challenging due to the uncertainties in the macroeconomic environment, while constraints in supplies of key components in the industry may increase costs and continue to bring challenges to the business environment, Lenovo will execute its strategies diligently to drive sustainable profitable growth over time. The efficient organization structure, coupled with the competitive cost structure across all of its businesses, together with its solid execution, will ensure the realization of Lenovo's vision and strategy. Lenovo is investing to drive long-term profitable growth that, in turn, creates better value for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Services

Overview

We conduct financial services business mainly through diversified subsidiaries and associates:

- Zhengqi Financial, our subsidiary, mainly provides SMEs with comprehensive financial solutions such as direct loans, financial leasing, commercial factoring and equity investments;
- JC Finance & Leasing, our wholly-owned subsidiary, mainly provides financial leasing services;
- Kaola Technology, our subsidiary, mainly provides innovative financial services;
- Lakala Payment, our associate, mainly provides third-party payment and value-added services;
- Hankou Bank, our associate, mainly engages in commercial banking services;
- Union Insurance, our associate, mainly provides insurance brokerage and related services;
- Eloancn.com, our associate, mainly engages in internet financial services; and
- Suzhou Trust, our associate, mainly engages in the trust business.

Legend Holdings has established a broad presence in the financial services business. Our subsidiaries and associates have obtained various financial licenses and permits. Legend Holdings will facilitate the long-term development of our portfolio companies in the financial industry with all-round supports. Based on a large pool of our portfolio companies and customer resources, we promote synergic development of our financial businesses, including business alignment and consolidation, intelligence sharing and big data analysis etc. for the enhancement of overall competitiveness.

In the meantime, we carry out in-depth studies of the impact of China's economic restructuring on financial institutions and business presence, and pay attention to portfolio companies' risks of development strategies, credit risks, operation risks and investment risks etc. so as to help them perfect the risk management system and enhance their overall risk management capacity.

Based on our industrial resources and technology advantages, Legend Holdings will on one hand strengthen our current edge in credit loan related business, and on the other hand keep close attention and invest in other financial services business both at home and abroad, mainly focusing on insurance, banking, and Fintech, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the revenue and net profit of the financial services segment are set out as follows:

Unit: RMB million

	2016	2015
Revenue	1,583	905
Net profit	1,613	1,013
Net profit attributable to equity holders of Legend Holdings	1,536	960

During the reporting period, revenue of Legend Holdings' financial services business segment was RMB1,583 million, representing an increase of approximately 75% as compared with RMB905 million in the corresponding period of last year. This is mainly due to greater contributions from financial leasing business and loan business. The net profit of financial services business segment increased from RMB1,013 million in the corresponding period of last year to RMB1,613 million, representing a growth of 59%, mainly due to profit growth of the financial leasing business, loan business and investment business of financial services segment.

Zhengqi Financial

Zhengqi Financial was established in 2012. As of December 31, 2016, we held 90.3% equity interests in Zhengqi Financial. In 2016, Zhengqi Financial further expanded its market share and established branches in Shanghai, Beijing and Wuhan. Currently, through its nine major business lines consisting of micro finance, credit guarantees, pawn loans, financial leasing, commercial factoring, equity investments, asset management, capital markets business and P2P internet finance, Zhengqi Financial provides customized funding solutions and convenient and flexible financial services to SMEs. During the reporting period, Zhengqi Financial further expanded its business and achieved rapid growth in scale. Zhengqi Financial focuses on recognizing the needs and value of its clients, providing overall funding solutions including short and long term debts, mezzanine investments or equity investments, through active configuration of its nine major business lines. It also provides comprehensive financial services such as management consulting, financial advisory, M&A and restructuring solutions. During the reporting period, Zhengqi Financial helped various high quality clients to conduct industrial M&A, pre-IPO financial enhancement, disposal of distressed assets and other businesses through overall solutions, contributing rapid equity value gain for Zhengqi Financial. In similar cases, Zhengqi Financial also invested in other high quality existing clients sourcing from debt business which are now planning to be listed. Looking forward, this unique business model is expected to become another important source of profit aside from Zhengqi Financial's conventional loan business.

Zhengqi Financial has continued to expand its loan business and has consistently optimized its business structure. As of December 31, 2016, its loan balance amounted to RMB5,408 million, representing an increase of RMB734 million or 16% as compared to RMB4,674 million at the end of 2015. During the reporting period, Zhengqi Financial strengthened its leading position in microfinance business in Anhui Province and started to gradually expand into market outside the province. As of December 31, 2016, the aggregated outstanding balance of microcredit of Hefei Guozheng Microcredit Co., Limited (合肥市國正小額貸款有限公司) ("Guozheng Microcredit") and Shenzhen Chengzheng Microcredit Co., Limited (深圳市誠正小額貸款有限公司) amounted to RMB3,150 million, representing an increase of RMB612 million or 24% as compared to RMB2,538 million at the end of 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Ever since Zhengqi Financial established its financial leasing business in the second half of 2013, by exploring and improving its capability in providing professional services, cooperation with underlying asset provider and recognition of potential clients, the financial leasing business has achieved rapid growth. As of December 31, 2016, the outstanding balance of lease receivables of the financial leasing business amounted to RMB3,462 million, representing an increase of RMB1,465 million or 73% as compared to RMB1,997 million at the end of 2015.

As of December 31, 2016, the outstanding balance of credit guarantee amounted to RMB3,751 million, representing a decrease of RMB779 million as compared to RMB4,530 million at the end of 2015, mainly due to the fact that further enhancement was made to risk control approaches in response to the change in market environment, resulting in shrinking business scale.

In June 2015, Zhengqi Financial established Anhui Weiyuan Financial Information Services Company Limited (安徽唯源金融資訊服務有限公司) that engages in operating Zhengqi Financial's internet finance strategic platform Qilerong (奇樂融). Qilerong was officially launched on October 28, 2015. As of December 31, 2016, its number of registered users was 53,000. Qilerong is dedicated to providing professional, transparent, safe and profitable internet finance services for SMEs and individual users and to becoming a top-tier internet finance services platform with market influence, creditability, innovative insight and competitiveness.

In September 2015, Zhengqi Financial established Zhengqi International Commercial Factoring Company Limited (正奇國際商業保理有限公司) which provides receivables factoring business to core enterprises and the upstream and downstream companies across their supply chain. As of December 31, 2016, the outstanding balance of commercial factoring amounted to RMB1,041 million. With great market volume and rapid growth potential, such business will have greater contribution to Zhengqi Financial's development in the future.

During the reporting period, Zhengqi Financial expanded its funding channels by developing innovative funding sources and achieved sound results. In January 2016, the issuance of Zhengqi Financial's first tranche of corporate bonds 2016 was approved by the China Securities Regulatory Commission and the issuance was completed in March 2016. In June 2016, the "second tranche of leasing asset-backed securities special project of Zhengqi Leasing" was set up on the Shanghai Stock Exchange. The issuance of ABS was guaranteed by Zhengqi Financial. Currently, Zhengqi Financial has various funding sources including banking facilities, trusts, insurance companies, asset securitization and issuance of corporate bonds. In general, Zhengqi Financial possesses comparative advantages among its peers in relation to funding capability with effective channels and low funding cost.

In 2016, against the severe macro-environment, Zhengqi Financial enhanced the system infrastructure of risk control and adopted and strengthened various risk management and control approaches in order to keep risks under control. Meanwhile, the company reinforced its analysis and judgement on the macro-economy so as to take proactive structural adjustments to the businesses through actively studying responsive actions and formulating early plans. In addition, Zhengqi Financial took the initiative to expand into capital markets business from the second half of 2014 to 2016, allowing it to elevate its profitability through various approaches.

MANAGEMENT DISCUSSION AND ANALYSIS

On December 28, 2016, Zhengqi Financial introduced two strategic investors, namely Xiamen ITG Group Corp., Ltd. (廈門國貿集團股份有限公司) and Cindafund Investment Management Co., Ltd. (信達風投資管理有限公司), and obtained strategic investments amounting to RMB801 million, representing a vital step in the capital market. Relevant equity settlement procedures were officially completed in February, 2017. Zhengqi Financial will merge diversified strategic resources to further expand new businesses and regional presence. Continually building its differentiated core competitiveness, Zhengqi Financial is endeavoured to become the model enterprise in the SME oriented financial industry.

During the reporting period, the revenue and net profit of Zhengqi Financial are set out as follows:

Unit: RMB million

	2016	2015
Revenue	980	893
Net profit	721	519

During the reporting period, the revenue grew 10% from RMB893 million in the corresponding period last year to RMB980 million, mainly due to the growth of financial leasing business; whereas the net profit increased 39% from RMB519 million in the corresponding period last year to RMB721 million, mainly attributable to the growth of leasing business and equity investments business.

JC Finance & Leasing

Established in November 2015, JC Finance & Leasing is a professional company specializing in finance leasing and relevant financial businesses. Backed by the brand of Legend Holdings and the expertise of its management team, JC Finance & Leasing has initiated cooperation with both domestic and international well-known equipment manufacturers, concentrates on industry and industrial chain, and commences financial leasing business by focusing on areas that reflect new economic trends in China, such as medical services, advanced manufacturing, energy saving and environmental protection, agri-food, cold chain logistics, electronic information, public services and transportation, in turn establishing a leading enterprise in the industry. As of December 31, 2016, we held 100% equity interests in JC Finance & Leasing.

MANAGEMENT DISCUSSION AND ANALYSIS

The year 2016 was JC Finance & Leasing's first full year of operation and demonstrated a good start. As of December 31, 2016, JC Finance & Leasing's closing balance of lease receivables of the financial leasing business amounted to RMB5,736 million. Moreover, there has been strong growth in various indicators.

JC Finance & Leasing continued to reinforce its business presence and market expansion. As of December 31, 2016, apart from the headquarters in Shanghai, JC Finance & Leasing also set up offices in Jinan, Wuhan, Shenyang, Guangzhou and Chengdu to expand its business to customers nationwide.

During the reporting period, JC Finance & Leasing pursued external financing actively and achieved breakthroughs in diversified financing channels such as bank loans, syndicated loans, asset-backed securities and bonds. In November, 2016, the first tranche of asset-backed securities of JC Finance & Leasing was successfully issued, completing its first funding in the capital market with a total issue size of RMB956 million.

During the reporting period, JC Finance & Leasing constantly strengthened its risk management and control. As of December 31, 2016, the company has no default or distressed assets.

During the reporting period, the revenue and net profit of JC Finance & Leasing are set out as follows:

Unit: RMB million

	2016	2015
Revenue	301	12
Net profit/(loss)	81	(2)

Kaola Technology

During the reporting period, the original Lakala Group completed the spin-off of payment business and financial business, and the latter has become a subsidiary of Legend Holdings. The newly established Kaola Technology is China's leading platform for integrated internet financial services and is engaged in various business areas such as loans, wealth management and community finance. The big data generated daily on the integrated financial services platform, together with the well-developed credit risk identification and management models, safeguards various financial businesses (including loans), thus promoting the rapid growth of the businesses. As of December 31, 2016, we held 67% equity interests in Kaola Technology.

Kaola Technology focuses on the fast-growing field of micro finance, the balance of which amounted to nearly RMB7 billion as at the end of 2016 and the maximum single-day credit loan amount of individual loan business exceeded RMB100 million. In 2016, the business grew rapidly with the number of applicants increased by nearly 5 times as compared with the corresponding period last year.

With the independent development of Lakala's third-party payment business and innovative financial business on different platforms, it has greatly strengthened its focus on the development of each business unit. Meanwhile, the business units can be closely linked with each other when necessary to build up competitive force, delivering synergy value in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the revenue and net profit of Kaola Technology are set out as follows:

Unit: RMB million

	For the two months period from November to December, 2016
Revenue	302
Net profit	45

Associates in Financial Services Segment

During the reporting period, total profits contributed by associates to the financial services segment were RMB766 million (RMB495 million in the corresponding period of last year). Such increase in profits was mainly due to the relevant income of RMB433 million recorded from eloancn.com by the changes in fair value of the preferred shares (Lakala recorded investment income of RMB435 million due to the introduction of strategic investors in the corresponding period of last year) and Lakala's profitability continued to grow. Besides, Union Insurance's efforts to scale down its non-core business has been materialized, leading to further reduction in loss.

Lakala Payment

Lakala Payment is a well-known third-party payment company in China, focusing on providing enterprise users with settlement services and individual users with payment services. In addition, Lakala Payment provides its customers with third-party value-added payment services leveraging its extensive experience in third-party payment operation. As of December 31, 2016, we held 31.38% equity interests in Lakala Payment.

As of September 30, 2016, Lakala Payment's settlement business covered over 3.5 million merchants in over 330 cities across China. The transaction amount of its settlement business from January to September 2016 exceeded RMB800 billion. For its individual payment business, nearly 100,000 offline payment terminals have been installed in 357 cities in China. In addition, the number of registered individual users of Lakala Payment mobile App exceeds 10 million, and its individual payment transaction amount from January to September 2016 was over RMB300 billion.

With third-party payment services as its core business, Lakala Payment charges transaction fees for rendering settlement business to merchants and charges transaction fees for payment through convenience services. With a consistent mission of inclusiveness, technological progress, innovations and integrated approach, Lakala Payment developed its account and information system that has a solid foundation, fostering a user-oriented payment ecosystem.

On March 3, 2017, Lakala Payment submitted to the China Securities Regulatory Commission the application for the initial public offering and listing its shares on the ChiNext board of the Shenzhen Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

Hankou Bank

Hankou Bank conducts commercial banking business including corporate banking, retail banking and financial market. It generates revenue primarily from net interest income and fee and commission income. As of December 31, 2016, Hankou Bank had 147 affiliated agencies in China, including the sales department of its head office, 12 branches, 15 first-tier sub-branches, one direct sub-branch, two special service institutions and 116 second-tier sub-branches (including 27 community banks). The network of Hankou Bank covers substantially the whole territory of Hubei Province, and it also has branches in Chongqing.

In 2016, the business operated by Hankou Bank grew steadily, with all key indicators achieved the operation goals. The size of total assets registered a year-on-year growth of 16%, while equity and net profit attributable to the equity holders of the company achieved a year-on-year growth of 6% and 2%, respectively. The non-performing loan ratio remained stable, while the capital adequacy ratio was higher than the average of the city commercial bank industry. In the meantime, Hankou Bank was qualified as the bank to launch the first batch of pilot scheme of investment-loan linkage business for technological innovation-based enterprises, and was granted the class B lead underwriter qualification. Besides, Hankou Bank participated in the establishment of financial leasing companies, and was approved to issue tier 2 capital bonds worth of RMB5 billion and the first tranche of which was successfully issued.

In the future, Hankou Bank will continue to further enhance the company's businesses and innovate financial market business, while expanding the small and micro retail business in an effort to develop the business landscape of focusing on three markets and become one of the most innovative and reliable cooperative banks among regional banks.

Union Insurance

Union Insurance is a leading professional insurance intermediary in China. As of December 31, 2016, we held 48.00% equity interests in Union Insurance.

The major clients of Union Insurance come from the educational sector. It provides risk advisory services to schools, local and provincial educational institutions and insurance products services to students. Currently, Union Insurance has set up 35 branches and 105 sales departments in China, and have developed and enhanced over 10 educational insurance products. Being engaged by the education departments from over 20 provinces and cities in China as the safety and risk advisor for schools, Union Insurance has been providing risk management and insurance brokerage services to 150 million teachers and students from 300,000 schools of all levels and kinds, collaborating with over 30 insurance companies. During the reporting period, the insurance brokerage business of Union Insurance achieved a steady growth and maintained a leading position in China's education related insurance brokerage business.

eloancn.com

In 2016, eloancn.com continued to uphold the inclusive financial missions of "serving three rural issues" and "small and diverse", and focused on the provision of inclusive financial services to farmers and small and micro enterprises. As of December 31, 2016, we held 33.33% equity interests in eloancn.com.

MANAGEMENT DISCUSSION AND ANALYSIS

eloancn.com followed the regulatory requirements for the internet finance industry in accordance with the "Interim Measures for the Administration of the Business Activities of Internet Lending Information Intermediaries" (《網路借貸資訊仲介機構業務活動管理暫行辦法》) issued by the China Banking Regulatory Commission. eloancn.com enforced moderate control over the pace and scale of business development by continuously enhancing the business risk control and improving business model and products. At the same time, eloancn.com continued to expand the talent pool by introducing an array of senior management members who are experienced in the financial industry to vital fields ranging from risk management, finance and technology. Such initiative continued to heighten the management and operation level of the company.

As of December 31, 2016, eloancn.com established operation centers in approximately 200 cities across the country with a coverage of more than 1,200 counties. The platform has approximately 4.6 million registered users, representing an increase of 65% compared to 2015. In 2016, eloancn.com completed 174,000 Internet lending transactions with a volume of RMB12.13 billion, representing a growth of 23% compared to 2015, among which, RMB10.8 billion or 89% was related to agriculture, rural infrastructure and farmers' livelihood.

Suzhou Trust

Suzhou Trust engages in trust business. It acts as a trustee and manages entrusted properties and provides financial advisory and other consulting services. As of December 31, 2016, we held 10% equity interests in Suzhou Trust. Leveraging on the overall development of the trust industry and extensive wealth management needs from high-net-worth customers, Suzhou Trust established a wealth management platform in Jiangsu Province, one of China's most affluent provinces, to meet the investment and financing needs of a broad group of corporates and high-net-worth customers in the region. As at the end of the reporting period, the size of ongoing trust of Suzhou Trust amounted to RMB95,785 million with 272 ongoing trust projects, among which 115 are collective trust products with an ongoing size of RMB41,108 million and 152 are individual trust products with an ongoing size of RMB51,947 million. The wealth management department of Suzhou Trust has established outstanding direct marketing capability and serves many high-net-worth customers. As of December 31, 2016, the numbers of trust accounts and ongoing accounts opened with Suzhou Trust were over 22,000 and over 6,000, respectively.

Innovative Consumption and Services

Overview

Our subsidiaries and associates in the innovative consumption and services business include:

- Bybo Dental, our subsidiary, mainly provides dental healthcare services through chain operations;
- Shanghai Neuromedical Center (德濟醫院), our subsidiary, mainly provides neurology specialist and other comprehensive medical healthcare services;
- Zeny Supply Chain, our subsidiary, mainly provides logistics services;
- CAR, our associate, mainly provides comprehensive car rental services including short-term rentals and long-term rentals, as well as sales of used cars;
- Social Touch, our associate, mainly provides enterprise-level digital marketing solutions; and
- XYWY.COM, our associate, mainly provides Internet healthcare services

MANAGEMENT DISCUSSION AND ANALYSIS

We adhere to the development in innovative consumption and services segment. On one hand, we continue to converge and develop the existing businesses and constantly build up our core competence. On the other hand, we continue to seek new investment opportunities to expand our presence.

During the reporting period, the number of Bybo Dental's outlets amounted to 200, including 53 hospitals and 147 clinics. The aggregate number grew by 48% from 135 at the end of 2015, covering 25 provinces and municipalities, which is close to our strategical goal in its presence. Revenue realized amounted to RMB1,257 million, representing a growth of 29% year-on-year as compared with 2015.

Meanwhile, during the reporting period, we completed the strategic investment in Shanghai Neuromedical Center, achieved the further presence in healthcare services industry as another specialist area. Shanghai Neuromedical Center was founded in 2013. Equipped with about 350 beds, Shanghai Neuromedical Center is a specialist hospital built according to the scale of tertiary specialized hospital standards and excels in several comprehensive key areas, especially clinical neuroscience.

During the reporting period, Zeny Supply Chain realized the business model of light asset operation for the Bai Sha Zhou, Wuhan project and brought higher return to shareholders gradually. In the meantime, derivative and innovative businesses were actively developed through the Bai Sha Zhou, Wuhan project and Tianjin Dongjiang Harbor project. Return levels of the projects increased continuously through fine operation.

Following the promulgation of Interim Administrative Measures for the Operation and Services of Taxis Subject to Online-appointment (《網絡預約計程車經營服務管理暫行辦法》), the chauffeured car services business under the collaboration between CAR and UCAR Inc. was further confirmed and supported by the policy. As such, the auto mobility service industry will be benefited with more business opportunities in the future. CAR has completed equity restructuring. Business synergy between conventional car rental business and internet based innovative business was further strengthened and optimized. UCAR Inc., which specializes in chauffeured car services business, will provide stronger support for the future synergic development and business innovation of CAR.

As for the Internet-related business, Social Touch integrated and optimized its businesses so as to further focus on the "medium-to-large" sized customers, strengthen marketing strategies and the efforts into the expansion of service business, improve the operation efficiency, control cost and expenditure to improve the profit margin of the business. Wenkang Group continued to put emphasis on the provision of innovative healthcare service for users via the internet.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the revenue and net loss of innovative consumption and services segment are set out as follows:

Unit: RMB million

	2016	2015
Revenue	2,132	1,495
Net (loss)	(804)	(430)
Net (loss) attributable to equity holders of Legend Holdings	(390)	(236)

During the reporting period, the revenue from innovative consumption and services segment increased by 43% to RMB2,132 million as compared with the corresponding period of last year, mainly due to further expansion of Bybo Dental's clinics and business scale as well as continuous expansion of Zeny Supply Chain's cold chain and comprehensive logistics services businesses during the reporting period. Net loss increased to RMB804 million from RMB430 million in the corresponding period of last year, mainly due to the combined impact of the following factors: (1) during the reporting period, an increase in loss of approximately RMB426 million resulting from Bybo Dental's business expansion; (2) a decrease in net loss of RMB285 million as compared with the corresponding period of last year resulting from costs saving after Zeny Supply Chain suspended its conventional courier business; and (3) a decrease in the investment income contributed by the associates in the segment as compared with the corresponding period of last year.

Bybo Dental

Bybo Dental, our subsidiary, provides dental healthcare services. We strategically invested in Bybo Dental in July 2014. As of December 31, 2016, we held 54.90% equity interests in Bybo Dental.

As of December 31, 2016, Bybo Dental had 200 outlets, including 53 hospitals and 147 clinics. The number of outlets increased by 48% from 135 at the end of 2015, covering 25 provinces and municipalities . The number of Bybo Dental's dental chairs rose from 1,567 at the end of 2015 to 2,569 as of December 31, 2016.

The major business statistics of Bybo Dental are set out as follows:

	As of December 31, 2016	As of December 31, 2015
Number of outlets	200	135
Area of outlets (Square meter)	263,935	138,838
Number of dental chairs	2,569	1,567
Number of dentists	1,129	769

MANAGEMENT DISCUSSION AND ANALYSIS

Bybo Dental will further amplify its medical service quality and content, and follow the overall objectives of "Precision, Comfortability, Digitization and Humanity". While elevating the standard of medical technology, medical services and academic performance, Bybo Dental strives to strength its business presence and enhance its management. The multi-fold strategy will be adopted to enhance its marketing, chain operations management, financial management and human resources management. Customer-oriented approach will be used to build good branding effect by providing professional standard services so as to fulfill the vision of escalating from good to excellent standard, approaching the goal of being a time-honored company and a NO.1 brand of dental health.

During the reporting period, revenue and net loss of Bybo Dental are set out as follows:

Unit: RMB million

	2016	2015
Revenue	1,257	975
Net (loss)	(795)	(369)

During the reporting period, Bybo Dental further optimized the development of strategic presence throughout China. Considerable scale has been achieved in Beijing, Shanghai, Guangzhou and Shenzhen, more hospitals and clinics were opened in the cities where the teams have established influence. Business has been extended to a number of provincial capital cities and developed areas. With continuous enhancement of service quality, requirements for high technical standard and customer loyalty as well as strengthening of market share, operating revenue increased from RMB975 million in 2015 to RMB1,257 million in 2016, representing a year-on-year growth rate of 29%.

In 2016, Bybo Dental's operating loss widened, with the net loss increased from RMB369 million in 2015 to RMB795 million in 2016. The main reasons for the increase in net loss include: the majority of hospitals or clinics were either in preparation or opened for less than one year with breakeven point yet to be reached and the financial cost burden increased during the ramp-up period.

Shanghai Neuromedical Center

Shanghai Neuromedical Center (德 濟 醫 院), our subsidiary medical institution, provides neurology specialist medical service. In August 2016, we invested approximately RMB237 million in Shanghai Neuromedical Center. As of December 31, 2016, we held its 58% equity interests through our subsidiary, and Legend Capital, our venture capital vehicle, held its 15% equity interests.

The characteristics of the neuro medical specialist services in China include enormous customer base, increasing morbidity and uneven distribution of medical resources. Meanwhile, with the improvement of the Chinese residents' income, expanded coverage of the social and corporate medical insurance and enhanced accessibility of healthcare service, it is expected that the ratio of clinical visit will continue to increase.

MANAGEMENT DISCUSSION AND ANALYSIS

Patients generally select hospitals which are more well-equipped and in better technological conditions. It provides potential development of private neurological hospitals in first-tier and second-tier cities in China. In addition, following the easing policy of physician multi-site practice, more doctors seek new platforms and opportunities for career development. Overall, we believe that the above factors provide vast room for the development of private medical institutions in neuro medical specialist sector.

Founded in 2013, Shanghai Neuromedical Center is a specialist hospital built according to the scale of tertiary specialized hospital standards and excels in several comprehensive key areas, especially clinical neuroscience. The key strategic development areas of Shanghai Neuromedical Center include neurosurgery, functional neurosurgery, internal neurology, epilepsy treatment center, cerebrovascular disease treatment center, cardiovascular disease treatment center, emergency intensive healthcare center, nerve electrophysiology center and neuro-rehabilitation with the support of the development of comprehensive subjects such as surgery and internal medicine. In particular, its surgery expertise is among the leading tier in China in regards of complexity and standard of operations for spinal cord tumor and brain tumor. With over 3,000 accumulated cases, the epilepsy center ranks top in China. The number of cases of ketogenic diet for the treatment of pediatric refractory epilepsy and malignant tumors currently ranks top in Shanghai. It also possesses Shanghai's largest electrophysiology center. The following table sets forth the number of operating beds and key business information of Shanghai Neuromedical Center, respectively.

	As of December 31, 2016	As of December 31, 2015
Number of operating beds	280	257
Outpatient visits (Ten thousand persons)	11.3	10.9
Discharged patient (person)	4,075	3,923

During the reporting period, revenue and net loss of Shanghai Neuromedical Center are set as follows:

Unit: RMB million

	For the four months period ended from September to December, 2016
Revenue	53
Net (loss)	(12)

MANAGEMENT DISCUSSION AND ANALYSIS

Zeny Supply Chain

We provide logistics services through, Zeny Supply Chain our subsidiary, endeavoring to develop it as a leading provider of comprehensive supply chain services. After the exit from the conventional courier business, Zeny Supply Chain mainly focuses on comprehensive cold chain operations. During the reporting period, Zeny Supply Chain realized business model of light asset operation of the Bai Sha Zhou, Wuhan project and brought higher return to shareholders gradually by further exploring the commercial mode of light asset operation. In the meantime, derivatives and innovative businesses were actively developed through the Bai Sha Zhou, Wuhan project and Tianjin Dongjiang Harbor project. Return levels of the projects increased continuously through fine-tuned operation. As of December 31, 2016, we held 94.00% equity interests in Zeny Supply Chain.

Comprehensive cold chain operations: during the reporting period, we increased capital utilization by realizing the sale-and-leaseback for the asset for the cold chain property in Bai Sha Zhou, Wuhan project, and adjusted the quasi-financial services business catering to the commercial tenants of the wholesale market. We continued to optimize the business structure of cold chain project of Tianjin Dongjiang Harbor by providing imported food inspection service, cold chain bonded storage service, declaration and inspection agent service, procurement agent and financial service of supply chain to create an imported food comprehensive supply chain service platform. The construction of phase 1 cold storage of cold chain project in southern China was almost completed. As of the end of the reporting period, the asset acquisition of cold chain business in Zhengzhou, Henan remained in process and yet to be closed.

Comprehensive logistics services: during the reporting period, we continued to optimize the business model by strategically focusing on serving corporate clients in such markets as electronic production and motor accessories. Efforts were also made to adjust and optimize the business network which covers four major regions of northern, central, eastern and southern China so as to increase the overall operating efficiency.

Domestic courier services: as of the end of the reporting period, Zeny Supply Chain had closed or transferred courier business in other regions except those in Shandong.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, revenue and net loss of Zeny Supply Chain are set out as follows:

Unit: RMB million

	2016	2015
Revenue	822	519
Net (loss)	(327)	(612)

During the reporting period, revenue from the logistics business increased by RMB303 million year-on-year, mainly due to the optimization of comprehensive cold chain business and comprehensive logistics services business.

Associates of Innovative Consumption and Service

CAR

CAR, our associate, provides comprehensive car rental services including short term and long-term rental, and sales of used cars services. Through its strategic partner, UCAR Inc., it provides an on-demand chauffeured car services based on mobile Internet technology and the strong brand of "UCAR". As of December 31, 2016, we held 24.10% equity interests in CAR.

As of December 31, 2016, the total size of operating fleet of CAR reached 89,813 cars, increasing by 8% as compared with the corresponding period of last year; the total size of fleet reached 96,449 cars, increasing by 6% as compared with the corresponding period of last year. CAR had 795 directly operating service spots in 93 cities of China, including 304 outlets and 491 pick-up points, covering main first-tier and second-tier cities and tourist spots in the country.

The table below is the major business statistics data of CAR:

	As of December 31, 2016	As of December 31, 2015
Fleet size		
Short-term rentals	67,777	56,759
Long-term rentals	19,499	22,252
Financial leasing	2,537	4,157
Total operating fleet	89,813	83,168
Retired vehicles for sale	3,292	6,837
Vehicles held for sale	3,344	1,174
Total fleet	96,449	91,179

MANAGEMENT DISCUSSION AND ANALYSIS

The self-drive car rentals market in China was still in the early development stage with great growth potential. Meanwhile, new technology and business innovation were reshaping the landscape of auto mobility industry and changing consumer behavior, which has brought revolutionary changes to the value chain of auto mobility industry. CAR continued to execute its established strategies in effort to be a leading service provider of auto mobility service in China with a focus on car rental and fleet management. During the reporting period, the company continued to consolidate its leading position in the short-term rentals market and maintain stable cooperative relationship with UCAR Inc., a company providing tailored taxi business. The company established an intelligent mega fleet management platform and improved fleet efficiency through dynamic fleet sharing and re-deployment between the self-drive and UCAR fleet to balance demand during peak and non-peak periods. Besides, CAR carried out a series of repurchases throughout the year in order to enhance shareholder returns. As of December 31, 2016, the company repurchased 66,065,000 shares at a consideration of HK$501 million.

During the reporting period, UCAR Inc. listed on NEEQS on July 22, 2016 and became the first listed company in global tailored taxi service industry. As of 31 December, 2016, CAR held 7.42% equity interests in UCAR Inc..

On July 28, 2016, seven Ministries including the Ministry of Transport jointly promulgated the "Interim Administrative Measures for the Operation and Services of Taxis Subject to Online-appointment" (《網路預約計程車經營服務管理暫行辦法》). On December 21, 2016, the governments of Beijing and Shanghai promulgated the local implementing rules for the management of online car-hailing operation service, implementing relatively strict requirements on vehicle standard, place of registration, household registration of drivers and practicing qualification etc. Other key cities also promulgated local management rules with reference to the management rules of Beijing and Shanghai, thereby promoting the healthy and orderly development of online car-hailing (tailored taxis) industry in the long term. With the implementation of the policies, the price war among the online car-hailing market has been alleviated with the reduction of foam supply and demand. The market will gradually resume to the positioning of focusing on high-end customers with differentiated services. Thus, the effect of the diverted demands on car rental industry weakened, which is conducive to the gradual enhancement of growth rate of short-term rental self-drive business in the future.

During the reporting period, the revenue and net profit of CAR are set forth as below:

Unit: RMB million

	For the twelve months ended December 31, 2016	For the twelve months ended December 31, 2015
Revenue	6,454	5,003
Net profit	1,460	1,401

During the reporting period, the revenue of CAR increased by RMB1,451 million year-on-year, mainly due to the expansion of the short term rental fleet and the increase in the sales volume of used cars. The net profit increased by RMB59 million year-on-year. Except for the revenue from continuing operations, the increase in value of shares held in UCAR, the loss from foreign exchange fluctuation of USD bonds and other factors contributed some non-recurring gain and loss.

MANAGEMENT DISCUSSION AND ANALYSIS

Social Touch

Social Touch is a provider of the enterprise digital marketing solutions in the mobile social era. It helps enterprises to effectively establish and manage connections and interactions with consumers in a new mobile social environment, and endeavor to assist the enterprises in the launch of intelligent marketing. During the reporting period, Social Touch conducted consolidation and optimization for its business to focus more on medium-to-large sized customers but spin-off the business of corporate mobile marketing management software and implementation service for medium-to-small sized customers, put more efforts in the launch of marketing strategy and in expansion of the implementation service business, enhance the operating efficiency and control cost and expenditure to improve the gross margin of business; the mobile advertising procurement and placing service business continued to expand the scale of original advertising operation, focusing on the medium-to-large sized customers. As of December 31, 2016, we held 48.23% equity interests in Social Touch.

XYWY.COM

During the reporting period, Wenkang Group continued to make use of the internet to provide huge number of users with innovative healthcare services. Based on XYWY.COM, Wenkang Group has established the largest online healthcare communication platform for patients in China. As of December, 2016, XYWY.COM has a total of 96 million registered users and 628,000 registered doctors. In 2016, the monthly average number of visits to its internet healthcare consultation service was over 11 million, of which, the online visits for the engagement between doctors and patients amounted to a monthly average of 2.5 million in 2016.

To effectively solve the problem of "expensive and hard to visit doctors", Wenkang Group has continued to attempt to integrate the online and offline healthcare resources for the recent two years. It is foreseen that regional intelligent healthcare service will become the direction of the strategic business expansion of Wenkang Group in 2017.

As of December 31, 2016, we held 17.02% equity interests in Wenkang Group.

Agriculture and Food

Overview

Our subsidiaries and associates in the agriculture and food business include:

- Joyvio Group, our subsidiary, is mainly engaged in the businesses of plantation, harvest, storage, initial processing and sales of fruits and brand beverages and processed food products;

- KB Food, our subsidiary, is mainly engaged in the businesses of fishing, procurement, processing and sales of premium seafood; and

- Liquor Easy, our associate, mainly develops and operates liquor direct selling networks.

There are significant opportunities in the agriculture and food industry in China: (1) Upgrading of consumption: with China's increased per capita disposable income and consequential changes in spending concepts and patterns, we believe that China is now in a stage of upsurge in consumption. (2) Industrial integration: in China, the industrial chains are segmented in agricultural and food industry with unreasonable profits distribution mechanisms. Through synergistic network across the industrial chains, product quality, food safety and operating efficiency will be significantly enhanced. (3) Overseas resources: having remarkable advantages in resources, species and technology, overseas market has the potential synergy with the consumption market of China intrinsically. We will actively look for investment opportunities amidst the aforesaid circumstances.

MANAGEMENT DISCUSSION AND ANALYSIS

With the aim of improving food qualities for Chinese consumers, we have developed two supply chains of fresh fruits and fresh seafood. In 2016. in view of the supply chain of fresh fruits, we have completed the restructuring of Golden Wing Mau, commenced our overseas market presence by means of Golden Wing Mau and made investment in T&G, the largest apple supplier in New Zealand. As for the seafood supply chain, we acquired KB Seafoods, a leading Australian seafood supplier, based on which the integration of global seafood supply chain system will be launched in the future. Through Joyvio Group, we invested in Hua Wen Food Co., Ltd. of Hunan Province (hereinafter abbreviated as "Hua Wen Food"), and initially made our presence in processed food products industry. We have become the controller of Wanfu Biotechnology, a ChiNext listed company of China (A share Stock Code: 300268) with 26.57% voting rights, facilitating a more efficient launch of our future business layout and integration with the advantage of China capital market. We look forward to providing products and services of enhanced safety and quality to Chinese consumers through the industrial integration and a global presence in the future.

To enhance the effectiveness of investment and operating efficiency, and to develop a professional industrial investment vehicle. In 2016 we has injected our agriculture and food assets including Funglian Group and Cloud Farm into Joyvio Group. Other structural adjustments are in an on-going process. We strive to develop Joyvio Group into an professional investment holding vehicle of the agricultural and food business of the Company, thereby achieving the Corporate and professional investment and operation of the agricultural and food business.

Operating highlights

- Through integration with Golden Wing Mau, the business performance of Joyvio Group was significantly enhanced with more balanced capability in different sections of the industrial chain. During the reporting period, with synergy effect, the revenue increased by 22% year-on-year and net profit increased by 211% year-on-year. It commenced its overseas presence by investment in T&G, the largest apple supplier in New Zealand, with 19.9% equity interests.

- Since its merger by Joyvio Group, Funglian Group has further improved its operating profit through optimized products portfolio and sales network. In the meantime, the Company has completed the capital injection in Funglian Group, whereby Funglian Group's capital structure was improved, bringing significant reduction in financial cost as compared with corresponding period of last year and eventually a turnaround.

- KB Food, our newly invested company, owns one of the largest seafood supplier in Australia. It cooperates with more than 500 suppliers in the world and provides products and services to Australia's retail and catering markets. It has successfully created the "global supply chains + Australian consumption" business model. The post-investment integration progressed well. It has further consolidated its competitive advantage in Australia.

- With the capital injection by the Company, Joyvio Group made its presence in the sector of processed food products by strategic investment in Hua Wen Food. Hua Wen Food is a leading snack food enterprise in China as well as the top brand of fishlet snack products, laying a good foundation for our presence in the sector of processed food products.

During the reporting period, revenue and net profit of agriculture and food segment are set out as follows:

Unit: RMB million

	2016	2015
Revenue	3,266	1,639
Net Profit	71	134
Net profit attributable to equity holders of Legend Holdings	70	138

During the reporting period, revenue of the agriculture and food segment increased from RMB1,639 million to RMB3,266 million, which was mainly attributed to the increase in revenue arising from the group consolidation of KB Food. Net profit decreased to RMB71 million from RMB134 million in the corresponding period of last year, mainly due to the fair value gain recorded from Cloud Farm in 2015. Excluding this effect, the net profit for 2016 increased significantly as compared to the corresponding period in 2015, mainly due to reasons including increase in profits of Joyvio Group subsequent to the reorganization of its fruits business and the turnaround in profits of Funglian Group.

Joyvio Group

In 2016, Joyvio Group received a capital increase from the Company and asset injection of Funglian Group and Cloud Farm in order to enhance investment and operation efficiency as well as to develop a professional investment holding platform for the agriculture and food sector. Currently, it is engaged in multiple business areas such as fruit, branded drinks, processed food products. As of December 31, 2016, we held 100% equity interests in Joyvio Group.

Fruit business

Golden Wing Mau, an associate of Joyvio Group, is the industrial operation platform for the fruit business of Joyvio Group. Currently, Golden Wing Mau has become China's largest domestic fully-integrated fruit company in the industry which exclusively owns the species right of blueberry and kiwifruit planting, leading seed culture centre and engineering and technology center, domestic and overseas plantation bases. It has 5 major storage and sorting centers in quality fruit producing areas, 6 distribution centers in China and covered domestic quality channel customers such as Walmart, Sam's Club, Vanguard, China Resources Suguo, Ole, blt, V+, Fun2, Auchan, Ito Yokado, Lego, AEON, Beijing Hualian, Wumart, Metro, Ren Ren Le and Tianhong.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, with the deepened synergy between Joyvio's original fruit business and Golden Wing Mau, we have further consolidated our No.1 position in the kiwifruit market and the reputation of Joyvio blueberry being the NO.1 domestic brand. These advantageous products enabled us better receive recognition from consumers, which is conducive to further enhancement of our market share in supermarkets and hypermarkets. Meanwhile, we devoted more effort in expanding e-commerce clients and wholesale channels, resulting in a more reasonable channel structure.

T&G Company, a company invested by Golden Wing Mau, has established planting bases in New Zealand, Australia, South America and Northern Hemisphere, producing a variety of fruits such as apples, kiwifruits and table grapes. JAZZ and ENVY, being famous brands under T&G Company, are popular among consumers in China. The cooperation among the parties enables T&G Company to further expand exports in China.

Branded drink business

Joyvio Group's branded drink business includes Chinese liquor (Funglian Group), tea leaves (Longguan Company) and wine.

Funglian Group has four regional Chinese liquor enterprises including Bancheng, Wenwang, Confucius Family and Wuling. Funglian Group actively executed product differentiation, strengthened mainstream products delivery and leveraged innovative distribution models in 2016. These have contributed to optimized product structure and sales system and increased product selling price and gross margin. Meanwhile, the expense ratio lowered through enhancing the effective control on various expenses. Regarding the capital structure, the Company completed the capital injection, thus resulting in a significant decrease in finance costs as compared to the same period last year and achieving profitability.

Longguan Company's Longjing under the "Longguan" brand is the No.1 Longjing tea brand in China. In 2016, benefiting from the advantage in technological standards, brand effect as well as the improvement in operation and control capability, the net profit of Longguan Company recorded a year-on-year growth of 68%. In 2016, Longguan was selected as the appointed tea for the World Internet Conference and was once again selected as the appointed supplier for the world-focused G20 Hangzhou Summit 2016. The company's brand and influence has, hence, been greatly improved.

Processed food products business

Joyvio Group tapped into the field of processed food products through the investment in Hua Wen Food, which is a leading manufacturing enterprise of snack food in China and owns various snack food brands such as Jinzai and Bo Wei Yuan. Its products involve two major series, namely marine fish snack food and dried bean curd products, and each of them enjoys the leading position in their respective market segment. Relying on the leading capability in research and development and automated production as well as the strong brand operation and distributor network, the company has become a leading enterprise in the snack food industry in China.

During the reporting period, the revenue and net profit/(loss) of Joyvio Group are set out below:

Unit: RMB million

	2016	2015
Revenue	1,244	1,639
Net profit/(loss)	54	(32)

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, Joyvio Group's revenue decreased from RMB1,639 million to RMB1,244 million and the net profit turned from a net loss of RMB32 million in the corresponding period of last year into a net profit of RMB54 million, mainly due to: 1) the relatively significant increase in profit despite the revenue contribution from the fruit business following the restructuring was excluded; 2) the asset injection by Funglian Group improved the income level and the turn from loss to profit during the reporting period enhanced the overall profit.

KB Food

In March 2016, we formed a subsidiary, KB Food, with the management of KB Seafoods through our subsidiary and acquired 100% of the equity interests in KB Seafoods. As of December 31, 2016, we held 90% equity interests in KB Food.

Headquartered in Perth, Australia and with a history of 90 years, KB Seafoods is one of the largest seafood companies in Australia. The company provides mainstream supermarkets and food companies in Australia with over 6,000 types of seafood and its ancillary products with an annual sales volume amounting to 100,000 tonnes. Its products include fish, shrimps, shellfish, lobsters and other categories, and its industry chain covers fishing, primary and deep processing, cold chain distribution, sales and services. The company entered into strategic cooperation with the world's leading seafood enterprises in Southeast Asia, Europe, America and Africa and has successfully developed the business model of "Global Resources + Australian Consumption".

Subsequent to the investment, the parties achieved smooth integration and maintained stable business and workforce. By increasing capital expenditure and introducing new generation of processing equipment, the efficiency of plant operation has been enhanced and the costs have been effectively reduced. Meanwhile, through expanding product categories such as Modified Atmosphere Packing products and active market expansion, the company recorded a revenue growth of 8% as compared to the corresponding period of last year.

KB Seafoods' financial year starts from July 1 to June 30 next year and has adjusted to the financial year starting from January 1 to December 31 since 2017. Upon the completion of our investment, the revenue and EBITDA of KB Seafoods from April to December 2016 are set forth below:

Unit: RMB million

	For the nine months period from April 1, 2016 to December 31, 2016
Revenue	2,022
EBITDA	91

MANAGEMENT DISCUSSION AND ANALYSIS

Liquor Easy

Liquor Easy is a dedicated liquor retailer running chain store networks. Its business model of "physical outlets+call centre+APP+delivery in 20 minutes" combined online and offline operations, and reshaped distribution channels of the liquor industry. Its promised delivery time of "20 minutes home delivery" has become the highest benchmark of liquor delivery. During the reporting period, Liquor Easy further increased the number of chain stores in Henan and Beijing markets, thereby enhancing both its market coverage and service capability and entering the Xian market in the meantime. As of December 31, 2016, the company had a total of 206 retail outlets (including direct stores and delivery stations etc.) in Henan province, Beijing and Shaanxi province with the revenue of 2016 increased by 67% year-on-year. On August 11, 2016, Liquor Easy was successfully listed on National Equities Exchange and Quotations System (Stock Code: 838883). As of December 31, 2016, we held 30% equity interests in Liquor Easy.

New Materials

Overview

The new materials segment of Legend Holdings consists of fine chemicals and energy materials business, which focuses on innovative products with growth potential emerging during the transformation of China's chemical industry as well as the lithium-ion battery designed for new energy vehicles:

- Levima Group, our subsidiary, is engaged in the production of fine chemical and new chemical materials; and

- Phylion Battery, our associate, is engaged in the lithium-ion battery business.

During the reporting period, we executed debt-to-equity swap to our subsidiary, Levima Group, so as to optimize its capital structure, and the equity capital obtained by Levima Group was used to repay its borrowings and finance its working capital. As of December 31, 2016, we held 100% equity interests in Levima Group and held 88.2% equity interests in Levima New Materials through Levima Group. Our associate, Phylion Battery, completed a new round of financing, and the proceeds will be used for the construction of its new production lines and the technical research and development on the application of electric vehicles. As of December 31, 2016, Legend Holdings' equity interests in Phylion Battery were diluted from 44.51% to 33.21%.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the revenue and net profit/(loss) of the new materials segment are set out as follows:

Unit: RMB million

	2016	2015
Revenue	4,702	1,839
Net profit/(loss)	184	(1,061)
Net profit/(loss) attributable to equity holders of Legend Holdings	141	(713)

During the reporting period, benefiting from the full and high-quality operation at full capacity of the integrated device of DMTO and high-end olefin in Levima Group, we recorded a significant year-on-year growth of 156% in terms of the revenue from new materials segment. The new materials business under Levima Group turned around as expected through the continual improvement in its management level of operation and the successful launch of new products. Benefiting from the rapid growth of demand for power lithium-ion battery inside and outside China, Phylion Battery seized the market opportunity and recorded a significant increase in market shares and profitability. During the reporting period, the segment showed a turn from loss to profit and recorded net profit of RMB184 million during the year.

Operating highlights

- Levima New Materials has innovated polypropylene crafts and successfully developed dystectic homepolymer polypropylene PPH-M600N, and rapidly gained more than 50% of the market share in China. Currently, Levima New Materials is the largest supplier for the product in China. The product can be widely used in disposable food containers (lunch box), daily necessities, toys, electronic parts and other products, and has better market prospect and economic benefits.

- Phylion Battery recorded significant growth in the sales volume of pure electric logistics vehicle business, representing a year-on-year growth of nearly 3 times. Phylion Battery ranked second among the domestic suppliers with the market share rose to 9%.

Levima Group

Since the putting into operation of the integrated devices of DMTO, the company has continuously innovated product crafts, optimized product structure, promoted development of new products and increased proportion of high-end products in an effort to enhance profitability. During the reporting period, the company has made craft innovations on the basis of introducing technologies and successfully developed dystectic homepolymer polypropylene PPH-M600N. The product was received positive response from the market immediately follow its launch. The company has become the largest supplier for polypropylene of such grade and accounted for more than 50% of the market share in China. In addition, the proportion of high-end products to EVA products and EO derivatives continued to rise, and received high recognition in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

While optimizing product structure, the company has clearly adopted the customer-oriented approach and promoted collaboration among the departments of production, sales and research and development, and continued to improve the capability of providing customized product development to customers as well as providing prompt technical services, with an aim to demonstrate differentiated competitive advantage amidst the intensifying market competition. Benefiting from that, the company's customized products has successfully applied in high-end customers from various fields such as construction, leather, textile and cable. The quality and price of some of the products were at the comparable level to international first-tier manufacturers, successfully replacing imported products.

As for production and operation, the company, through continual optimization of production and operation system, realized 24 months continuous and steady operation with the core device of DMTO, which set the longest record after putting into operation of the same class of such devices. Meanwhile, it has fully explored the capacity potential of the device through extensive effort, the capacity of DMTO device stably reached 116% of designed load. In addition, many key technical and economical indices and the overall profitability of the device are in the leading position in the industry.

During the reporting period, Levima Group disposed its chlor-alkali chemical business. In addition, driven by the implementation of the national policies of reducing capacity and stabilization of the coal market, the profitability of coal business under Levima Group has significantly improved.

During the reporting period, the revenue and net profit/(loss) of Levima Group are set out as follows:

Unit: RMB million

	2016	2015
Revenue	4,702	1,649
Net profit/(loss)	86	(1,226)

MANAGEMENT DISCUSSION AND ANALYSIS

Phylion Battery

During the reporting period, benefiting from the significant growth in demand for pure electric logistic vehicles, the shipment of lithium-ion power battery of the company reached 700MWh, ranking among the forefront of domestic manufacturers.

In April 2016, Phylion Battery was successfully listed in the third batch of enterprise catalog conforming to "Specifications for Vehicle Battery Industry" (《汽車動力蓄電池行業規範條件》) issued by the Department of Equipment Industry of Ministry of Industry and Information Technology and the models powered by power batteries of Phylion Battery were also included in the National Directory of New Energy Vehicle. Benefiting from that, the pure electric logistic vehicles business of Phylion Battery grew rapidly. During the reporting period, the company established cooperation relationship with a number of well-known automobile companies in the industry such as Chongqing Ruichi, Chongqing Changan, DFSK, DFXL (東風襄旅) and Yangtze. The annual sales of power battery packs amounted to approximately 8,000 sets, representing a year-on-year growth of nearly 3 times. In particular, the shipment of power battery packs for pure electric logistic vehicles ranked second in China with the market share increased to 9%.

During the reporting period, the overseas business of Phylion Battery grew rapidly. Phylion Battery has maintained superior and reliable product quality, and the long-term cooperative and mutual-trust relationships with major clients from Europe. Those helped the company's overseas sales revenue achieve an increase by 46% as compared with the corresponding period of last year, and gross margin remained at a relatively high level. In addition, the company further seized the opportunity of domestic innovation and consumption upgrading, and established cooperation relationship with emerging internet vehicles manufacturing enterprises such as Xiaomi and NIU, and had realized sales revenue. It is expected that the demand in this field will be further unleashed in the future.

All of the 3.0 production lines invested and constructed by the company have been put in production in the second half of 2016. After the new production lines having been put in production, the undersupply of the company's power battery for pure electric logistic vehicles has effectively alleviated and the manufacturing costs of power battery packs have further lowered, which has effectively enhanced the overall profitability of the company.

During the reporting period, the operating profit of Phylion Battery registered a year-on-year growth of 190%. Taking into account the effect of diluted earnings from the new round of financing, its contribution to the Group's profit amounted to RMB98.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Investment

Overview

We are a pioneer in China's alternative investment sector, seeking to capture investment opportunities at various stages of a company's development. We achieve growth by leveraging various financial investment platforms, which include angel investment, venture capital and private equity investment and other investments. In our financial investments business, we also seek synergies and share resources with our strategic investments business. Each of our investment arms has a different specialization and focus, which allows us to target a broad range of investments. Through Legend Star, Legend Capital and Hony Capital, we have obtained a deep understanding of the financial investment industry, which provides us with access to numerous investment opportunities. Through investments in our associate funds in various asset classes, we are able to build a wide network in the investment community, expand information sources, capture more investment opportunities and diversify our investment risks.

Other investments including direct financial investments also provide us with continuous growth in value. We continue to promote the realization of asset value and carry out direct investments in primary and secondary markets with high liquidity so as to create sound cash return. We also place great importance to cooperating with our associate funds and sharing information and related resources to maximize the efficiency of financial investments.

We selectively hold office buildings as investment properties to seek long-term returns. Our properties held for investment mainly include Raycom Info Tech Park Tower A, Tower B and Tower C in Zhongguancun area, Beijing.

During the reporting period, the revenue and net profit of financial investment segment are set out as follows:

Unit: RMB million

	2016	2015
Revenue	539	418
Investment income and gains	2,103	4,049
Share of profit of associates and joint ventures accounted for using the equity method	232	374
Net profit	3,158	5,652
Net profit attributable to equity holders of Legend Holdings	2,901	5,510

During the reporting period, the investment income and gains of our financial investment segment decreased to RMB2,103 million from RMB4,049 million for the corresponding period of last year, the net profit attributable to equity holders of the Company decreased to RMB2,901 million from RMB5,510 million for the corresponding period of last year, which was mainly due to 1) the significant change on capital market circumstances during the reporting period as compared with the corresponding period of last year, which effected the overall value of fund portfolio and distribution of income; 2) the one-off increase in the fair value during the corresponding period of last year resulted from the change of Raycom Infotech Center Tower B to an investment property while no such fair value gain was recorded during the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

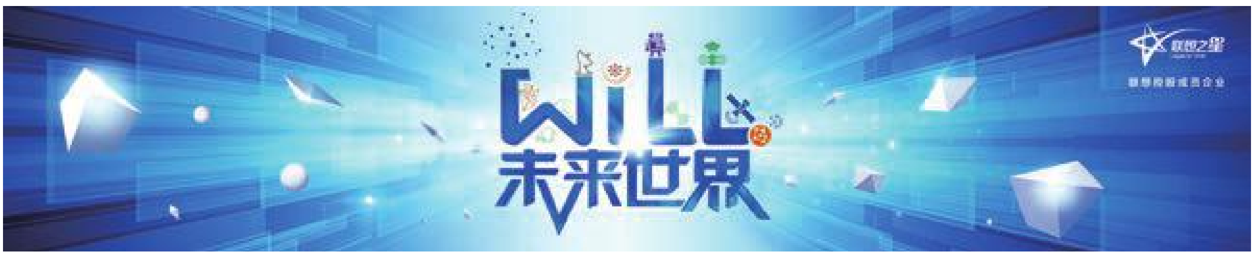
Legend Star

Founded in 2008, Legend Star is one of China's leading angel investment institutions. As the early investment of the parent company, Legend Star focuses on three major areas, namely TMT, healthcare and intelligent technologies.

As at the end of 2016, Legend Star totally managed two funds, of which the size amounted to approximately RMB1.1 billion with an aggregate of over 160 onshore or offshore investment projects. During the reporting period, there were over 40 onshore or offshore new investment projects covering frontier fields such as aerospace technology, intelligent vehicle, big data, machine learning and quantum technology. Among the projects under management, 43 projects have finished another round of financing; two projects, namely Belvedor (Stock Code: 837077) and Kintormed (Stock Code: 839419) have successfully listed on the NEEQS while the exit of three projects have been carried out.

Leveraging the unique brand advantage and resources, Legend Star has been systematically deploying its business in three major areas since its inception. It promoted the establishment of Comet Labs at the end of 2015, the artificial intelligent accelerator, with the global presence in the artificial intelligent industry. During the reporting period, there were 18 invested projects.

Between 2014 and 2016, Legend Star was ranked as top tier of the Annual Angel Investment Institution/Early Stage Investment institutions for consecutive three years by the professional institutions in the industry, namely Zero2IPO Group and China Venture Group.



Legend Capital

Legend Capital is one of the leading venture capital institutions in China. As of the end of 2016, Legend Capital managed seven USD funds, four RMB funds, two early-staged RMB funds, one USD fund specialized in healthcare sector, one RMB fund specialized in healthcare sector, one RMB fund specialized in culture and sports sector and one fund in red-chip return concept. In 2016, Legend Capital launched two new RMB funds, one new USD fund and also completed the final closing of three RMB funds and one USD fund, which further expanded the asset under management. The two newly raised RMB funds were Beijing Legend Capital Huicheng Equity Investment L.P. (北京君聯慧誠股權投資合夥企業(有限合夥)) ("4th RMB fund") and Beijing Legend Capital Yikang Equity Investment L.P. (北京君聯益康股權投資合夥企業(有限合夥)) ("RMB healthcare fund") respectively and one USD fund was LC Fund VII, L.P.("7th USD fund"). As of December 31, 2016, the raised fund amounted to RMB8.39 billion during the reporting period, including a total of RMB7.44 billion raised from the newly launched funds, including RMB3.96 billion from the 4th RMB fund (sub-fund inclusive), RMB1.62 billion from the RMB healthcare fund and USD0.27 billion from the 7th USD fund.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, Legend Capital plans to complete the fund raising of the 7th USD Fund and the 4th RMB Fund and newly launch the second fund specialized in culture and sports sector. Legend Capital's newly raised funds will still focus on Chinese enterprises and cross-border opportunities at the start-up stage and growing stage in TMT, innovative consumption, modern services, healthcare, and culture and sports sectors. In addition, in 2017, Legend Capital will continue to carry out the exit of projects under management to ensure better return for investors.

During the reporting period, Legend Capital accumulatively completed 49 new project investments, covering start-up stage and growing stage enterprises in TMT, modern services, healthcare, and culture and sports sectors.

During the reporting period, Legend Capital fully or partially exited 15 projects, contributing cash inflow of nearly RMB700 million for Legend Holdings to ensure better cash return. Among its portfolio companies, two enterprises were listed on the domestic capital market through IPO, namely Linglong Tire and YUTO Tech and six enterprises were listed on the NEEQS. As of December 31, 2016, 39 of Legend Capital's portfolio companies have been successfully listed and 11 are listed on the NEEQS. As of December 31, 2016, Legend Capital achieved an average internal rate of return for their exit projects ranging between 35% and 40%.

The following table sets forth the information of Legend Capital's funds in which Legend Holdings and its subsidiaries held direct interests in their capacity as a limited partner as of December 31, 2016:

Name of Fund	Fund Term Commencement Date (month/day/year)	End Date (month/day/year)	Total Commitment	Investment Sector	Interests held by Legend Holdings as a limited partner (%)
USD Funds (in USD million)					
LC Fund I	N/A	N/A	35	IT and related sectors	*Note(3)*
LC Fund II	N/A	N/A	60	IT and related sectors	63.46%
LC Fund III, L.P.	4/27/2006	N/A	170	IT and related sectors (Investment in extension period refers to non-IT sector)	49.41%
LC Fund IV, L.P.	4/15/2008	4/14/2018	350	TMT, healthcare, consumer goods, modern services, clean technology and advanced manufacture	29.77%
LC Fund V, L.P.	5/31/2011	5/30/2021	515	TMT, healthcare, consumer goods, modern services, etc.	19.42%
LC Fund VI, L.P.	1/30/2014	4/17/2024	500	TMT, healthcare, modern services, etc.	23.20%
LC Healthcare Fund I, L.P.	9/29/2015	2/4/2025	250	Healthcare	20.00%
LC Fund VII, L.P.	2/5/2016	2/4/2024	268	TMT, innovative consumption, modern services, intelligent manufacture	37.31%

MANAGEMENT DISCUSSION AND ANALYSIS

Name of Fund	Fund Term Commencement Date (month/day/year)	End Date (month/day/year)	Total Commitment	Investment Sector	Interests held by Legend Holdings as a limited partner (%)
RMB Funds (in RMB million)					
Beijing Legend Capital Ruizhi Venture Investment Center (Limited Partnership) (北京君聯睿智創業投資中心（有限合夥）)	9/18/2009	9/17/2017	1,000	TMT, healthcare, consumer goods, modern services, clean technology and advanced manufacture	31.00%
Tianjin Junruiqi Equity Investment L.P. (天津君睿祺股權投資合夥企業（有限合夥）)	3/31/2011	3/30/2019	3,632	TMT, healthcare, consumer goods, modern services, clean technology and advanced manufacture	31.67%
Beijing Legend Capital Maolin Equity Investment L.P. (北京君聯茂林股權投資合夥企業（有限合夥）)	9/9/2014	9/8/2022	3,204	Consumer goods, modern services, TMT, healthcare, etc.	31.21%
Shanghai Qiji Venture Investment L.P. (上海祺跡創業投資合夥企業（有限合夥）)	5/30/2015	5/29/2023	500	TMT and innovative consumer service sector	16.00%
Beijing Legend Capital Mingde Equity Investment L.P. (北京君聯名德股權投資合夥企業（有限合夥）)	7/31/2015	7/30/2021	1,272	Culture entertainment, sports	19.65%
Beijing Legend Capital Xinhai Equity Investment L.P. (北京君聯新海股權投資合夥企業（有限合夥）)	8/11/2015	8/10/2020	1,698	Return of red-chip, cross-border investment and other high-growth projects	17.67%
Beijing Legend Capital Yikang Equity Investment L.P. (北京君聯益康股權投資合夥企業（有限合夥）)	2/5/2016	2/4/2024	1,621	Healthcare	18.50%
Beijing Legend Capital Huicheng Equity Investment L.P. (北京君聯慧誠股權投資合夥企業（有限合夥）)	8/30/2016	8/29/2024	3,451	TMT, innovative consumption, modern services and advanced manufacture	28.98%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

(1) The end date is extendable in accordance with the relevant limited partnership agreement.

(2) Total commitment represents the aggregate capital commitment by partners of limited partnerships or investors for the funds in the form of limited liability companies, if applicable, as of the final closing date.

(3) LC Fund I comprises two limited liability companies, namely Legend Capital Limited, which focused on investments in China, and Legend New-Tech Investment Limited, which focused on overseas investments.

(4) LC Fund II is a limited liability company. It is our subsidiary and its financial data is consolidated in our consolidated financial statements.

(5) LC Fund VII, L.P. and Beijing Legend Capital Huicheng Equity Investment L.P. (北京君聯慧誠股權投資合夥企業（有限合夥）) have not completed the final closing yet during the reporting period.

Hony Capital

Hony Capital is one of the leading equity investment and management institutions in China. As at the end of 2016, Hony Capital managed eight equity investment funds, as well as two mezzanine funds and one property fund in total. In the first half of 2016, Hony Capital raised the eighth equity investment fund with a size of USD2.2 billion. In the second half of 2016, the raising of Hony property fund commenced, and as of the end of 2016, it has completed settlements of two tranches with a size of RMB1.75 billion raised. Currently the fund raising is still underway and the size is expected to be further expanded.

Hony Capital's PE funds focus on SOE reforms, development of private enterprises and cross-border mergers and acquisitions. It persistently carries out investment practice with specific industry concentration in consumption, services, healthcare, advanced manufacturing and mobile Internet.

Hony Capital's mezzanine funds' risks and returns are categorized between senior bonds and equity. The investment strategies of Hony Capital's mezzanine funds mainly focuses on mergers and acquisitions financing, asset securitization financing and special opportunity financing (e.g. corporate bridge facility, secured-asset financing and asset restructuring opportunities, etc.) etc.

The property fund focuses strategically on the domain of office buildings in first-tier cities to create excess return over the market average, by applying various value-added means such as renovation, enhanced operation and functional adjustment to the office buildings in first-tier cities or other commercial buildings with potential of conversion into office buildings.

During the reporting period, Hony PE funds completed twelve new projects or additional investment on existing projects, covering start-up stage and growing stage in enterprises in healthcare, consumption, services and so on. Hony mezzanine funds completed five new investments and Hony property funds completed three new investments.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, Hony PE funds fully or partially exited nine projects, while Hony mezzanine funds fully or partially exited four projects, contributing cash inflow of nearly RMB700 million for Legend Holdings in total. Meanwhile, three of its portfolio companies were listed in domestic and overseas capital markets in 2016, namely Rongzhong Financial, Giant Interactive and Linglong Tire. As of December 31, 2016, 36 of Hony's portfolio companies have been successfully listed onshore or offshore (including PIPE investment) and another three are listed on NEEQS. As of December 31, 2016, Hony Capital has fully exited its investments in 34 companies. The median of the internal rate of return on these investments was above 20%.

The following table sets forth the information of Hony Capital's funds in which Legend Holdings and its subsidiaries held direct interests in their capacity as a limited partner as of December 31, 2016:

Name of Fund	Fund Term Commencement Date (month/day/year)	End Date (month/day/year)	Total Commitment	Investment Sector	Interests held by Legend Holdings as a limited partner (%)
USD Funds (in USD million)					
Hony International Limited	N/A	N/A	29		40%
Hony Capital II, L.P.	7/26/2004	8/31/2014	87		41%
Hony Capital Fund III, L.P.	9/19/2006	11/10/2016	580		34%
Hony Capital Fund 2008, L.P.	5/27/2008	6/26/2018	1,398		14%
Hony Capital Fund V, L.P.	8/10/2011	12/15/2021	2,368	In view of China's economic environment and the direction of policies, Hony's equity investment funds strategically focus on the opportunities of SOE reforms, mergers and acquisitions of private enterprises and cross-border mergers and acquisitions sectors. In terms of industry selection, it focuses on industries directly benefiting from China's macro trends, including consumer industry, health industry, service industry and high-end manufacturing industry, as well as opportunities for transformation brought by the mobile Internet.	11%
Hony Capital Fund VIII (Cayman), L.P.	8/18/2015	10/30/2025	1,647		16%
RMB Funds (in RMB million)					
Hony Capital RMB I, L.P. (弘毅投資產業一期基金（天津）(有限合夥))	4/24/2008	4/23/2018	5,026		30%
Hony Capital RMB Fund 2010, L.P. (北京弘毅貳零壹零股權投資中心（有限合夥）)	10/13/2010	10/12/2018	9,965		20%
Hony Capital Fund 2015, L.P. (弘毅貳零壹伍（深圳）股權投資基金中心（有限合夥）)	10/13/2015	10/12/2025	3,596		23%
Hony Capital Mezzanine RMB Fund I, L.P. (弘毅一期（深圳）夾層投資中心（有限合夥）)	5/17/2013	9/2/2016	1,040	Hony Capital's mezzanine funds focus mainly on investment opportunities of mergers and acquisitions financing, ABS financing and special opportunity investing, etc.	10%

MANAGEMENT DISCUSSION AND ANALYSIS

Name of Fund	Fund Term Commencement Date (month/day/year)	End Date (month/day/year)	Total Commitment	Investment Sector	Interests held by Legend Holdings as a limited partner (%)
Hony Capital Mezzanine RMB Fund II, L.P. (西藏達孜弘毅二期夾層基金合夥企業（有限合夥）)	3/19/2015	10/15/2018	2,050		10%
Hony Capital Real Estate Fund 2015, L.P. 弘毅貳零壹伍（深圳）地產投資中心（有限合夥）	9/28/2016	9/27/2021	1,753	The property fund focuses strategically on the domain of office buildings in first-tier cities to create excess return over the market average, by applying various value-added means such as renovation, enhanced operation and functional adjustment to the office buildings in first-tier cities or other commercial buildings with potential of conversion into office buildings.	29%

Notes:

(1) The end date is extendable in accordance with the relevant limited partnership agreement.

(2) Total commitment represents the aggregate capital commitment by partners of limited partnerships or investors for the funds in the form of limited liability companies, as applicable, as of the final closing date.

(3) HONY CAPITAL FUND VIII (CAYMAN), L.P. and Hony Capital Fund 2015, L.P. (弘毅貳零壹伍(深圳)股權投資基金中心（有限合夥）) were collectively named as "Hony RMB Fund VIII" in the above table.

Investment Properties

The investment properties that we hold mainly include the high-end office buildings, i.e. Raycom Info Tech Park Tower A, Tower B and Tower C in Zhongguancun, Beijing. As of December 31, 2016, the average occupancy rate was about 90%. We hold Tower A and Tower C of Raycom Info Tech Park through Raycom Property, a wholly-owned subsidiary of the Company and hold Tower B through Raycom Real Estate, a subsidiary. As of 31 December 2016, the fair value of our investment properties amounted to RMB10.032 billion (exclusive of self-use portions).

MANAGEMENT DISCUSSION AND ANALYSIS

Discontinued operations

On September 16, 2016, we entered into the Asset Transfer Framework Agreement of Raycom Real Estate Development Co., Ltd. (《關於融科智地房地產股份有限公司之資產轉讓框架協議》) with Sunac Real Estate (an indirect wholly-owned subsidiary of Sunac China), whereby Sunac Real Estate agreed to acquire equity interests and debts owned by us relevant to the real estate development business. Legend Holdings and Sunac China obtained approvals from shareholder on October 26, 2016 and November 15, 2016, respectively. The conditions precedent of the transaction were fulfilled and entered into the period of assets transition. As of December 31, 2016, the target companies under the transaction has been gradually transferred and the business registration procedure continued to progress.

The adjusted total consideration receivables from Sunac Real Estate and other shareholders amounted to RMB15.851 billion. As of December 31, 2016, we received consideration of RMB2,960 million; as of March 29, 2017, we received consideration of RMB14.333 billion. According to the supplemental agreement with Sunac Real Estate, the remaining balance shall be settled in full by September 20, 2017.

During the reporting period, the net profit from discontinued operations attributable to equity holders of the Company was RMB7 million.

Financial Review

Net interest expense

Our net interest expenses after deducting capitalized amounts increased from RMB3,004 million for the year 2015 to RMB3,262 million for the year 2016. Increase in the net interest expenses was mainly due to the increase in the total borrowings.

Taxation

Our taxation increased from RMB455 million for the year 2015 to RMB476 million for the year 2016. Increase in the amount of taxation was mainly due to the combined effect of the increase in the profit before taxation and the decrease in unrecognized deferred income tax assets.

Capital expenditures and capital commitments

Our capital expenditures mainly arise from purchases of property, plant and equipment, new construction under work and intangible assets, and payment for investment. Capital expenditures were mainly funded by internally generated resources and external borrowings. Details of capital expenditures of all business segments are set out in Note 5 to the financial statements.

As at December 31, 2016, we had RMB7,943 million of capital expenditures contracted but not yet generated. Such capital commitments were mainly used for purchases of property, plant and equipment, and investment. Details of capital commitments are set out in Note 48 to the financial statements.

Liquidity and financial resources

Our principal sources of funds have been, and we expect to continue to utilize, cash generated from operations, various short-term and long-term bank borrowings, facilities and debt financing including corporate bonds and private placement bonds, to satisfy our future funding needs.

MANAGEMENT DISCUSSION AND ANALYSIS

Cash and cash equivalents

As of December 31, 2016, our cash and cash equivalents include RMB30,059 million of cash at bank and in hand and money market funds, among which, RMB, USD, HKD, EUR and other currencies accounted for 51%, 26%, 10%, 4% and 9%, respectively, while the amount as at December 31, 2015 was RMB34,803 million, among which, RMB, USD, HKD, EUR and other currencies accounted for 45%, 20%, 24%, 3% and 8%, respectively. It is our policy to place our cash in interest-bearing principal-protected demand or short-term deposits with reputable PRC and foreign banks.

Due to our business nature, we have relied on bank loans, other loans and the issuance of corporate bonds to fund a substantial portion of our capital requirements and we expect to continue to finance portions of our capital expenditures with raised capital, bank loans, other loans and corporate bonds at a proper scale in the foreseeable future.

Indebtedness

The following table sets forth our outstanding bank loans, other loans and corporate bonds as of the dates indicated:

Unit: RMB million

	December 31, 2016	December 31, 2015
Bank loans		
– Unsecured loans	21,032	17,137
– Guaranteed loans	15,663	13,909
– Collateralized loans	3,215	5,714
Other loans		
– Unsecured loans	30	100
– Guaranteed loans	7,954	11,654
– Collateralized loans	1,043	3,182
Corporate bonds		
– Unsecured	32,948	24,853
– Guaranteed	784	708
	82,669	77,257
Less: non-current portion	(56,516)	(56,621)
Current portion	26,153	20,636

As of December 31, 2016, among our total borrowings, 74% was denominated in RMB (December 31, 2015: 73%), 25% was denominated in USD (December 31, 2015: 26%) and 1% was denominated in other currencies (December 31, 2015: 1%). If categorized by whether the interest rates were fixed or not, the fixed interest rates borrowings and the floating interest rates borrowings accounted for 89% and 11% of our total borrowings, respectively, while as at December 31, 2015 accounted for 91% and 9%, respectively. Increase in our indebtedness was mainly due to growth and expansion of our strategic investment business.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the maturity profile of our indebtedness as of each of the dates indicated:

Unit: RMB million

	December 31, 2016	December 31, 2015
Within 1 year	26,153	20,636
After 1 year but within 2 years	15,269	15,224
After 2 years but within 5 years	36,307	37,935
After 5 years	4,940	3,462
	82,669	77,257

As of December 31, 2016, we had the following corporate bonds outstanding:

Issuer	Type of bonds	Currency	Issuance date	Term	Principal amount	As of December 31, 2016
The Company	Corporate bonds	RMB	October 31, 2011	7 years	RMB2,900 million	RMB2,892 million
The Company	Corporate bonds	RMB	November 30, 2012	10 years	RMB2,300 million	RMB2,288 million
The Company	Private placement bonds	RMB	March 21, 2014	5 years	RMB2,000 million	RMB1,985 million
The Company	Private placement bonds	RMB	March 27, 2014	5 years	RMB740 million	RMB736 million
Lenovo	Long term notes	USD	May 8, 2014	5 years	USD1,500 million	RMB10,368 million
Lenovo	Long term notes	RMB	June 10, 2015	5 years	RMB4,000 million	RMB3,977 million
Zhengqi Financial	Guaranteed bonds	RMB	September 16, 2015	3 years	RMB500 million	RMB486 million
The Company	Private placement bonds	RMB	October 29, 2015	3 years	RMB1,000 million	RMB995 million
Zhengqi Financial	Corporate bonds	RMB	March 3, 2016	3 years	RMB400 million	RMB397 million
The Company	Private placement bonds	RMB	March 17, 2016	1 year	RMB2,000 million	RMB1,999 million
Raycom Real Estate	Guaranteed bonds	RMB	May 31, 2016	3 years	RMB1,450 million	RMB298 million
The Company	Corporate bonds	RMB	July 6, 2016	5 years	RMB1,500 million	RMB1,495 million
The Company	Corporate bonds	RMB	July 6, 2016	10 years	RMB2,000 million	RMB1,991 million
JC Finance & Leasing	Asset backed securities	RMB	November 17, 2016	1-3 year	RMB830 million	RMB833 million
The Company	Private placement bonds	RMB	November 28, 2016	3 years	RMB3,000 million	RMB2,992 million

The annual interest rates of our bonds listed above as of December 31, 2016 ranged from 3.10% to 7.00%.

As of December 31, 2016, the Company had undrawn banking facilities of RMB86.3 billion. The Company has entered into formal or informal cooperation agreements with various major banks in China. According to these agreements, the banks granted the Company general banking facilities to support its capital needs. Prior approval of individual projects from banks in accordance with bank regulations of China must be obtained before the use of these banking facilities.

Current ratio and debt to equity ratio

	December 31, 2016	December 31, 2015
Current ratio (Times)	1.0	1.1
Debt to equity ratio	76.3%	65.2%

Current ratio

Current ratio is our current assets divided by our current liabilities at the end of each financial period. Our current ratio at the end of the reporting period decreased compared to December 31, 2015, mainly due to the fact that some of the long-term liabilities of the Company and its subsidiaries were reclassified as current liabilities.

Debt to equity ratio

Debt to equity ratio is calculated by dividing our net debt (total borrowings less cash and cash equivalents) as a percentage of total equity at the end of each financial period. The increase in the debt to equity ratio at the end of the reporting period as compared with that as of December 31, 2015 was mainly due to the increase in the total borrowings of the Company.

Pledged Assets

As of December 31, 2016, we pledged the assets of RMB13.0 billion (December 31, 2015: RMB21.0 billion) for obtaining borrowings.

Contingent Liabilities

Our contingent liabilities primarily comprise (i) shareholder's guarantees we provided in respect of the borrowings provided by commercial banks and other financial institutions to associates and third parties for their business expansion; (ii) the guarantees we provided regarding the mortgage facilities granted by commercial banks to the purchasers of our properties in connection with our property business; and (iii) financial guarantees provided by our subsidiaries in the financial services business to SMEs for their borrowings from certain banks.

We evaluated the financial position of financial guarantees provided in connection with our financial services business periodically and made provision accordingly. As of December 31, 2016 and December 31, 2015, the provision made by us was RMB108 million and RMB135 million respectively.

The table below sets forth our total contingent liabilities as of the dates indicated:

Unit: RMB million

	December 31, 2016	December 31, 2015
Guarantee in respect of mortgage facilities for certain purchasers	–	4,099
Financial guarantee of guarantee business	3,751	4,530
Other guarantee		
– Related parties	2,022	2,240
– Unrelated parties	6,507	1,500

MANAGEMENT DISCUSSION AND ANALYSIS

Financial policies and risk management

General policies

Our activities expose us to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Our overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. We have implemented a unified and multilevel financial control management system. We guide and supervise major aspects of the financial management of our subsidiaries and each subsidiary manages its financial risks locally. Certain of our subsidiaries use derivative financial instruments to hedge certain risk exposures.

Foreign exchange risk

We operate internationally and are exposed to foreign currency risk arising from various currency exposures, primarily with respect to RMB, USD and EUR. Foreign currency risks arise from the future business transactions, recognised assets and liabilities and net investment in foreign operations denominated in a currency other than the functional currency of our subsidiaries. Each of our subsidiaries monitors the amount of assets and liabilities and transactions denominated in foreign currencies closely in order to minimize the foreign exchange risk and enter into forward exchange contracts to mitigate the foreign currency risk as appropriate.

Price risk

We are exposed to equity securities price risk because of investments held by us and classified on our consolidated balance sheets either as available-for-sale or at fair value through profit or loss. The commodity price risk to which we are exposed is not material. To manage our price risk arising from investments in equity securities, we diversify our portfolio.

Our investments in equity of other entities include companies that are publicly traded in the following four capital markets: Hong Kong, China, US and Japan.

Cash flow and fair value interest rate risk

Our interest rate risk arises primarily from long-term borrowings and loans from related parties. Long-term borrowings at floating rates expose us to cash flow interest rate risk. Long-term borrowings and loans from related parties at fixed rates expose us to fair value interest rate risk.

We operate a number of customers' financing programmes mainly in our IT business. We are exposed to the risks of fluctuation of rates arising from all the currencies covered in such programmes.

We manage the interest rate risk by performing regular reviews and monitoring our interest rate exposure and, when appropriate, using floating-to-fixed interest rate swaps.

MANAGEMENT DISCUSSION AND ANALYSIS

Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash and cash equivalents, bank deposits, restricted deposits, trade and notes receivable, loans to customers, other receivables and derivative financial instruments, etc.

For the cash in bank deposits, we control our credit risk through monitoring our credit ratings and setting approved credit limits that are regularly reviewed.

We have no significant concentration of customer credit risk. We have policies to limit the credit exposure on receivables. We assess the credit quality of and set credit limits on our customers, taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of our customers is regularly monitored by us. In respect of customers with a poor credit history, we use written payment reminders, or shorten or cancel credit periods, to ensure our overall credit risk is limited to a controllable extent.

Liquidity risk

Cash flow forecasting is performed by us and each of our subsidiaries. The Group monitors its subsidiaries' rolling forecasts of short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that it does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

Events after the reporting period

On December 28, 2016, Zhengqi Financial introduced two strategic investors, namely Xiamen ITG Group Corp., Ltd (廈門國貿集團股份有限公司) and Cindafund Investment Management Co., Ltd (信達風投資管理有限公司), and obtained strategic investments amounting to RMB801 million. Relevant equity settlement procedures were officially completed in February, 2017.

On March 1, 2017, Lenovo (Beijing) Co., Ltd. (聯想（北京）有限公司), a wholly-owned subsidiary of Lenovo, which is in turn a subsidiary of the Company, entered into a share transfer agreement in relation to the disposal of 49% equity interests in Chengdu Lianchuang Rongjin Investment Limited (成都聯創融錦投資有限責任公司) ("Lianchuang Rongjin") at a consideration of approximately RMB1,617 million. Upon the disposal, the Group does not hold any equity interests in Lianchuang Rongjin. The gain before tax on disposal amounted to approximately RMB1,503 million.

On March 3, 2017, Lakala Payment, an associate of the Company, submitted the application to China Securities Regulatory Commission in relation to the initial issue of RMB ordinary A shares on ChiNext board of Shenzhen Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

Lenovo established the USD3,000 million medium term note programme ("Medium Term Note Programme") on November 30, 2016. Approval has been obtained from the Hong Kong Stock Exchange for the listing of, and permission to deal in, the aforesaid medium term notes by way of debt issue to professional investors only. On March 9, 2017, Lenovo entered into an agreement to carry out a drawdown under the Medium Term Note Program to propose the offering and issue of drawdown notes in an aggregate nominal amount of USD500 million, and the listing of such notes was also effected. On March 9, 2017, a subsidiary of Lenovo (as the issuer) entered into an agreement to issue USD850 million 5.375% perpetual securities in the form of cumulative preferred shares. The net proceeds from the issue of the securities will be on-lent by the issuer to Lenovo through the subscription by the issuer for the intra-group notes.

As of March 29, 2017, RMB14,333 million out of the Company's cash consideration receivables from the disposal of property development business was recovered. Under the framework agreement entered into with Sunac Real Estate, the Group undertook the provision of joint responsibility guarantee for the future financing of Sunac Real Estate amounting to approximately RMB7,497 million, of which the guarantee period of RMB5,500 million is within 1 year and the guarantee period of RMB1,997 million is within 3 years. As of December 31, 2016, the Company did not provide the guarantee; as of March 29, 2017, the Company provided a guarantee of RMB7,497 million. Meanwhile, Sunac Real Estate provided a counter-guarantee for the guarantee of RMB7,497 million.

Use of proceeds from the initial public offering

The Company's net proceeds from the initial public offering amounted to approximately HKD14.75 billion (equivalent to approximately RMB11.64 billion, including the proceeds from the partial exercise of over-allotment option), which are intended to be applied in the manner disclosed in the prospectus of the Company.

As of December 31, 2016, the Company applied RMB2 billion for the repayment of partial amount of the corporate bonds due in 2015, RMB342 million as ordinary working capital and the remaining balance has been deposited with Hong Kong licensed bank.

Details about the number of employees, remuneration policy and bonus

As at December 31, 2016, the Company and its subsidiaries had approximately 69,324 employees.

The Company truly understands that a professional team with high efficiency in the area of investment holdings companies is vital to a first-class investment holdings company for fully supporting the Company's strategic and business development. To attract and retain top-notch talents, the overall remuneration level has to be fairly competitive in the market. Therefore, the Company established a comprehensive remuneration system for senior management and employees with market competitiveness which is compatible with the business features of the Company:

1. The overall remuneration of the Company's senior management ("senior management") including the President, Executive Vice President, Senior Vice President, financial officers and the secretary of the Board of the Company comprises annual remuneration, mid-term to long-term incentives and benefits. Annual remuneration as well as mid-term to long-term incentives of senior management of the Company is determined by the Board of the based on the overall performance of the Company and duties undertaken by the senior management and their performance. The Company will then determine performance results according to the Company's performance and the performance appraisal of senior management. i) Annual remuneration comprises annual basic salaries (determined based on the duties undertaken by senior management) and target bonus (calculated based on a certain proportion of the basic salaries of senior management with reference to the overall performance of the Company and performance appraisal of senior management); and ii) benefits include basic social benefits and supplemental benefits of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Annual remuneration of the employees of the Company comprises basic salaries and target bonus. i) Basic salaries represent post salaries, and duties undertaken by the employees and their performance and capabilities; and ii) target bonus is determined based on a certain proportion of the employees' basic salaries and calculated based on the annual operating results of the Company and the annual performance appraisal of employees. In addition, the Company also established the basic social benefits and supplemental benefits for the employees.

3. In order to attract and motivate talents to create values for the sustainable development of the Company, thereby fostering the achievement of the Company's strategic objectives, the design framework of mid-term to long-term share incentive scheme was approved by the Board and the general meeting of the Company on March 2016 and June 2016, respectively. The Company completed the mid-term to long-term share incentive scheme at the end of 2016.

Pursuant to the relevant laws and regulations of China and other overseas jurisdictions, we provide various benefits to our employees, including pension insurance, medical insurance, employment injury insurance, unemployment insurance, maternity insurance and housing provident fund.

RECOMMENDATION OF FINAL DIVIDEND

The Board has recommended a final dividend of RMB0.242 per ordinary share (before tax) for the year ended December 31, 2016 (2015: RMB0.22), amounting to a total of approximately RMB570 million (before tax) (2015: RMB518 million), subject to the approval of the Shareholders at the forthcoming 2016 annual general meeting (the "AGM").

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. LIU Chuanzhi *Chairman and Executive Director*

Mr. LIU Chuanzhi (柳傳志), aged 72, the Founder of Legend Holdings and was appointed as a Director and the Chairman of the Board on February 18, 2014, the date of the Company changed to a joint stock limited liability company and was appointed as the chairman of the Nomination Committee of the Company on June 29, 2015. Mr. LIU is also the founder of Lenovo and held various senior positions as the President, an Executive Director, a Non-Executive Director and the Chairman of the Board of Lenovo during 1989 to 2011. He has substantial experiences in corporate management and holds chairmanships in various members of Legend Holdings.

Prior to joining Legend Holdings, Mr. LIU served at the Institute of Computing Technology Chinese Academy of Sciences (中國科學院計算技術研究所). Mr. LIU obtained his graduate certificate from the Radar Navigation Department of People's Liberation Army Institute of Telecommunication Engineering (中國人民解放軍軍事電信工程學院雷達導航系) (now known as Xidian University) in China in 1967.

Mr. ZHU Linan *Executive Director*

Mr. ZHU Linan (朱立南), aged 54, was appointed as a Director and the President of the Company on February 18, 2014, the date of the Company changed to a joint stock limited liability company. Mr. ZHU joined Legend Holdings since 2001 and served consecutively as a Director and Executive Vice President and Director and President. Mr. ZHU first joined the Company's subsidiary in 1989 and served as the general manager of Shenzhen Legend Computer Co., Ltd. (深圳聯想電腦有限公司). During 1997 to 2001, he joined Lenovo and served consecutively as a General Manager of Business Development Department, a Vice President and an Executive Vice Head and Head of Corporate Planning Office and a Senior Vice President. He was a founder of Legend Investment Limited 聯想投資有限公司, the predecessor of Legend Capital Co., Ltd. (君聯資本管理股份有限公司), in 2001 and has been its director and general manager since incorporation. In addition, Mr. ZHU holds directorships and senior management positions in various members of Legend Holdings.

Mr. ZHU is currently a non-executive director of Lenovo and CAR Inc. (both listed on the Hong Kong Stock Exchange). He previously served as a non-executive director of Peak Sport Products Co., Limited (listed on the Hong Kong Stock Exchange); and a director of Foshan Saturday Shoes Co., Ltd. (佛山星期六鞋業股份有限公司) (listed on the Shenzhen Stock Exchange).

Mr. ZHU obtained his master's degree in Electronic Engineering from Shanghai Jiao Tong University in China in 1987.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. ZHAO John Huan *Executive Director*

Mr. ZHAO John Huan (趙令歡), aged 54, was appointed as a Director and Executive Vice President of the Company on February 18, 2014, the date of the Company changed to a joint stock limited liability company. Mr. ZHAO joined Legend Holdings in 2003 when he founded Hony Capital. During 2003 to 2011, he served consecutively as Executive Vice President, Senior Vice President and a Director and Senior Vice President of Legend Holdings Limited, the predecessor of the Company. He is currently the Chairman of Hony Capital.

Mr. ZHAO has extensive experiences in corporate management and holds senior management positions at several companies in the United States and the PRC. During 2002 to 2003, Mr. ZHAO was the advisor to Chief Executive Officer of Lenovo. Prior to joining Legend Holdings, he also served as the Research & Development Director and Senior Manager of Shure Brothers, Inc., Vice President of US Robotics Inc. (listed on NASDAQ Stock Market), Chairman of the board and President of Vadem, Inc., Chairman of the board and President of Infolio Inc. and a Managing Partner and Chief Executive Officer of eGarden Ventures, Ltd.

Mr. ZHAO is currently a Non-executive Director of Lenovo and a Non-executive Director of China Glass Holdings Limited, the Chairman of the board, Executive Director and CEO of Best Food Holding Company Limited and the Chairman of the board of Hospital Corporation of China Limited (all listed on the Hong Kong Stock Exchange) and the Deputy Chairman of Shanghai Environmental Group Co., Ltd, a Non-executive Director of Shanghai Jin Jiang International Hotels Development Co., Ltd, (both listed on the Shanghai Stock Exchange) and a Non-Executive Director of Zoomlion Heavy Industry Science & Technology Development Co., Ltd. (listed on the Hong Kong and Shenzhen Stock Exchanges). He previously served as a director of Wumart Stores, Inc., New China Life Insurance Company Ltd., Chinasoft International Limited, CSPC Pharmaceutical Group Limited (all listed on the Hong Kong Stock Exchange) and Fiat Industrial S.p.A. (listed on MTA Italian Stock Exchange).

Mr. ZHAO obtained his bachelor's degree in science from Nanjing University in China in 1984 and a master of electronic engineering and science degree from Northern Illinois University in the United States in 1990 and a master of management degree from the J.L. Kellogg Graduate School of Management at Northwestern University in the United States in 1996.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. WU Lebin *Non-executive Director*

Mr. WU Lebin (吳樂斌), aged 54, was appointed as a Director of the Company on September 4, 2014. He has been the Chairman of the board of directors of Chinese Academy of Sciences Holdings Co., Ltd. (中國科學院國有資產經營有限責任公司) ("CAS Holdings"), a substantial shareholder of the Company, and the Chairman of the board of directors and Executive Director of Biosino Bio-Technology and Science Incorporation (listed on the Hong Kong Stock Exchange). He previously served as a Deputy Head of the Institute of Biophysics of CAS (中國科學院生物物理研究所), the chief of Public Relations Coordination Office of CAS General Office (中國科學院辦公廳公共關係協調處), and an engineer of Strategic Vision Office of CAS Technology Policy Bureau (中國科學院科技政策局戰略遠景處).

Mr. WU obtained his bachelor's degree in medicine from Jiangxi Medical College (江西醫學院) (now known as Medical College of Nanchang University (南昌大學醫學院)) in China in 1983 and a master's degree in science from the Institute of Vertebrate Paleontology and Paleoanthropology of Chinese Academy of Sciences (中國科學院古脊椎動物與古人類研究所) in China in 1988. He also completed an EMBA study program jointly offered by the branch of University of Wisconsin-Madison in the United States and CAS in 2002.

Mr. WANG Jin *Non-executive Director*

Mr. WANG Jin (王津), aged 63, was appointed as a Director on February 18, 2014 and was appointed as a member of the Audit Committee of the Company on June 29, 2015. Mr. WANG has been the Chairman of the board of directors of CAS Investment Management Co., Ltd (中國科技產業投資管理有限公司) which is a subsidiary of Chinese Academy of Sciences Holdings Co., Ltd. (中國科學院國有資產經營有限責任公司) ("CAS Holdings"), substantial shareholder of the Company, from 2010. He was previously appointed as an Executive Director and the General Manager of CAS Holdings from 2009 to 2014. He was a Deputy General Manager of Oriental Scientific Instrument Import & Export Corp. (東方科學儀器進出口公司) and the Chairman of the board and President of Oriental Scientific Instrument Import & Export (Group) Corp. (東方科學儀器進出口集團公司). Mr. WANG is a member of the Twelfth National People's Congress of the PRC.

Mr. WANG obtained his bachelor's degree in engineering from Tianjin University in China in 1978 and a master's degree in business administration from Asia International Open University (Macau) in Macau in August 2001. He was a visiting scholar at Fermilab of the United States from 1992 to 1993.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. LU Zhiqiang *Non-executive Director*

Mr. LU Zhiqiang (盧志強), aged 65, was appointed as a Director on February 18, 2014 and was appointed as a member of Remuneration Committee of the Company on June 29, 2015. He is the Chairman of the board and President of China Oceanwide Holdings Group Co., Ltd. (中國泛海控股集團有限公司) ("China Oceanwide"), Oceanwide Group Co., Ltd. (泛海集團有限公司) ("Oceanwide Group") and Tohigh Holdings Co., Ltd. (通海控股有限公司) ("Tohigh"), substantial shareholders of the Company. He is also a Chairman of the board of Oceanwide Holdings Co., Ltd. (泛海控股股份有限公司) ("Oceanwide Holdings") (listed on the Shenzhen Stock Exchange) and a Vice Chairman and Non-executive Director of China Minsheng Banking Corp., Ltd. (listed on Hong Kong and Shanghai Stock Exchanges).

Mr. LU obtained his graduate certificate specializing in international economics from East China Normal University in China in 1990, and a master's degree in economics from Fudan University in China in 1995.

Mr. LU holds more than one third voting power at general meetings of Tohigh which through its wholly-owned subsidiary, Oceanwide Group, directly or indirectly holds 100% interest of the outstanding share capital of China Oceanwide. Mr. LU, Tohigh, Oceanwide Group are all deemed to be the substantial shareholders of the Company and interested in 400,000,000 domestic shares of the Company held by China Oceanwide under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. MA Weihua *Independent Non-executive Director*

Mr. MA Weihua (馬蔚華), aged 68, was appointed as a Director of the Company on March 15, 2015 with effect from June 29, 2015, the listing date of the Company. He was also appointed as the Chairman of Remuneration Committee and a member of Nomination Committee of the Company on June 29, 2015.

Mr. MA has been an Independent Non-executive Director of China Resources Land Limited (listed on the Hong Kong Stock Exchange), an Independent Non-executive Director of China Eastern Airlines Corporation Limited (listed on the Hong Kong and the Shanghai Stock Exchanges), an Independent Non-executive Director of China World Trade Center Co., Ltd. (中國國際貿易股份有限公司) (listed on the Shanghai Stock Exchange), an Independent Non-executive Director of Postal Savings Bank of China Co., Ltd. and the Chairman of board of supervisor of Taikang Life Insurance Co., Ltd..

Mr. MA previously served as the President, Chief Executive Officer and Executive Director of China Merchants Bank Co., Ltd. (listed on the Hong Kong and Shanghai Stock Exchanges), an Independent Non-executive Director of China Petroleum & Chemical Corporation (listed on the Hong Kong, Shanghai, New York and London Stock Exchanges) and an Independent Non-executive Director of Winox Holdings Limited (listed on the Hong Kong Stock Exchange). In addition, Mr. MA is a member of the Standing Council of China Society for Finance and Banking, the Director-general of One Foundation (壹基金公益基金會理事長) and the Director-general of Council of National Fund for Technology Transfer and Commercialization (國家科技成果轉化引導基金理事會理事長). Mr. MA is a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference.

Mr. MA was awarded the doctor of philosophy degree in economics from Southwest Finance and Economics University in China in 1999.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. ZHANG Xuebing *Independent Non-executive Director*

Mr. ZHANG Xuebing (張學兵), aged 51, was appointed as a Director of the Company on March 15, 2015 with effect from June 29, 2015, the listing date of the Company. He was also appointed as a member of the Audit Committee and a member of the Nomination Committee of the Company on June 29, 2015. Mr. ZHANG established Zhong Lun Law Firm in 1993 and is the Managing Partner to present. He is currently an external director of China Telecommunications Corporation and the Council of China University of Political Science and Law in China. In addition, Mr. ZHANG was the former Chairman of the Eighth and Ninth Beijing Lawyers Association (北京市律師協會). He has been the Vice-chairman of the All China Lawyers Association (中華全國律師協會), and an Arbitrator of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會).

Mr. ZHANG obtained his Bachelor of Laws degree from China University of Political Science and Law in China in 1986, Master of Laws degree from China University of Political Science and Law in China in 1991 and Master of Laws degree from Duke University in the United States in 1998. Mr. ZHANG was admitted as a PRC qualified lawyer in 1989 by Beijing Municipal Bureau of Justice (北京市司法局) and was granted the Qualification of Lawyer for Engaging in Securities Law Business by the China Securities Regulatory Commission in 1996.

Ms. HAO Quan *Independent Non-executive Director*

Ms. HAO Quan (郝荃), aged 58, was appointed as a Director of the Company on March 15, 2015 with effect from June 29, 2015, the listing date of the Company. She was also appointed as the Chairperson of the Audit Committee and a member of the Remuneration Committee of the Company on June 29, 2015. Ms. HAO previously served as a lecturer of the Renmin University of China from 1982 to 1989. She first joined KPMG (USA) in 1993 and became a partner of KPMG Huazhen (Special General Partnership) and its predecessor from 2001 to 2015.

Ms. HAO obtained her Bachelor of Economics degree from the Renmin University of China in 1982 and the Master of Business Administration degree from Temple University in the United States in 1993. Ms. HAO obtained the qualification of certified public accountant in California, the United States in 1995 and as a PRC certified public accountant in 2002.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. LI Qin *Supervisor*

Mr. LI Qin (李勤), aged 76, was appointed as the Chairman of the board of supervisors on February 18, 2014, the date of the Company changed to a joint stock limited liability company. Mr. LI served as Deputy General Manager of Chinese Academy of Sciences Computer Technology Research Institute New Technology Development Company (中國科學院計算技術研究所新技術發展公司) (the former name of the Company) from 1985 to 1989, and as Executive Vice President of Lenovo from 1989 to 2001. He served at Legend Holdings Limited (the predecessor of the Company) as Executive Vice President from 2001 to 2009 and as Chief Supervisor from 2009 to 2014.

Mr. LI has been an Independent Non-executive Director of Sunac China Holdings Limited (listed on the Hong Kong Stock Exchange).

Mr. LI obtained his graduate certificate specializing in auto-control from Beijing Mechanical Institute (北京機械學院) in China in 1965.

Mr. SUO Jishuan *Supervisor*

Mr. SUO Jishuan (索繼栓), aged 53, was appointed as a Supervisor of the Company on September 4, 2014. Mr. SUO is the General Manager of Chinese Academy of Sciences Holdings Co., Ltd. (中國科學院國有資產經營有限責任公司) ("CAS Holdings"), a substantial shareholder of the Company, the Chairman of the board of China Science Publishing & Media Group Ltd. (中國科技出版傳媒集團有限公司). He worked for Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences (中國科學院蘭州化學物理研究所) ("LICP") from 1991 to 2003 and served consecutively as Deputy Head of the State Key Laboratory for Oxo Synthesis and Selective Oxidation (羰基合成和選擇氧化國家重點實驗室), the Head of the National Engineering Research Center of Fine Petrochemical Intermediates (精細石油化工中間體國家工程研究中心), Assistant to the Chief of LICP, Deputy Chief of LICP and Vice President of Lanzhou Branch of CAS. He was the Chairman of the board of directors of Chengdu Organic Chemicals Co., Ltd., Chinese Academy Sciences (中國科學院成都有機化學有限公司) from 2003 to 2009, Deputy General Manager of CAS Holdings from 2009 to 2014, the Chairman of the board of Software Engineering Center, Chinese Academy Sciences (北京中科院軟件中心有限公司) from 2011 to 2014, the Chairman of the board of Shenzhen CAS IP Investment Co., Ltd. (深圳中科院知識產權投資有限公司) from 2011 to 2015, and the Chairman of the board of Shanghai Bi Ke Clean Energy Technology Co., Ltd. (上海碧科清潔能源技術有限公司) from 2014 to 2015.

Mr. SUO obtained his bachelor's degree in science from Inner Mongolia University in China in 1986 and a doctoral degree in science from LICP in China in 1991.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. QI Zixin *Supervisor*

Mr. QI Zixin (齊子鑫), aged 41, was appointed as a Supervisor of the Company on February 18, 2014. Mr. QI is a Director of China Oceanwide Holdings Group Co., Ltd. (中國泛海控股集團有限公司) ("China Oceanwide"), a substantial shareholder of the Company, the Vice Chairman of Oceanwide Energy Investment Holdings Co., Ltd. (泛海能源控股股份有限公司) ("Oceanwide Energy"), the Vice Chairman and President of Oceanwide Electric Holdings Co., Ltd. (泛海電力控股有限公司), a Non-executive Director of China Oceanwide Holdings Limited (中泛控股有限公司) (listed on the Hong Kong Stock Exchange); the Vice Chairman of the board of Minsheng Holdings Co., Ltd. (民生控股股份有限公司) (listed on the Shenzhen Stock Exchange) and the Vice President of Oceanwide Holdings Co., Ltd. (泛海控股股份有限公司) (listed on the Shenzhen Stock Exchange). He previously served as the Vice President of China Oceanwide, the President of Oceanwide Energy,a Director of China Minsheng Trust Co., Ltd (中國民生信託有限公司), and the Vice Chairman of Minsheng Securities Co., Ltd. (民生證券股份有限公司).

Mr. QI obtained his bachelor of laws degree and a bachelor's degree in economics from Peking University in China in 1998 and a master of laws degree from Peking University in China in 2001.

Mr. CHEN Shaopeng *Senior Management*

Mr. CHEN Shaopeng (陳紹鵬), aged 47, was appointed as a Senior Vice President and a member of the Executive Committee of the Company (including its predecessor) since 2011, responsible for the management and investment in the agriculture and food businesses of the Company. From 1993 to 2011, Mr. CHEN served consecutively in Lenovo Group Limited, a subsidiary of the Company, as a Sales Manager, a Regional Manager, a Regional Deputy General Manager, a Regional General Manager, an Assistant President, a Vice President, a Senior Vice President & President of Greater China Region, a Senior Vice President & President of Asia-Pacific and Russia Region and a Senior Vice President & President of Emerging Markets Group. He currently holds chairmanships and directorships in various subsidiaries of the Company.

Prior to joining the Group, he served as a system administrator of the computing center of the Planning and Design Institute of the Ministry of Light Industry from 1992 to 1993.

Mr. CHEN obtained his bachelor's degree in engineering from Beijing Institute of Light Industry (北京輕工業學院) (now known as Beijing Technology and Business University) in China in 1992 and an EMBA degree from Tsinghua University in China in 2005. He completed the Advanced Management Program at Harvard Business School in the United States in 2008.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. TANG Xudong *Senior Management*

Mr. TANG Xudong (唐旭東), aged 55, was appointed as a Senior Vice President and a member of the Executive Committee of the Company (including its predecessor) since January 2012, responsible for managing the investments in Legend Star, Legend Management Institute (聯想管理學院), Human Resources Department and Administration Department.

Mr. TANG joined Legend Holdings in 2001 and served consecutively as Vice President and Head of Corporate Planning Office, General Manager of its Incubator Investment Division, General Manager of Human Resources Department, Executive Dean of Legend Management Institute and Vice President. From 1990 to 2001, Mr. TANG served consecutively in Lenovo as General Manager of Human Resources Department, General Manager of the Legal Department and Deputy Head of Corporate Planning Office. In addition, Mr. TANG serves as a Director of Chinese Academy of Sciences Holdings Co., Ltd. (中國科學院國有資產經營有限責任公司), a substantial shareholder of the Company, since 2011. He currently holds directorships in various members of Legend Holdings.

Prior to joining Legend Holdings, Mr. TANG served as an assistant engineer in CAS Policy Bureau (中國科學院政策局) from 1987 to 1990.

Mr. TANG obtained his bachelor's degree in laws from Central Institute of Nationalities (中央民族學院) (now known as Minzu University of China) in China in 1986, and got an EMBA degree from Cheung Kong Graduate School of Business in China in 2005.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. NING Min *Senior Management*

Mr. NING Min (寧旻), aged 47, was appointed as a Senior Vice President, the Chief Financial Officer and the Secretary of the Board of the Company on February 18, 2014, the date of the Company changed to a joint stock limited liability company. He has been a Senior Vice President and a member of Executive Committee of the Company (including its predecessor) since 2012. He was appointed as the Joint Company Secretary of the Company on March 15, 2015.

Mr. NING joined Legend Holdings in 2000 and served consecutively as a Deputy Head of the Corporate Planning Office, the secretary of the Board and the General Manager of the Asset Management Department, a Vice President and a Senior Vice President of the Company. He is responsible for finance department, asset management department, securities affairs department, public relations department, and the Hong Kong office of the Company. From 1991 to 2000, Mr. NING served consecutively in Lenovo as a Secretary to the President and an Assistant to the Chairman of the board of directors. He currently hold chairmanships and directorships in various members of Legend Holdings.

Mr. NING is currently a Director of Xi'an Shaangu Power Co., Ltd. (西安陝鼓動力股份有限公司) (listed on the Shanghai Stock Exchange). He was previously a Non-executive Director of China Glass Holdings Limited (listed on the Hong Kong Stock Exchange).

Mr. NING obtained his bachelor's degree in economics from Renmin University of China in China in 1997. Mr. NING completed courses of master of business administration offered by Graduate School of Renmin University of China (中國人民大學研究生院) in China in 2001.

Mr. LI Peng *Senior Management*

Mr. LI Peng (李蓬), aged 46, was appointed as a Senior Vice President and a member of the Executive Committee of Legend Holdings on July 15, 2015, currently responsible for strategic investment sectors of Legend Holdings including financial services investment and overseas investment. Mr. LI joined Legend Holdings in 2003 and served consecutively as a General Manager, Investment Director, Assistant President, Vice President, and a Senior Vice President of the Investment Management Department and General Manager of the Strategic Investment Department. He currently holds directorships in various members of Legend Holdings.

Prior to joining Legend Holdings, Mr. LI served as a Finance Manager of Sinotrans Corporation (中國對外貿易運輸總公司) from 1994 to 1999. He also served as a senior Financial Analyst of Teradyne Connection Systems, US from June 2001 to December 2002.

Mr. LI obtained his bachelor's degree in International Finance from University of International Business & Economics (China) in China in 1994, and an MBA from the University of New Hampshire in the United States in 2001.

DIRECTOR'S REPORT

Principal Businesses

The principal businesses of the Company comprise strategic investment business (investment in five major sectors: IT, financial services, innovative consumption and services, agriculture and food, and new materials) and financial investment business (mainly includes angel investments, venture capital, private equity investments and other investments).

Reserve

During the reporting period, the changes in reserve of the Company and its subsidiaries are set out in the consolidated statement of changes in equity of the financial statements prepared in accordance with the International Financial Reporting Standards in this annual report. The changes in reserve of the Company are set out in the changes in reserve of the Company of note 46(b) to the financial statements.

Distributable Reserve

According to the Articles of Association of the Company, dividend can only be distributed in accordance with the distributable profit determined by the China Accounting Standards for Business Enterprises or International Financial Reporting Standards or accounting standards of the place where the Company is listed (whichever is lower).

As of December 31, 2016, the distributable reserve of the Company amounted to RMB2,458 million (2015: RMB1,894 million) which was calculated pursuant to the accounting policy under the China Accounting Standards for Business Enterprises.

Results and Appropriations

The results of the Company and its subsidiaries for the year are set out in the consolidated income statement on pages 104 to 105 of this annual report.

The overall financial position of the Company and its subsidiaries as at December 31, 2016 are set out in the consolidated balance sheet on pages 107 to 108 in this annual report, and the financial position of the Company as at December 31, 2016 in note 46(a) to the financial statements of the Company's balance sheet, respectively.

The consolidated cash flow statement of the Company and its subsidiaries for the year is set out in the consolidated cash flow statement on pages 111 to 112 in this annual report.

The Board proposed to distribute the final dividend for the year ended December 31, 2016 of RMB0.242 per ordinary share (before tax) (2015: RMB0.22). If the proposal is approved by the Shareholders at the annual general meeting ("AGM") to be held on Friday, June 2, 2017, the proposed dividend will be distributed around Thursday, July 13, 2017 to the Shareholders whose names appear on the register of members of the Company on Tuesday, June 13, 2017. Detailed arrangements of the declaration and distribution of final dividend (including arrangements for withholding and paying income tax) will be disclosed separately in the notice of 2016 AGM by the Company. Dividends on Domestic Shares will be paid in RMB whereas dividends on H Shares will be denominated in RMB and paid in HKD (the exchange rate of RMB to HKD will be fixed at the average selling price as announced by the People's Bank of China for a calendar week immediately prior to the date of AGM).

DIRECTOR'S REPORT

According to the Law on Enterprise Income Tax of the PRC and its implementing rules which came into effect on January 1, 2008 and other relevant rules, the Company is required to withhold enterprise income tax at the rate of 10% upon distributing the final dividend to non-resident enterprise shareholders as appearing on the register of members for H shares of the Company. Any H shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups or organizations will be treated as being held by non-resident enterprise shareholders and therefore shall be subject to the withholding of the enterprise income tax.

According to regulations by the State Administration of Taxation (Guo Shui Han [2011] No. 348) and relevant laws and regulations, if the individual holders of H Shares are residents of Hong Kong or Macau or those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these Shareholders. If the individual holders of H Shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these Shareholders. If these Shareholders require the PRC tax authorities to claim refund of overpaid tax fees through the Company in accordance with the relevant requirements of the announcement [2015] No. 60 of State Administration of Taxation, they shall submit reports and information as stipulated in section VII of the announcement [2015] No. 60 of State Administration of Taxation, and supplement the condition of enjoying the treatment of treaties. If the individual holders of H Shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the actual tax rate stipulated in the relevant tax treaty. If the individual holders of H Shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 20%, or those countries which have not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these Shareholders.

Pursuant to the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) (Cai Shui [2014] No. 81), for dividends received by domestic individual investors from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the company of such H shares shall withhold individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

Pursuant to the Notice on Relevant Taxation Policies Concerning the Pilot Inter-connected Mechanism for Trading on the Shenzhen Stock Market and the Hong Kong Stock Market (關於深港股票市場交易互聯互通機制試點有關稅收政策的通知) (Cai Shui [2016] No. 127) effective on 5 December 2016: for dividends received by domestic individual investors from investing in H shares listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect, the company of such H shares shall withhold individual income tax at the rate of 20% on their behalf. For dividends received by domestic securities investment funds from investing in H shares listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors; and for dividends received by domestic corporate investors from investing in H shares listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect, the company of such H shares shall not withhold the income tax on their behalf and the domestic corporate investors shall file the tax returns on their own. Dividends income of resident enterprises in the PRC obtained as they have continuously held H shares for 12 months and enterprise income tax will be exempted according to laws.

DIRECTOR'S REPORT

Closure of Register of Members

In order to determine the entitlement of H Shareholders to the final dividend for 2016, the H share register of members of the Company will be closed from Thursday, June 8, 2017 to Tuesday, June 13, 2017 (both days inclusive). H Shareholders who wish to receive the final dividend for 2016 shall deliver the share certificates accompanied by the transfer documents to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, June 7, 2017.

Shares Issued

The details of changes in shares issued of the Company during the reporting period are set out in note 33 to the financial statements.

Business Review

Under the Disclosure of Financial Information set out in Appendix 16 to the Listing Rules, the Company is required to include a business review in the Directors' Report. According to the Schedule 5 to the Company Ordinance of Hong Kong, a business review shall cover certain aspects, the details of which are as follows:

1. A fair review of the business of the Company and its subsidiaries

   "Management Discussion and Analysis" section on pages 14 to 57 of this annual report.

2. A description of the principal risks and uncertainties facing the Company and its subsidiaries

   "Financial Policies and Risk Management" section on pages 54 to 55 of this annual report.

3. Particulars of significant events affecting the Company and its subsidiaries that have occurred subsequent to the reporting period

   "Events after the reporting period" on pages 55 to 56 of this annual report.

4. An indication of likely development in the business of the Company and its subsidiaries

   Various sections of "Management Discussion and Analysis" on pages 14 to 57 of this annual report.

5. An analysis using financial key performance indicators

   "Financial Review" section on pages 50 to 53 of this annual report.

6. The Company's environmental policies and performance

DIRECTOR'S REPORT

Environmental Protection Policy

The Group strives for environmental protection, energy conservation, reduction of emission as well as reasonable and effective usage of resources and energy for daily operating activities. We also ensure our compliance with relevant local environmental laws and regulations as well as the environmental emission standards of relevant industry during our operation in different regions. We are committed to continuous practice of environmental management and to improve the corresponding measures, including the establishment of a sound environmental emergency system based on specific business, the provision of effective protection for the prevention from, management and control of environmental emergencies, as well as the improvement of plant production process and deployment of resource recycling system to effectively save energy consumption. Meanwhile, we attach importance to environmental management of office areas. We actively develop staff's awareness on environmental protection, economic use of office resources and energy, and actively promote green layout in industrial parks and the green building rating of office buildings. The Group will continue to stringently comply with the relevant requirements of environmental protections, develop sustainable policies and designs, and strive to achieve full efficiencies of economic returns, social welfare and environmental protections.

The Company will publish its first 2016 environmental, social and governance report (the "ESG Report"), which was prepared under the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules. The ESG Report mainly describes the Company's performance in various environmental and social aspects, including integrity management, personnel training, supply chain management, environmental protection and social welfare, during the period from January 1 to December 31, 2016.

The ESG Report of the Company will be published to the public separately and will be available on the websites of the Hong Kong Stock Exchange or the Company within three months after the publication of this annual report.

7. Key relationships with employees, customers, suppliers and others

The Company is not aware of any key relationships between itself and its employees, customers, suppliers and others that have a significant impact on the Company and on which the Company's success depends.

Principal Customers and Suppliers

During the year, the sales of product and service to the top five customers from the Company and its subsidiaries were less than 15%. The principal suppliers of the Company and its subsidiaries accounted for the following percentages of the procurement amount of the Company and its subsidiaries during the year:

The largest supplier 19%
Total percentage of the top five suppliers 42%

None of the directors, their close associates or any shareholders of the Company (who to the knowledge of the directors owns more than 5% of the issued shares of the Company) had interests in the aforementioned principal suppliers.

Property, Plant and Equipment and Investment Property

Details of changes in the property, plant and equipment and investment property of the Company and its subsidiaries during the reporting period are set out in notes 17 and 18 to the financial statements, respectively.

DIRECTOR'S REPORT

Borrowings

Details of the borrowings of the Company and its subsidiaries are set out in note 39 to the financial statements.

Contingent Liability

Details of the contingent liability of the Company and its subsidiaries are set out in note 45 to the financial statements.

Five-year Financial Summary

The results and summary of assets and liabilities of the Company and its subsidiaries for the year ended December 31, 2016 and in the latest four fiscal years are set out on pages 247 to 248 of this annual report.

Use of Proceeds from the Initial Public Offering

The net proceeds from the Company's initial public offering amounted to approximately HKD14.75 billion (equivalent to approximately RMB11.64 billion, including the proceeds received pursuant to the partial exercise of the Over-allotment Option), which are intended to be used as disclosed in the Prospectus of the Company.

As of December 31, 2016, the Company applied RMB2 billion for repayment of partial amount of the corporate bonds due in 2015 and RMB342 million as ordinary working capital, and the remaining balance has been deposited with Hong Kong licensed bank.

Substantial Subsidiaries and Associates

Details of substantial subsidiaries and associates of the Company are set out in notes 12 and 13 to the financial statements.

Corporate Governance Code and the Company's Compliance with the Relevant Laws and Regulations

During the reporting period, the Company has been complying with the applicable provisions of the Corporate Governance Code ("CG Code") set out in Appendix 14 of the Listing Rules, and when applicable, has been complying with the best recommended practices in the CG Code. The Company will continue to review and improve the corporate governance practices in order to ensure the compliance of the Company with the CG Code. The Company has complied with the relevant laws and regulations which have material impacts on it.

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

During the year ended December 31, 2016, the Company entrusted a custodian to purchase a total of 16,048,700 shares of the Company by way of trust as an incentive subject of the restricted share incentive scheme of the Company (please refer to the Company's circular dated April 15, 2016 for details). Save for the above transaction, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2016.

Sufficient Public Float

As at the date of this report, in accordance with the public information that the Company could obtain and as far as the directors are aware, the directors confirmed that the Company had been maintaining the sufficient public float provided by the Listing Rules.

DIRECTOR'S REPORT

Pre-emptive Rights

The Company's Articles of Association and the Company Law of PRC do not have any provisions regarding pre-emptive rights.

Information of Directors and Supervisors

During the year and as at the date of this report, the Company's directors are as follows:

Mr. LIU Chuanzhi *(Chairman)*
Mr. ZHU Linan
Mr. ZHAO John Huan
Mr. WU Lebin#
Mr. WANG Jin#
Mr. LU Zhiqiang#
Mr. MA Weihua*
Mr. ZHANG Xuebing*
Ms. HAO Quan*

Non-executive directors
* Independent Non-executive directors

The Company has received annual confirmations which are made by each of existing Independent Non-executive directors to ensure their independence in the Company pursuant to Rule 3.13 of the Listing Rules; and the Company is of the view that such directors are independent of the Company.

During the year and as at the date of this report, the Company's supervisors are as follows:

Mr. LI Qin *(Chairman of Board of Supervisors)*
Mr. SUO Jishuan
Mr. QI Zixin

Permitted Indemnity Provision

The Company has maintained liability insurances for its directors, supervisors and senior management to provide protection to directors, supervisors and senior management of the Company for liability that might arise in the course of their performance of duties according to law and facilitate them to fully discharge their duties.

Directors' and Supervisors' Service Contracts

The Company has entered into service contract with each of directors and supervisors on June 6, 2015. For the year ended December 31, 2016, none of the directors or supervisors had any existing or proposed service contract with the Company and any member of the Company which does not expire or is not determinable by the Company within one year without payment of any compensation (other than statutory compensation).

Directors' and Supervisors' Interests in Transactions, Arrangements and Contracts

During the year, Right Lane Limited ("Right Lane"), a wholly-owned subsidiary of the Company and as the guarantor, entered into a facility agreement relating to a term loan facility with a maximum amount of USD100,000,000 with Well Faith Management Limited ("Well Faith"), an associate of the Company's director, Mr. Zhao John Huan, and as the borrower, and the lenders, to provide a continuing corporate guarantee to secure the whole amount of such term loan. As a return, Well Faith will pay a guarantee fee to Right Lane (details of which are set out in the Company's announcement dated February 10, 2016). Other than the aforesaid, there are no loans, quasi-loans or other dealings in favour of the directors or supervisors, their controlled bodies corporate and connected entities.

DIRECTOR'S REPORT

During the year of 2015, there are no loans, quasi-loans or other dealings in favour of directors or supervisors, their controlled bodies corporate and connected entities.

During the year and at the year end, no director or supervisor of the Company had or has a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Group's business to which the Company and its subsidiaries were or are a party (2015: nil).

Directors' and Supervisors' Emoluments and Five Highest Emoluments

The directors' and supervisors' emoluments are determined by the Board with reference to their duties, responsibilities and performance and the results of the Company and its subsidiaries. Details of the directors' and supervisors' emoluments and the five highest paid individuals are set out in notes 47(a) and 10 to the financial statements, respectively.

Directors' and Supervisors' Interests in Competing Business

During the reporting period, none of the directors (excluding the independent non-executive directors) or supervisors of the Company had any interests in businesses which constitute competition or may constitute direct or indirect competition in the businesses of the Company and its subsidiaries.

Transactions with Connected Persons

During the reporting period, Right Lane, a wholly-owned subsidiary of the Company and as the guarantor, entered into a facility agreement relating to a term loan facility with a maximum amount of USD100,000,000 with Well Faith, an associate of the Company's director, Mr. Zhao John Huan, and as the borrower, and the lenders, to provide a continuing corporate guarantee to secure the whole amount of such term loan. As a return, Well Faith will pay a guarantee fee to Right Lane (details of which are set out in the Company's announcement dated February 10, 2016). Other than the aforesaid, there are no loans, quasi-loans or other dealings in favour of the directors or supervisors, their controlled bodies corporate and connected entities. Other than the aforementioned transaction, the related party transactions set out in note 52 to the financial statements did not constitute connected transactions under Chapter 14A of the Listing Rules.

Pension Schemes

Details of pension benefit of the Company and its subsidiaries are set out in notes 9 and 41 to the financial statements, respectively.

Auditor

PricewaterhouseCoopers ("PricewaterhouseCoopers") has been appointed by the Company as the auditor for the year ended December 31, 2016. The consolidated financial statements for 2016 of the Company which were prepared in accordance with the International Financial Reporting Standards have been audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the 2016 AGM.

Directors' Interests and Short Positions in Securities

As at December 31, 2016, the interests or short positions of the directors, supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as notified to our Company and the Hong Kong Stock Exchange pursuant to

DIRECTOR'S REPORT

Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register maintained by the Company under Section 352 of the SFO, or as notified to our Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules, were as follows:

(i) Interests in the shares of the Company

Name of director	Nature of interest	Class of shares	Number of shares held	Approximate percentage of shareholding in the relevant class of shares	Approximate percentage of shareholding in the total issued shares
LIU Chuanzhi	Beneficial owner	Domestic Shares	68,000,000	3.46%	2.88%
ZHU Linan	Beneficial owner	Domestic Shares	48,000,000	2.44%	2.03%
LU Zhiqiang*	Interest in controlled corporation	Domestic Shares	400,000,000	20.36%	16.97%

Note:

* Mr. LU Zhiqiang is deemed to be interested in the 400,000,000 Domestic Shares held by China Oceanwide Holdings Group Co., Ltd. through companies controlled by him. Please refer to the section headed "Interests of the Substantial Shareholders" for details.

(ii) Interests in our associated corporations

Name of director/supervisor	Name of associated corporation	Nature of interest	Number of shares and underlying shares held	Approximate percentage of shareholding in the total issued shares
LIU Chuanzhi	Lenovo	Beneficial owner	4,184,960[(a)]	0.04%
ZHU Linan	Lenovo	Beneficial owner	4,647,047[(b)]	0.04%
ZHAO John Huan	Lenovo	Beneficial owner	2,610,634[(c)]	0.02%
LI Qin	Lenovo	Beneficial owner	1,724,000	0.01%

Notes:

(a) Mr. LIU Chuanzhi owns 1,397,984 ordinary shares directly and is deemed to be interested in 690,000 ordinary shares held by his spouse through a trust. He also holds 2,096,976 units of share awards which are convertible into ordinary shares.

(b) Mr. ZHU Linan owns 2,781,682 ordinary shares and 1,865,365 units of share awards which are convertible into ordinary shares.

(c) Mr. ZHAO John Huan owns 337,117 ordinary shares and 2,273,517 units of share awards which are convertible into ordinary shares.

Interests of the Substantial Shareholders

As at December 31, 2016, so far as the directors are aware, the following persons had an interest and/or a short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, and an interest and/or a short position as recorded by the Company in the register required to be kept under section 336 of the SFO:

Name of shareholder	Class of shares	Nature of interest	Number of shares held	Approximate percentage of shareholding in the relevant class of shares[(1)]	Approximate percentage of shareholding in the total issued shares[(2)]
Chinese Academy of Sciences Holdings Co., Ltd.	Domestic Shares	Beneficial owner	684,376,910	34.83%	29.04%
Beijing Lian Chi Zhi Yuan Management Consulting Center Limited Partnership	Domestic Shares	Beneficial owner	480,000,000	24.43%	20.37%
Beijing Lian Chi Zhi Tong Management Consulting Limited[(3)]	Domestic Shares	Interest in controlled corporation	480,000,000	24.43%	20.37%
LU Zhiqiang[(4)]	Domestic Shares	Interest in controlled corporation	400,000,000	20.36%	16.97%
China Oceanwide Holdings Group Co., Ltd.	Domestic Shares	Beneficial owner	400,000,000	20.36%	16.97%
Oceanwide Group Co., Ltd.[(4)]	Domestic Shares	Interest in controlled corporation	400,000,000	20.36%	16.97%
Tohigh Holdings Co., Ltd. (通海控股有限公司)[(4)]	Domestic Shares	Interest in controlled corporation	400,000,000	20.36%	16.97%
Beijing Lian Heng Yong Xin Investment Center Limited Partnership	Domestic Shares	Beneficial owner	178,000,000	9.06%	7.55%
Beijing Lian Heng Yong Kang Management Consulting Limited[(5)]	Domestic Shares	Interest in controlled corporation	178,000,000	9.06%	7.55%
National Council for Social Security Fund (全國社會保障基金理事會)	H Shares – long position	Beneficial owner	35,623,090	9.09%	1.51%

DIRECTOR'S REPORT

Notes:

(1) The calculation is based on the percentage of shareholding in Domestic Shares or H Shares of the Company as at December 31, 2016.

(2) The calculation is based on the total number of 2,356,230,900 shares in issue as at December 31, 2016.

(3) Beijing Lian Chi Zhi Tong Management Consulting Limited is the sole general partner of Beijing Lian Chi Zhi Yuan Management Consulting Center Limited Partnership and has de facto control on it. Accordingly, Beijing Lian Chi Zhi Tong Management Consulting Limited is deemed to be interested in the 480,000,000 Domestic Shares.

(4) Oceanwide Group Co., Ltd. and Tohigh Holdings Co., Ltd. (通海控股有限公司) are corporations controlled by Mr. LU Zhiqiang. Tohigh Holdings Co., Ltd. (通海控股有限公司) holds the entire equity interest in Oceanwide Group Co., Ltd. which in turn holds 98% equity interest in China Oceanwide Holdings Group Co., Ltd.. Accordingly, Mr. LU Zhiqiang is deemed to be interested in the 400,000,000 Domestic Shares held by China Oceanwide Holdings Group Co., Ltd..

(5) Beijing Lian Heng Yong Kang Management Consulting Limited is the sole general partner of Beijing Lian Heng Yong Xin Investment Center Limited Partnership and has de facto control on it. Accordingly, Beijing Lian Heng Yong Kang Management Consulting Limited is deemed to be interested in the 178,000,000 Domestic Shares.

As at December 31, 2016, save as disclosed above, there was no other person who held interests and/or short positions in the shares or underlying shares of the Company which are required to be recorded in the register to be kept under section 336 of Part XV of the SFO, or was a substantial shareholder of the Company.

By order of the Board
Legend Holdings Corporation
LIU Chuanzhi
Chairman

March 29, 2017

SUPERVISOR'S REPORT

The board of supervisors of Legend Holdings Corporation (the "Board of Supervisors") complies with the regulations of the "Company Law of the PRC", "Articles of Association", "Rules of Procedures of the Board of Supervisors" and "Listing Rules", earnestly fulfilling their supervisory duties, safeguarding shareholders' rights, upholding the interests of the Company, observing the principles of integrity, trying their best to fulfill their duties, and discharging their duties with reasonable care, diligence and initiative.

The Board of Supervisors of the Company comprises three members. The Chairman of the Board of Supervisors is Mr. LI Qin (representative of the employees), Mr. SUO Jishuan (representative of a shareholder) and Mr. QI Zixin (representative of a shareholder).

In the year of 2016, the Board of Supervisors held two meetings. Such meetings were convened in compliance with relevant laws, regulations and the provisions of the Company's Articles of Association, the details are as follows:

1. The first meeting was convened on March 30, 2016. 3 supervisors were entitled to be present at the meeting and 2 supervisors attended the meeting. The meeting was chaired by Mr. LI Qin, the Chairman of Board of Supervisors, and reviewed the audited consolidated financial statements of the Company for the year ended December 31, 2015, the Company's profit distribution plan for the year 2015 as well as the 2015 Supervisor's Report of the Company.

2. The second meeting was convened on August 30, 2016 by way of written resolution in lieu of on-site meeting. The unaudited consolidated financial statements (complied according to the International Accounting Standards) of the Company for the six months ended June 30, 2016, interim results announcement of the Company for the six months ended June 30, 2016, the 2016 interim report of the Company as well as the Company's unaudited consolidated financial statements for the six months ended June 30, 2016 (complied according to China Accounting Standards for Business Enterprises) were passed at the meeting.

In 2016, the members of the Board of Supervisors also attended all board meetings and meetings of the Audit Committee as well as the 2015 AGM of the Company, in order to supervise the lawfulness and the compliance of review and discussion procedures in the respective meetings of the Board, the Audit Committee and shareholders.

The Board of Supervisors is of the opinion that in 2016, the Board and management of the Company are both operating in strict compliance with the laws, regulations and the provisions of the Articles of Association of the Company; whereas the decision-making processes were legal, the principle of good faith and due diligence was complied, and the authority was exercised in good faith in the best interests of the Shareholders.

In 2017, the Board of Supervisors of the Company will continue to strictly abide by the Articles of Association of the Company and the relevant provisions, safeguard the interests of Shareholders and properly discharge its various duties.

By order of the Board of Supervisors
Legend Holdings Corporation
LI Qin
Chairman of the Board of Supervisors

March 29, 2017

CORPORATE GOVERNANCE REPORT

The Company has applied and complied with the code provisions as set out in the Corporate Governance Code and the Corporate Governance Report contained in Appendix 14 of the Listing Rules during the year ended December 31, 2016.

The Company reviews the compliance of the Corporate Governance Code and the Corporate Governance Report annually in order to ensure that the Company has complied with the code provisions. Efforts have been made to continuously enhance corporate governance with reference to the recommended best practices.

Composition of the Board

Pursuant to the Articles of Association of the Company, the Board currently comprises nine members, including three executive directors, three non-executive directors and three independent non-executive directors. Details are as follows:

Executive Directors:

Mr. LIU Chuanzhi *(Chairman of the Board and Chairman of the Nomination Committee)*
Mr. ZHU Linan *(President)*
Mr. ZHAO John Huan *(Executive Vice President)*

Non-executive Directors:

Mr. WU Lebin
Mr. WANG Jin *(Member of the Audit Committee)*
Mr. LU Zhiqiang *(Member of the Remuneration Committee)*

Independent Non-executive Directors:

Mr. MA Weihua *(Chairman of the Remuneration Committee and member of the Nomination Committee)*
Mr. ZHANG Xuebing *(Members of the Audit Committee and the Nomination Committee)*
Ms. HAO Quan *(Chairperson of the Audit Committee and member of the Remuneration Committee)*

Biographical details of members of the Board are set out on pages 58 to 66 in the section of "Biography of Directors, Supervisors and Senior Management" of this annual report and the website of the Company. Such information will be updated on the website of the Company at any time when there is any change. To the best knowledge of the Company, there are no financial, business, family or other significant relationships among members of the Board, the Board of Supervisors or senior management.

During the reporting period, the Board has complied with the requirements of the Listing Rules to appoint at least three independent non-executive directors, being one-third of the Board, and one of them has appropriate professional qualifications in accounting. The Company has received, from each of the independent non-executive directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all of the independent non-executive directors are independent as at the date of this report in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules. The respective capacity of independent non-executive director is expressly identified in all corporate communications that disclose the names of the directors of the Company.

Appointment, Re-election and Retirement of Directors

Each of the members of directors (including non-executive directors) of the Company is elected or changed by the shareholders' general meeting for a term of three years. The term of office of directors shall commence from the date of appointment up to the expiry of the term of the directors, renewable upon re-election. The Nomination Committee of the Board is responsible for evaluating the appointment of new directors or filling the vacancies of directors, advising to the Board and submitting for approval at the shareholders' general meeting upon approval by the Board.

Board Diversity

The Board has adopted the board diversity policy, which is beneficial for enhancing the Company's comprehensive performance and operating capability and provides support to the Company in achieving strategic goals and maintaining its sustainable and balanced development. According to the board diversity policy, in respect of setting measurable objectives, in selecting director candidates, Board diversity will be considered, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and term of service. Directors with technical, legal, financial, management and audit background will provide various extensive business experiences to the Company. Meanwhile, such factors will be considered by the Company based on its business model and specific needs and the ultimate decision will be based on merit, value and contribution that the selected candidates will bring to the Board. The Nomination Committee under the Board makes recommendations or gives advice to the Board on the appointment of new directors of the Company based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Board members shall possess appropriate skills and experience and make their own contributions from diversified perspectives based on the business model and specific needs of the Company.

Regarding the Board composition under diversified perspectives, the Nomination Committee under the Board reviews and evaluates the current skills, qualifications and experience of the directors. The Nomination Committee is of the opinion that the Board maintains a balanced and sufficiently diversified composition, discharge its functions effectively and enhance the quality of its deliberations and decision-making. In guiding and managing the business of the Company, the Board members have extensive experience, professional qualifications and diversified viewpoints in management of investment business, equity investment, financial management, accounting, internal control and legal issues. They are familiar with the major topics of the economic development of China, thereby satisfying the needs of the Group. The role of the non-executive directors and independent non-executive directors ensures that objective and independent judgement is exercised by the Board. The composition of each committee under the Board remains properly balanced and discharges its functions effectively.

CORPORATE GOVERNANCE REPORT

Duties and Authorities of the Board and Management

Pursuant to Articles of Association of the Company, the Board is a standing decision-making body of the Company and its main duties include the following:

- Convening shareholders' general meetings and implementing resolutions passed at such meetings;
- Deciding operating plan and investment plan, the establishment of internal management body and basic management systems;
- Formulating plans for annual financial budget, final accounts and profit distribution plan;
- Formulating plans for increasing or decreasing the registered capital of the Company and plans for issuing bonds or other securities of the Company and plans for listing;
- Formulating plans for material asset purchase and disposal;
- Preparing and monitoring the financial system and financial report of the Company;
- Engaging or dismissing senior management;
- Optimizing and improving corporate governance policies and standards of the Company; and
- Supervising policies of the Company in respect of compliance and reviewing the effectiveness of internal control and risk management of the Company.

Save for the above-mentioned matters that are required to be considered and approved by the Board, the authorization and responsibilities of daily operational management of the Company are assigned to the President and the executive committee under the President (members of the executive committee include all executive directors and senior management). Details of main duties of the President are set out in the paragraph of "Chairman of the Board and the President". In addition, to simplify daily investment decisions and investment procedures, the Board authorizes and appoints the executive committee to consider and approve on behalf of the Board the investment and financing projects which are in conformity with established investment standards. However, if such investments, acquisition or disposal of assets, financing, connected transactions trigger disclosure obligations under the Listing Rules, such transactions shall be subject to the approval by the Board.

The Board also assigns certain specific responsibilities to its special committees in accordance with the corresponding terms of reference of respective committees under the Board. The Board established the Audit Committee, Remuneration Committee and Nomination Committee. Their terms of reference and the rules of procedures are stipulated in writing and published on the websites of the Hong Kong Stock Exchange and the Company.

The Company has purchased director's liability insurances for its directors, which provided protection to directors for liabilities that might arise in the course of their performance of duties according to law and facilitate directors to fully perform their duties.

CORPORATE GOVERNANCE REPORT

Chairman of the Board and the President

The positions of the Chairman of the Board and the President of the Company are assumed by Mr. LIU Chuanzhi and Mr. ZHU Linan respectively. They are two distinctly different positions, details of which are in the Articles of Associations of the Company.

Pursuant to Article 108 of the Articles of Association of the Company, the functions of the Chairman of the Board include presiding over the shareholders' general meeting, presiding over meetings of the Board, leading and organizing to formulate various systems for the Board's operation, coordinating the operation of the Board, hearing regular and non-regular work reports from the Company's senior management, and providing the Board with guidance opinions on the execution of Board resolutions, supervising and reviewing the implementation of the Board resolutions, ensuring the Board to act in the best interests of the Company, nominating the candidates of the President and secretaries to the Board of the Company. The Chairman of the Board actively encourages directors to fully participate in the Board's affairs, and contribute to the functions of the Company. It also encourages directors with different views to voice their concerns, and allows sufficient time for discussion to ensure that the decisions of the Board can fairly reflect the consensus of the Board. In this regard, apart from regular Board meetings, the Chairman of the Board also holds meetings with non-executive directors (including independent non-executive directors) in the absence of executive directors, respectively. Under the leadership of the Chairman of the Board, the Board of the Company has adopted sound corporate governance practices and procedures and has taken appropriate steps to keep effective communications with the Shareholders.

Pursuant to the Article 123 of the Articles of Association of the Company, the President of the Company is responsible to the Board and its functions and power include generally operating and managing the business of the Company and organizing to implement the resolutions of the Board of the Company, policies in relation to annual operation plans and investment plan of the Company, determining the projects such as investment, acquisition or disposal, financing other than decisions of the Board meetings or Shareholders' general meetings, so as to ensure the Board's full understanding of the capital needs of the Company's business and formulate the proposed plans for annual financial budget and final accounts of the Company and make recommendations to the Board. The President of the Company ensures sufficient supply of capital needs of the business with the assistance of Chief Financial Officer, while closely monitoring the operating and financial performance of the Company according to the relevant plans and budget. The President of the Company will take remedial measures and propose to convene extraordinary meeting for reporting and make recommendations to the Board in respect of significant issues.

Chairman of the Board and the President of the Company keep communications with all directors to ensure that they fully understand business development status in all aspects of the Company. They are responsible for building and maintaining an effective executive team in order to discharge their duties, and the President of the Company is responsible for proposing to the Board for engaging or dismissing senior management; coordinating with other executive directors and management teams of various departments, formulating the proposed plans for basic management systems and internal management structure of the Company, and formulating specific rules and regulations of the Company. The President of the Company determines other issues of the company within the scope of the Board's authorization.

CORPORATE GOVERNANCE REPORT

Directors' and Supervisors' Induction Training and Continuous Professional Development

All directors and supervisors of the Company have been given reference materials such as relevant introduction and guidelines upon joining the Company to facilitate their familiarizing the history and business information of the Company and their understanding of all obligations they shall assume in accordance with the Company Law of the PRC, Listing Rules, applicable laws and other regulatory rules and under the governance policies of the Company.

The Company encouraged directors to participate in continuous professional development so as to update their knowledge and skills and facilitate the discharge of their duties as the Company's directors.

Directors regularly receive the latest information on business of the Company and its subsidiaries, its operating rules and regulations and industrial specific environment and obligations and responsibilities of directors. The latest information is provided to each director, supervisor and senior management in the form of briefing or report or expert synopsis.

During the reporting period, all directors and supervisors had been given learning materials for reading and learning. The learning materials cover, among others, risk management and internal control, remuneration and equity incentive for senior management of listed companies, interpretation of inside information and case studies as well as elements of an effective board of directors. The training of on-site briefing by experts covers liability insurance for directors, supervisors and senior management and relevant litigation cases, the major changes and effect of long-form audit report as well as how to manage corporate risks and convert such risks into corporate value.

Model Code for Securities Transactions by Directors, Supervisors and Senior Management

The Company has adopted its own model code regarding securities transactions by directors, supervisors and senior management of the Company, the terms of which are not less favorable than the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 to the Listing Rules (the "Model Code").

The Company has made specific inquiries and has received written confirmations from all directors and the supervisors that they complied with the Model Code set out in Appendix 10 to the Listing Rules during the reporting period.

Accountability of Directors on the Financial Statements

Directors are responsible for preparing financial statements for every financial year of the Company with the support of the finance team, and ensure that the preparation of financial statements has constantly adopted appropriate accounting policies and in accordance with the International Financial Reporting Standards so as to truly and fairly report the Company's status. In presenting the interim and annual financial statements of the Group, the directors have considered whether suitable accounting policies have been applied consistently and that judgments and estimates are prudent and reasonable.

The management team recognizes the importance of providing the Board with sufficient explanations as well as appropriate and relevant information on an accurate and timely basis. Management presents to the Board the annual and interim business reviews and financial reports comparing the actual performance of the Group with the budget and highlights of major relevant matters to enable the Board to make a well-informed assessment on the performance, position and prospects of the Group.

The statement issued by the auditor on its reporting responsibilities is set out in the "Independent Auditor's Report" on pages 97 to 103 of this annual report.

CORPORATE GOVERNANCE REPORT

Appointment and Remuneration of External Auditor

The external auditor currently appointed by the Company is PricewaterhouseCoopers. The external auditor is responsible for bringing definite benefits and added-values to the Company and should not cause adverse effects on the independence or independent standing of its audit function.

During the year ended December 31, 2016, the remuneration paid and payable to the Company's external auditor, is set out below:

Type of Services	*RMB'000*
Audit services	69,115
Non-audit services	34,254

The above remuneration includes the charges paid for the provision of relevant services provided by the auditor to the Company and its subsidiaries whereas non-audit services are primarily information system and tax consultation service.

Audit Committee

The Audit Committee comprises three members and the majority are independent non-executive directors. The Chairman of the Audit Committee is acted by Ms. HAO Quan, an independent non-executive director, and the other two members are Mr. WANG Jin, a non-executive director, and Mr. ZHANG Xuebing, an independent non-executive director. The Chairperson of the Audit Committee possesses accounting professional qualifications and has complied with the requirements of Rule 3.21 under the Listing Rules.

The main duties of the Audit Committee include but not limited to monitoring the truthfulness of financial reports and the financial reporting procedures, the effectiveness of risk management and internal control systems and the effectiveness of internal audit functions, monitoring the engagement of external auditor and its qualification, assessment on its independence and work performance, regular review of the financial reports and monitoring of annual audit of the Group, compliance with applicable accounting standards as well as legal and regulatory requirements on financial disclosures. Details of the terms of reference of the Audit Committee are available on the websites of the Hong Kong Stock Exchange and the Company respectively.

CORPORATE GOVERNANCE REPORT

Pursuant to the requirements of "Duties and Rules of Procedures of the Audit Committee of the Board" of the Company, the Audit Committee held four meetings during the reporting period. The matters that the Audit Committee has reviewed, discussed, considered and proposed for the Board's approval (if applicable) are set out as follows:

- The annual results announcement for the year ended December 31, 2015 and the 2015 annual report of the Company and its subsidiaries;

  The audit related matters for 2015 (including but not limited to scope, method of review, principal accounting policies, key accounting estimates and assumptions, discussion on material accounting matters, auditor's recommendation to the management);

  The audit and non-audit fee for 2015 and the letter for re-appointment of the independent auditor for 2016;

- The unaudited consolidated financial statements for the three months ended March 31, 2016 and the nine months ended September 30, 2016 of the Company and its subsidiaries (prepared in accordance with Accounting Standard for Business Enterprises in the PRC);

- The interim results announcement for the six months ended June 30, 2016 and the 2016 interim report of the Company and its subsidiaries;

- Matters related to interim review for 2016 (including but not limited to scope, method of review, principal accounting policies, key accounting estimates and assumptions, discussion of material accounting matters, auditor's recommendation to the management);

- Review on "Management's Statement of 2016 Interim Financial Information of the Company and Its Subsidiaries", "Management's Statement of 2016 Annual Audit of the Company and Its Subsidiaries" and management's comment;

- Annual audit planning for the financial year ended December 31, 2016 presented by independent auditor and audit schedule;

- Major changes in the long-form audit report, the effect on the management and the Audit Committee as well as the discussion on the content of the long-form audit report;

CORPORATE GOVERNANCE REPORT

- The latest revision of relevant accounting/audit standards, new Hong Kong Companies Ordinance and Listing Rules and significant differences in standards affecting financial statements of the Company;
- Independence statement letter from auditor;
- Risk management and internal control structure, annual work plan for risk management and internal control as well as its summary;
- Annual work plan for internal audit and its summary to ensure the appropriateness of scope of audit and its coverage;
- The resources, qualifications and experiences for employees of the Company's accounting, internal audit and financial reporting functions, and whether their training programs and budget are sufficient;
- Confirmation on effective internal control system by management; and
- Connected transactions and continuing connected transactions.

CORPORATE GOVERNANCE REPORT

Risk Management and Internal Control

Concepts of Risk Management and Internal Control

The risk management and internal control system is designed to assist the Company in achieving its long-term vision and mission by identifying and evaluating the Company's risk exposures and formulating appropriate control measures to protect our business, shareholders, assets and capital. We believe that the risk management and internal control system embedded in each business will enhance its long-term shareholder values.

Main Features of Risk Management and Internal Control System

The Company formulated the risk management and internal control framework guided by the COSO framework. The management is responsible for the design, implementation and monitoring of the risk management and internal control system, and regularly reports to the Board and/or the Audit Committee on the effectiveness of such system. The Board is responsible for monitoring the performance of the management, assessing and determining the nature and extent of the risks it is willing to accept in achieving the Company's strategic objectives, and is responsible for establishing and maintaining an appropriate and effective risk management and internal control system.

The Audit Committee of the Board, through internal audit, conducts quarterly review on the effectiveness of the Company's risk management and internal control system. The Company has established an audit department to conduct individual assessment on the effectiveness of the existing risk management and internal control systems according to the annual audit plan. The features and responsibility of the audit department include:

- being independent of the operating management;
- to establish risk identification and assessment methods, align the standards and procedures of risk assessment, organize, coordinate and take the lead in establishing the risk management and internal control system of the Group;
- the audit department is fully authorized with the access to all data and operating information of the Group during the ordinary course and internal audit projects;
- to conduct risk-oriented audit work and special review on areas of concern identified by the Audit Committee and the management.

The audit department regularly reports to the Audit Committee, the President, Senior Vice President and Chief Financial Officer, develops rectification and improvement plans with each department and subsidiaries of the Company for the identified issues and deficiencies and follow up the implementation of the proposals. The rectification efforts were in line with expectations.

We pursue the core value of upholding enterprises' interests as priority, pragmatism, ambition and people-oriented to lay foundation for governing the Company's risk management and internal control with the cultural expression of accountability, professionalism, innovation and collaboration. In order to unleash the effectiveness of the risk management and internal control system, the Company develops necessary guidelines and principles. Under the guidance of the Board, the Company has formulated the "Employees' Code of Professional Conduct" and "Anti-fraud Management System", which explicitly sets forth the division of responsibilities on anti-fraud work, the prevention and control of fraud, the whistleblowing, investigation, handling and reporting procedure of fraud cases. The Company has formulated comparatively comprehensive management systems and implementation rules of various segments of operation and management in order to formulate policies and procedures of various business functions and continue to streamline and improve the management standards of systems, thereby ensuring the steady development of the Company. Currently, the documentation system of the Company covers all business segments and the key areas of management supporting those segments.

CORPORATE GOVERNANCE REPORT

Procedures on Identifying, Evaluating and Managing Significant Risks

The Company's procedures on identifying, evaluating and managing significant risks are as follows:

Risk Identification and Evaluation

- Identifies risks that may potentially affect the business and operation of the segment;
- Uses the evaluation standards developed by the management to evaluate the identified risks and take into account the impact of risks on the operation and the likelihood of occurrence.

Risk Response

- Prioritizes risks by comparing the results of the risk assessment; and
- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control procedures are in place;
- Revises the risk management policies and internal control procedures in case of any significant change; and
- Reports the results of risk monitoring to the management and the Audit Committee of the Board regularly.

We strive to enhance the Company's risk management and internal control structure and capability to ensure long-term growth and sustainable development for the Company's business. In this regard, we are required to implement consistently an effective risk management and internal control structure. We will continue along the same direction, aiming to integrate risk management and internal control with the business processes.

Procedures on and internal control of handling and disseminating inside information

In order to regulate its information disclosure, the Company strengthens the management of information disclosure and has developed the management system of information disclosure (the "System") in accordance with the principles and requirements under the laws and regulations such as the SFO and the Listing Rules as well as the Articles of Association together with the actual conditions of the Company, and implements it accordingly. The System is applicable to the Company's directors, supervisors, president, secretary to the board of directors, senior management, responsible person of each department and subsidiary, other persons having the duty for information disclosure and staff who can access to such inside information by virtue of his/her office or capacity. The System provides detailed guidelines on the appropriate timing, content, format, internal audit process and disclosure procedures of information under different circumstances, the review and disclosure procedure of releasing results announcement, ad hoc announcement, inside information announcement, regular report and circular, duties of, confidentiality and penalty provisions for all management staff who are responsible for information disclosure. The "Code of Conduct for Employees" of the Company also explicitly requires that all staff be obliged to information confidentiality and comply with the System. In addition, the Company provides training to relevant staff on the System so as to ensure the effective implementation. During the reporting period, the Company sought for advice from the compliance advisor in accordance with the requirements of information disclosure under the SFO and the Listing Rules from time to time. The Board is of the view that the Company's procedures on and internal control of handling and disseminating inside information are effective.

CORPORATE GOVERNANCE REPORT

Control Effectiveness

The Board is of the view that, based on the review and results found by the Audit Committee, the risk management and internal control system of the Company for the reporting period ended December 31, 2016 was effective and sufficient and no material issues were identified. The scope of review covers the control in all significant aspects, including financial control, operational control and compliance control. Meanwhile, the review also covers the resources, qualifications and experiences of the staffs of the Company's accounting, internal audit and financial reporting functions as well as their training programs and budget for them.

The internal control system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. In addition, it provides only a reasonable but not an absolute assurance on matters with no significant misrepresentations or loss.

Remuneration Committee

The Remuneration Committee comprises three members and the majority of them are independent non-executive directors. The Chairman of the Remuneration Committee is Mr. MA Weihua, an independent non-executive director, and the other two members are Mr. LU Zhiqiang, a non-executive director, and Ms. HAO Quan, an independent non-executive director.

The main duties of the Remuneration Committee is principally responsible for studying the remuneration strategies and policies, performance appraisal and incentive mechanism and other related matters in relation to the directors, supervisors and senior management, and making relevant recommendations to the Board. Details of the terms of reference of the Remuneration Committee are available on the websites of the Hong Kong Stock Exchange and the Company.

In accordance with the provision of "Terms of Reference of the Remuneration Committee under the Board" of the Company, the Remuneration Committee has convened the meeting once in the reporting period. In the meeting, the committee has reviewed, discussed, considered and recommended the Board to grant approval on the following matters:

- remuneration policy for and remuneration of directors, supervisors and senior management;
- disclosure of directors', supervisors' and senior management's remuneration in the 2015 annual report; and
- medium and long-term incentive scheme.

For the year ended December 31, 2016, the remuneration categories of the senior management of the Company (excluding directors and supervisors) are as follows:

Remuneration categories *(HKD)*	**Number of staff**
9,500,001-10,000,000	1
14,500,001-15,000,000	1
15,000,001-15,500,000	1
20,500,001-21,000,000	1

The details of remuneration of the directors and supervisors for the year ended December 31, 2016 are set out in note 47 to the financial statements.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee comprises three members and the majority of them are independent non-executive directors. The Chairman of the Nomination Committee is Mr. LIU Chuanzhi, the Chairman of the Company, and the other two members are Mr. MA Weihua, an independent non-executive director, and Mr. ZHANG Xuebing, an independent non-executive director.

The main duties of the Nomination Committee is principally responsible for making recommendations on planning regarding to the appointment, reappointment and succession planning of directors, reviewing the structure, size, composition and policy of diversity of the Board and assessing the independence of independent non-executive directors. Details of the terms of reference of the Remuneration Committee are available on the websites of the Company and the Hong Kong Stock Exchange.

In accordance with the provision of "Terms of Reference of the Nomination Committee under the Board" of the Company, the Nomination Committee has convened the meeting once during the reporting period. In the meeting, the committee has reviewed, assessed, considered and recommended the Board to grant approval on the following matters:

- Review and recommend the Board to adopt the board diversity policy;
- Review and assess the current composition of Board members (including but not limited to factors of gender, age, culture, academic background, professional experiences, knowledge, skills and term of service);
- Assess the independence of independent non-executive directors, confirm if the structure of the Board is in compliance with the governing requirement of the Company and no existence of impacts affecting the independence of independent non-executive directors;
- Review the Corporate Governance Policies and Practices, the compliance with "Corporate Governance Code" and the disclosure in "Corporate Governance Report".;
- Review the policies regarding the compliance with law and regulatory requirements and its implementation;
- Review the implementation of induction training for directors and continuing professional development program; and
- Review the Code of Conduct of directors and employees.

CORPORATE GOVERNANCE REPORT

Corporate Governance Functions

The Nomination Committee of the Company is responsible for performing the duties on corporate governance functions set out below:

a. formulating the Company's corporate governance policies and practices, monitoring its implementation and making recommendations to the Board;

b. reviewing and monitoring the training and continuous professional development plans of the directors and senior management;

c. reviewing and monitoring the Company's policies and practices regarding compliance with laws and regulatory rules as well as their implementation;

d. formulating, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to the employees and directors; and

e. reviewing the Company's compliance with the "Corporate Governance Code" as set out in Appendix 14 to the Listing Rules, together with the information disclosure in the "Corporate Governance Report".

Board, Committee and General Meetings

The Board has convened meetings regularly, of which at least four times every year. The Board has convened four meetings during the reporting period. All decisions made by the Board are voted by the Board and circulated the resolution on written resolutions during the Board meeting. Upon signing of directors in accordance with requirements of Articles Association of the Company, the resolution would become a Board resolution.

The attendance at the Board meeting, the meeting of the Board Committee and general meeting for each director during the reporting period is as follows:

	Number of attendance/Number of meetings being convened				
	The Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors					
LIU Chuanzhi	3/4	N/A	N/A	1/1	1/1
ZHU Linan	4/4	N/A	N/A	N/A	1/1
ZHAO John Huan	4/4	N/A	N/A	N/A	1/1
Non-executive Directors					
WU Lebin	4/4	N/A	N/A	N/A	1/1
WANG Jin	4/4	4/4	N/A	N/A	1/1
LU Zhiqiang	2/4	N/A	0/1	N/A	1/1
Independent Non-executive Directors					
MA Weihua	3/4	N/A	1/1	1/1	0/1
ZHANG Xuebing	3/4	3/4	N/A	0/1	1/1
HAO Quan	4/4	4/4	1/1	N/A	1/1

CORPORATE GOVERNANCE REPORT

Board of Supervisors

The Board of Supervisors of the Company comprises three members. The Chairman of the Board of Supervisors is Mr. LI Qin (representative of the employees), and the other two members are Mr. SUO Jishuan (representative of a shareholder) and Mr. QI Zixin (representative of a shareholder).

In accordance with the Articles of Association of the Company, the Board of Supervisors is responsible for the shareholders' general meeting, which is principally responsible for conducting supervision on compliance regarding directors, President and other senior management when carrying out their duties, reviewing the Company's financial situation and auditing financial information such as financial reports, business reports and profit distribution plan submitted to the general meeting and requiring for rectification when the behaviors acted by directors and senior management damage the interest of the Company, and proposing to convene extraordinary board meetings and shareholders' general meetings.

The Board of Supervisors has convened the meeting twice during the reporting period. It performed its duties and protected the legitimate interest of the Shareholders, Company and staff. For details of its work, please refer to the "Supervisor's Report" in the annual report.

The attendance at the meetings of the supervisors is as follows:

Supervisors	Number of attendance/ Number of meetings being convened*
Mr. LI Qin	2/2
Mr. SUO Jishuan	1/2
Mr. QI Zixin	2/2

* one onsite meeting and one supervisor meeting in writing (in lieu of holding a meeting)

Communication with Shareholders

The Board is fully aware of the significance of maintaining clear, timely and effective communication with the Shareholders and potential investors of the Company. With the publication of annual reports and interim reports, announcements, circulars and press releases, the Group is committed to ensuring that the Shareholders and potential investors receive the information in a timely manner. All Shareholders' Communications are made available to the Shareholders through publication on the Company's website.

The Company is of view that the annual general meeting provides a good opportunity for direct communication between the Board and the Shareholders. The Company encourages and welcomes the questions raised at the annual general meeting. The Company has formulated the Shareholders' Communications policy, ensuring to maintain ongoing communication between the Company and the Shareholders.

Investor Relations

The Board is fully aware that effective communication with the Shareholders is the key to gaining the Shareholder's trusts and attracting new investors. The Company maintains regular engagement with institutional investors, financial analysts and financial media from time to time to keep them abreast of the latest strategies, operation, management and plans of the Group. The Company proactively arranges various briefings for investors after the interim and annual results of the Company are announced, facilitating investor relations and the two-way communication. The investor relations team of the Company answers requests of information and inquiries from investors.

CORPORATE GOVERNANCE REPORT

Amendments to the Articles of Association

During the reporting period, no changes were made to the Articles of Association. The latest version of the Articles of Association is published on the websites of the Hong Kong Stock Exchange and the Company.

Shareholders' Rights

Extraordinary general meeting and class meeting convened upon the Shareholders' requests

Pursuant to the Articles of Association of the Company, Shareholders individually or collectively holding in aggregate 10% or more of the Shares carrying the voting right at the proposed meeting shall sign one or more written requisitions in the same format and with the same content, requiring the Board to convene an extraordinary general meeting or class meeting, and stating the matters to be discussed at the proposed meeting.

Written notice of general meeting stating proposed matters to be discussed and the date and venue of the general meeting shall be dispatched to all Shareholders listed in the register of members no less than 45 days prior to the date of such meeting. Shareholders who propose to attend the general meeting shall deliver a written reply on their participation in the meeting to the Company no less than 20 days prior to such meeting.

Proposing Motions at the General Meeting

When the Company convenes a general meeting, Shareholders individually or collectively holding in aggregate of 3% or more of the Shares carrying the voting rights shall be entitled to propose new motions to the Company and submitting the motions to the convener in writing no less than 10 days prior to such meeting. The convener shall serve a supplementary notice of general meeting within two days after receipt of such proposals, inform other Shareholders and list the motions which are within the authorities of the general meeting in the agenda of the meeting and submit them to the general meeting for consideration. The contents of the proposed motions shall fall into the authority of the general meeting, have definite topics and concrete issues for resolution and shall comply with relevant provisions of laws, regulations and the Articles of Association of the Company.

Shareholders' Proposals and Inquiries to the Board of Directors and Delivery Method

Shareholders can put forward proposals, inquiries and issues of concern to the Board and/or relevant Specialized Committees of Directors (if appropriate) in writing, state contact details and deliver to the registered office of the Company in Beijing, PRC (Room 1701, 17/F, Block 1, Court No. 2, Ke Xue Yuan Nanlu, Haidian District, Beijing 100190, PRC) or the principal place of business in Hong Kong (27/F, One Exchange Square, Central, Hong Kong). The investor relations team of the Company assists the Board to handle inquiries from the Shareholders and potential investors. The Company's website also contains the contact details of the Company for the Shareholders and potential investors to put forward inquiries.

In 2017, under the continuously updating regulatory requirements, development trends of the Company and the feedback from the Shareholders, the Company will continue to focus on enhancing the Company's governance, ensuring steady development of the Company and creating values for the Shareholders.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Over the past three decades, Legend Holdings has always strived for the goal of being a "trustworthy and respectable" company. We integrate corporate social responsibility with the company's strategies, actively participate in activities in community charity as our capacity allows, and focus on systematic planning about and long-term commitment to "assisting start-ups", "supporting education", and "advocating for social justice". At the same time, Legend Holdings actively encourages its employees to participate in the community charity to practically fulfill social responsibilities and return to the society.

Legend Holdings firmly believes that, through persistent efforts, the idea of "be good people, do good deeds, set good examples for society" will be carried on from generation to generation within the Company.

Legend Holdings Charity Foundation

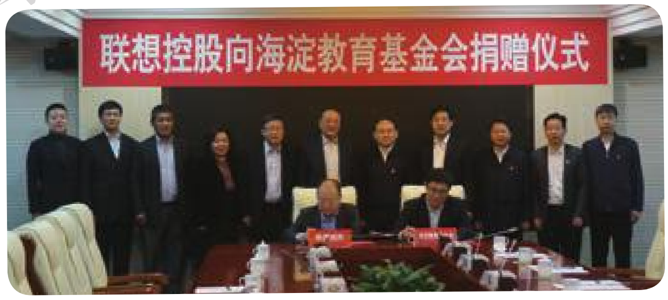
Legend Holdings Charity Foundation (the "Foundation") is a non-governmental social welfare organization established by Legend Holdings Corporation on March 8, 2013. The funding of the Foundation is mainly from Legend Holdings and donations from other willing donors, including social organizations, individuals and staff of the Company. Adhering to the tenet "Exercise public charity, drive social development", the Foundation develops charity activities in the areas of supporting education, assisting start-ups and advocating for social justice. In 2016, the major donations of Legend Holdings Charity Foundation include:

I. Lenovo Progress Class

The "Lenovo Progress Class" is a major public welfare project of Legend Holdings in the area of education. Since 2004, Legend Holdings established the "Lenovo Progress Education Foundation" to set up the "Lenovo Progress Class" in impoverished areas, offering assistance to high school students from needy families with good character and learning attitude to help such students change their destiny, finish high school and hopefully attend university constantly in the long-term. Over the past twelve years, Legend Holdings has set up 28 Lenovo Progress Classes in Guizhou, Gansu and other provinces and invested more than RMB20 million in the project, benefiting more than 1,700 students. In particular, the investment in 2016 amounted to RMB2.539 million, mainly used for financing the tuitions and living expenses of 390 students for the year.

By setting up Legend Progress Classes, we do not only provide the students with physical supports, but also help them mentally at different growth phases with an aim to broaden their horizons, deliver optimism and facilitate their healthy growth. In 2016, we also invited internationally renowned training institutes to develop outward bound sessions for students of Legend Progress Class as to how to build self-confidence and freely express themselves.

CORPORATE SOCIAL RESPONSIBILITY REPORT



After the college entrance examination in 2016, another group of teenagers from poor households changed their destinies by seizing the opportunities offered by the platform of “Legend Progress Class”, in which the results of 95% students outperformed the criteria for undergraduate admission. There was one student from Duyun No. 2 Secondary School admitted to Michigan State University. It coincides with what one of the attendees of Legend Progress Class expressed: “I am gifted a pair of flying wings from Lenovo Progress Class. I will fly out of this impoverished mountain area like Kunpeng. In the future when I am capable of, I will try my best to reward my loved ones, uncles and aunties from Lenovo who had offered me help as well as this caring society.”

In the future, Legend Holdings will continue to contribute Legend Progress Classes to help more young generations from impoverished families to finish their education, and in turn, change their lives.

II. Haidian Education Foundation of Beijing

In order to support the development of educations in Haidian, the Foundation donated RMB2 million to Haidian Education Foundation of Beijing in 2016. The Foundation actively promotes the development of basic education in Haidian district and establishes the good social climate of respect for teachers, driving more enterprises to care and concern about education.

III. Beijing Leping Welfare Foundation

In 2016, the Foundation contributed RMB1 million to Beijing Leping Welfare Foundation for the launch of daily charity projects, mainly including training programmes for migrant workers, cultivation of innovation talents in the community and education for children from low-income families as well as the participation in the board meeting of the Foundation.

IV. Lenovo Capital Special Foundation for Heroes, Models and Justice-upholders

Inheriting the fine Chinese tradition of honoring heroes and martyrs, carrying forward the spirit of self-sacrifice and dedication, and enhancing the awareness of caring for the gallantry and bravery and the families of fallen heroes and martyrs in society as a whole, Legend Holdings Charity Foundation donates to China Women Development Foundation every year. Lenovo Capital Special Foundation for Heroes, Models and Justice-upholders was set up for the needy families and their children of heroes, models and justice-upholders. In 2016, a sum of RMB1.80 million was donated and approximately a hundred of excellent frontline police officers in the political and legal system in Beijing and dozens of the good Samaritan with disability or family difficulties were relieved with consolation money.

CORPORATE SOCIAL RESPONSIBILITY REPORT

V. Alxa SEE Ecological Association

Alxa SEE Ecological Association is currently the largest and most influential entrepreneurial green organization in China. Mr. Liu Chuanzhi, the Chairman of the board of directors of Legend Holdings, is a permanent member of Alxa SEE Ecological Association. In 2016, the Foundation also actively participated in the environmental protection event named “Say No to Shark Fin’s Soup” jointly initiated by Alxa SEE Ecological Association and China Entrepreneur Club.

Legend Holdings Corporation

Legend Holdings Corporation also actively takes part in public welfare activities. In 2016, the major donation projects of Legend Holdings Corporation include:

I. China-United States Exchange Foundation (Beijing)

China-United States Exchange Foundation (Beijing) is a non-governmental and non-profit foundation promoting the communication and cooperation between China and the United States in various areas. In 2016, Legend Holdings donated RMB3 million to China-United States Exchange Foundation (Beijing) to finance the exchange and collaboration between China and the United States in various areas, promote mutual understanding and friendship among the citizens of China and the United States, improve and strengthen the bilateral relations, facilitate efficient, in-depth and comprehensive exchange and collaboration between China and the United States in political, economic, cultural, educational and other aspects as well as to enhance the mutual understanding and friendship among the citizens of the two countries and enhance their common interests and strategic mutual trust.

II. Xidian University Education Foundation

In 2016, Legend Holdings donated RMB0.5 million to Xidian University to finance the contact and collaboration between the university and all sectors at home and abroad, and to promote the development of the education, scientific research and high-tech development of the university.

Talent Cultivation and Development

Quality, professional and career-oriented talents are core competitiveness of Legend Holdings and the “people-orientated” principle is one of the core values of the Company. Since its inception, the Company is committed to focusing on fostering and developing talents and creating a comprehensive environment of integrating employees’ personal pursuits with the long-term development of the Company.

Adhering to the talent development philosophy of 70-20-10, the Company values the ability growth of and long-term performance and contributions from the employees and has established a talent development system in line with the characteristics of our business and knowledge-oriented employees, emphasizes the guidance and supports from the organization and self-motivation of employees to achieve the growth through working practices.

CORPORATE SOCIAL RESPONSIBILITY REPORT

In 2016, the Company continued to strengthen the talent pool and select potential talents and provide more challenging tasks and on-the-job trainings to talents; it stuck to guidance system and continued to improve the abilities and standards of individuals. The Company vigorously promoted various special studies closely relating to jobs and knowledge sharing activities to provide employees with various kinds of training and learning opportunities.

These training activities include seminars and courses focusing on improvement of leadership skills and professional quality of core business personnel, lectures and sharing activities for staff to grasp in-depth knowledge of the Company's strategic business and the business trend in the industry. Besides, special learning and cultivation programmes are designed for senior management.

For the subsidiaries and associates, leveraging Legend Management Institute as a platform, the Company continuously promotes culture of Legend Holdings and management experience with Legend characteristics such as corporate core value, work methodology represented by "review" and "three management factors"-focused management experience, enhances the capability of the senior management, plans and organizes learning activities to interact with the CEO and senior management of Legend Holdings, and develops exchange platform and learning opportunities for business synergies among subsidiaries and associates.

INDEPENDENT AUDITOR'S REPORT

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羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Legend Holdings Corporation

(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Legend Holdings Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 104 to 246, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill and intangible assets with indefinite useful lives
- Classification of investments
- Fair value measurement using of level 3 inputs for financial assets
- Recognition of deferred income tax assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill and other intangible assets with indefinite useful lives Refer to note 19 to the consolidated financial statements	
As at December 31, 2016, the Group has goodwill and other intangible assets with indefinite useful lives of RMB43,800 million, and in respect of which management is required to perform annual impairment assessment. Management has concluded that there is no impairment in respect of the goodwill and other intangible assets with indefinite useful lives. This conclusion was based on a value in use model that required significant management judgement with respect to revenue growth, future profitability and discount rates.	Our procedures included: • We assessed the reasonableness of key assumptions such as revenue growth, future profitability and discount rates with reference to the business and industry circumstances. • We reconciled input data to supporting evidence, such as approved forecasts of future profits and strategic plans. • We considered the reasonableness of these forecasts of future profits and strategic plans by comparing them against past results achieved. • We assessed management's sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, both individually or in aggregate, might impact on the outcome of the impairment assessment of the goodwill and other intangible assets. We found the judgements made by management in relation to the value in use calculations to be reasonable based on available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Classification of investments Refer to note 13, 20, 21 and 29 to the consolidated financial statements	
The Group holds a number of strategic and financial investments, amounting to RMB43,654 million at December 31, 2016. The classification of an investment is based on the commercial substance of the contractual arrangement, and the fact as to whether the Group is determined to have control, joint control or significant influence. In addition, the purpose of the investment could also be influenced by certain terms stipulated in the investment agreements which may result in complex accounting treatments. Management's classification and disclosure of its investments is based on the Group's accounting policies, and the classification requires significant judgement.	Our procedures included: • We examined all significant investment agreements, focusing on the key terms and contractual arrangements and assessed management's analysis and determination on the classification of the investments in line with the Group's accounting policies. • We examined the adequacy and accuracy of the Group's disclosure in respect of the classification. We found the judgements made by the management in relation to its classification to be reasonable based on the evidence gathered.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement using of level 3 inputs for financial assets Refer to note 3.3 to the consolidated financial statements	
As at December 31, 2016, the Group has financial assets measured at fair value with level 3 inputs of RMB23,234 million, including associates measured at fair value through profit or loss, financial assets at fair value through profit or loss and available-for-sale financial assets. Level 3 inputs for financial assets are not based on active market prices, nor based on observable market data. Management assessed and measured the level 3 fair value of financial assets using particular valuation techniques. The determination of the model adopted and inputs requires significant judgement or estimation. We have therefore focused on this area.	Our procedures included: • We evaluated the independent external valuers' competence, capability and objectivity. • We assessed the appropriateness of the methodologies used and challenged the appropriateness of the key assumptions used in relation to unobservable inputs, using our in-house valuation experts where applicable. • We reviewed the valuers' work on sensitivity analysis, examined whether the changes in unobservable inputs are within a reasonable possible range and whether the calculations were accurate. • We reconciled input data to supporting evidence, such as management's forecast of future profits and strategic plans, and assessed the relevance and reasonableness of the input data used. We found that the valuations made by management in the fair value assessment using level 3 inputs for financial assets were within a reasonable range of outcomes.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of deferred income tax assets Refer to note 40 to the consolidated financial statements	
As at December 31, 2016, the Group had deferred income tax assets of RMB9,060 million. The recognition of the deferred income tax assets involves significant management judgement as to the likelihood of its realization that is dependent on a number of factors, including whether there will be sufficient taxable profits and taxable temporary differences in future periods. Management has performed its assessment on the recognition of these deferred income tax assets and consider that the realization of these assets is probable as at December 31, 2016. We focused on this area because of the inherent uncertainties involved in forecasting future taxable profits and assessing taxable temporary differences.	Our procedures included: • We evaluated management's assessment as to whether there will be sufficient taxable profits in future periods and assessed taxable temporary differences to support the recognition of deferred income tax assets by reference to forecasts of future profits and strategic plans. • We compared management's forecasts of future profits to historical results, and evaluated the assumptions used in those forecasts. We found the judgement made by management in relation to the forecast of taxable profits in future periods and assessing taxable temporary differences to be reasonable based on the available evidence.

OTHER INFORMATION

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 29, 2017

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2016

	Note	Year ended December 31, 2016 RMB'000	2015 (As restated) RMB'000
Continuing operations			
Sales of goods and services		**294,092,732**	298,949,570
Interest income		**879,324**	846,466
Interest expense		**(226,346)**	(254,174)
Net interest income		**652,978**	592,292
Total revenue	5	**294,745,710**	299,541,862
Cost of sales	8	**(249,641,024)**	(254,074,392)
Gross profit		**45,104,686**	45,467,470
Selling and distribution expenses	8	**(17,874,501)**	(16,217,870)
General and administrative expenses	8	**(23,580,499)**	(26,270,051)
Investment income and gains	6	**2,832,227**	5,230,772
Other income and gains/(losses)	7	**3,360,532**	(2,887,156)
Finance income	11	**492,208**	475,473
Finance costs	11	**(3,262,387)**	(3,003,570)
Share of profit of associates and joint ventures accounted for using the equity method		**1,066,493**	838,258
Profit before income tax		**8,138,759**	3,633,326
Income tax expense	14	**(476,255)**	(455,234)
Profit from continuing operations for the year		**7,662,504**	3,178,092
Discontinued operations			
Profit from discontinued operations for the year	32	**322,506**	597,514
Profit for the year		**7,985,010**	3,775,606
Profit attributable to:			
– Equity holders of the Company		**4,858,924**	4,659,083
– Non-controlling interests		**3,126,086**	(883,477)
		7,985,010	3,775,606
Profit attributable to the equity holders of the Company from:			
– Continuing operations		**4,851,984**	4,390,867
– Discontinued operations		**6,940**	268,216
		4,858,924	4,659,083

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2016

	Note	Year ended December 31, 2016	2015 (As restated)
Earnings per share for the profit attributable to the equity holders of the Company			
(expressed in RMB per share)			
Basic earnings per share	*15*		
– Continuing operations		**2.06**	2.02
– Discontinued operations		**–**	0.12
		2.06	2.14
Diluted earnings per share	*15*		
– Continuing operations		**2.06**	2.02
– Discontinued operations		**–**	0.12
		2.06	2.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2016

		Year ended December 31,	
		2016	2015 (As restated)
	Note	***RMB'000***	*RMB'000*
Profit for the year		**7,985,010**	3,775,606
Other comprehensive income/(loss):			
Items that will not be reclassified to income statement:			
Remeasurements of post-employment benefit obligation, net of taxes	*14, 41*	**(271,732)**	(172,107)
Revaluation of investment properties upon reclassification from property, plant and equipment, net of taxes	*14,18*	**92,814**	122,722
Items that may be reclassified subsequently to income statement:			
Currency translation differences		**1,531,146**	(2,134,874)
Share of other comprehensive (loss)/income of associates using equity accounting		**(119,310)**	68,169
Change in fair value of available-for-sale financial assets, net of taxes	*14*	**(1,362,480)**	1,974,354
Fair value change on cash flow hedges, net of taxes	*14*	**224,128**	(456,935)
Other comprehensive income/(loss) for the year		**94,566**	(598,671)
Total comprehensive income for the year		**8,079,576**	3,176,935
Attributable to:			
– Equity holders of the Company		**4,744,639**	6,024,025
– Non-controlling interests		**3,334,937**	(2,847,090)
		8,079,576	3,176,935
Total comprehensive income attributable to the equity holders of the Company for the year from:			
– Continuing operations		**4,843,070**	5,777,489
– Discontinued operations		**(98,431)**	246,536
		4,744,639	6,024,025

CONSOLIDATED BALANCE SHEET

As at December 31, 2016

	Note	As at December 31, 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	16	**3,022,885**	2,234,255
Property, plant and equipment	17	**19,607,015**	20,732,944
Investment properties	18	**10,111,584**	10,219,472
Intangible assets	19	**59,935,496**	56,940,565
Associates and joint ventures using equity accounting	13	**11,931,574**	10,148,910
Associates measured at fair value through profit or loss	13	**15,515,436**	13,132,653
Available-for-sale financial assets	21	**9,848,802**	6,987,355
Financial assets at fair value through profit or loss	29	**1,347,003**	713,461
Loans to customers	25	**769,988**	–
Deferred income tax assets	40	**9,059,680**	6,762,026
Other non-current assets	22	**7,642,883**	3,362,867
		148,792,346	131,234,508
Current assets			
Inventories	26	**20,996,965**	18,362,352
Properties under development	27	**183,669**	27,296,999
Completed properties held for sale	28	**–**	6,214,796
Trade and notes receivables	23	**41,158,176**	38,288,360
Prepayments, other receivables and current assets	24	**52,621,172**	35,682,502
Available-for-sale financial assets	21	**30,000**	78,900
Loans to customers	25	**10,660,810**	4,569,434
Derivative financial instruments	20	**964,752**	412,443
Financial assets at fair value through profit or loss	29	**4,016,651**	2,228,771
Restricted deposits	30	**1,874,463**	1,410,625
Bank deposits	30	**10,900,422**	5,660,249
Cash and cash equivalents	30	**30,059,402**	34,802,953
		173,466,482	175,008,384
Total assets		**322,258,828**	306,242,892
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	33	**2,356,231**	2,356,231
Reserves		**49,909,925**	46,540,284
Total equity attributable to equity holders of the Company		**52,266,156**	48,896,515
Non-controlling interests		**18,069,455**	17,513,967
Put option written on non-controlling interests	38 (iii)	**(1,343,399)**	(1,343,399)
Total equity		**68,992,212**	65,067,083

CONSOLIDATED BALANCE SHEET

As at December 31, 2016

	Note	As at December 31, 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	39	**56,516,221**	56,621,152
Deferred revenue	35	**3,798,833**	3,694,151
Retirement benefit obligations	41	**2,790,929**	2,495,478
Provisions	42	**2,075,099**	2,101,822
Deferred income tax liabilities	40	**4,676,491**	4,948,916
Other non-current liabilities	38	**4,100,046**	15,511,161
		73,957,619	85,372,680
Current liabilities			
Trade and notes payables	34	**49,233,992**	45,728,181
Other payables and accruals	36	**87,788,354**	63,716,314
Derivative financial instruments	20	**367,619**	213,516
Provisions	42	**6,831,179**	8,721,533
Advance from customers	37	**2,870,695**	9,411,895
Deferred revenue	35	**3,894,168**	3,811,126
Current income tax liabilities		**2,169,581**	3,564,941
Borrowings	39	**26,153,409**	20,635,623
		179,308,997	155,803,129
Total liabilities		**253,266,616**	241,175,809
Total equity and liabilities		**322,258,828**	306,242,892
Net current assets		**(5,842,515)**	19,205,255
Total assets less current liabilities		**142,949,831**	150,439,763

The financial statements on pages 104 to 246 were approved by the Board of Directors on March 29, 2017 and were signed on its behalf.

LIU Chuanzhi
Director

ZHU Linan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

	Attributable to the equity holders of the Company											
	Share capital	Share premium	Statutory surplus reserve	Revaluation reserve	Share-based compensation reserve	Hedging reserve	Exchange reserve	Other reserve	Retained earnings	Non-controlling interests	Put option written on non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As January 1, 2015	2,000,000	–	–	999,333	1,118,792	213,061	(2,405,880)	5,554,018	24,503,367	22,215,587	(1,343,399)	52,854,879
Profit for the year	–	–	–	–	–	–	–	–	4,659,083	(883,477)	–	3,775,606
Other comprehensive income												
Fair value changes on available-for-sale financial assets	–	–	–	1,613,090	–	–	–	–	–	408,992	–	2,022,082
Reclassified to income statement on disposal of available-for-sale financial assets	–	–	–	(47,728)	–	–	–	–	–	–	–	(47,728)
Share of other comprehensive income of associates using equity accounting	–	–	–	68,169	–	–	–	–	–	–	–	68,169
Fair value change on forward foreign exchange contracts	–	–	–	–	–	(386,101)	–	–	–	(879,211)	–	(1,265,312)
Reclassified to income statement on forward foreign exchange contracts	–	–	–	–	–	247,242	–	–	–	561,135	–	808,377
Currency translation differences	–	–	–	–	–	–	(200,643)	–	–	(1,934,231)	–	(2,134,874)
Remeasurement of post-employment benefit obligation	–	–	–	–	–	–	–	(51,809)	–	(120,298)	–	(172,107)
Revaluation of investment properties upon reclassification from property, plant and equipment	–	–	–	122,722	–	–	–	–	–	–	–	122,722
Total comprehensive income/(loss) for the year	–	–	–	1,756,253	–	(138,859)	(200,643)	(51,809)	4,659,083	(2,847,090)	–	3,176,935
Issuance of new shares (Note 33)	356,231	11,724,078	–	–	–	–	–	–	–	–	–	12,080,309
Share issuance cost	–	(442,138)	–	–	–	–	–	–	–	–	–	(442,138)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	9,582	–	9,582
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(281,791)	–	(281,791)
Transaction with non-controlling interests (Note 49)	–	–	–	–	–	–	–	(642,547)	–	(564,340)	–	(1,206,887)
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	155,925	–	155,925
Transfer to reserve	–	–	–	–	–	–	–	29,265	(23,172)	(1,414)	–	4,679
Share of share option reserve of an associate	–	–	–	–	20,582	–	–	–	–	–	–	20,582
Share-based compensation	–	–	–	–	233,525	–	–	–	–	526,364	–	759,889
Transfer to statutory surplus reserve	–	–	191,599	–	–	–	–	–	(191,599)	–	–	–
Dividends paid	–	–	–	–	–	–	–	–	(366,025)	(1,698,856)	–	(2,064,881)
As December 31, 2015	2,356,231	11,281,940	191,599	2,755,586	1,372,899	74,202	(2,606,523)	4,888,927	28,581,654	17,513,967	(1,343,399)	65,067,083

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

	Attributable to the equity holders of the Company												
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Revaluation reserve RMB'000	Share-based compensation reserve RMB'000	Shares held for restricted share scheme RMB'000	Hedging reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Put option written on non-controlling interests RMB'000	Total RMB'000
As January 1, 2016	2,356,231	11,281,940	191,599	2,755,586	1,372,899	-	74,202	(2,606,523)	4,888,927	28,581,654	17,513,967	(1,343,399)	65,067,083
Profit for the year	-	-	-	-	-	-	-	-	-	4,858,924	3,126,086	-	7,985,010
Other comprehensive income													
Fair value changes on available-for-sale financial assets	-	-	-	(498,208)	-	-	-	-	-	-	(136,371)	-	(634,579)
Reclassified to income statement on disposal of available-for-sale financial assets	-	-	-	(512,631)	-	-	-	-	-	-	(215,270)	-	(727,901)
Share of other comprehensive loss of associates using equity accounting	-	-	-	(119,310)	-	-	-	-	-	-	-	-	(119,310)
Fair value change on forward foreign exchange contracts	-	-	-	-	-	-	65,423	-	-	-	107,120	-	172,543
Reclassified to income statement on forward foreign exchange contracts	-	-	-	-	-	-	16,034	-	-	-	35,551	-	51,585
Currency translation differences	-	-	-	-	-	-	-	925,464	-	-	605,682	-	1,531,146
Remeasurement of post-employment benefit obligation	-	-	-	-	-	-	-	-	(83,871)	-	(187,861)	-	(271,732)
Revaluation of investment properties upon reclassification from property, plant and equipment	-	-	-	92,814	-	-	-	-	-	-	-	-	92,814
Total comprehensive (loss)/income for the year	-	-	-	(1,037,335)	-	-	81,457	925,464	(83,871)	4,858,924	3,334,937	-	8,079,576
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	41,407	-	41,407
Disposal of subsidiaries	-	-	-	-	-	-	-	-	2,864	-	(1,676,948)	-	(1,674,084)
Transaction with non-controlling interests (Note 49)	-	-	-	-	-	-	-	-	(941,844)	-	(501,993)	-	(1,443,837)
Contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	1,040,674	-	1,040,674
Transfer to reserve	-	-	-	-	-	-	-	-	6,074	(21,750)	3,285	-	(12,391)
Share of other reserve of associates	-	-	-	-	-	-	-	-	16,656	-	-	-	16,656
Share-based compensation	-	-	-	-	351,179	-	-	-	-	-	769,052	-	1,120,231
Purchase of restricted shares under share scheme (Note 31(b)(ii))	-	-	-	-	-	(269,831)	-	-	-	-	-	-	(269,831)
Transfer to statutory surplus reserve	-	-	120,208	-	-	-	-	-	-	(120,208)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	(518,346)	(2,454,926)	-	(2,973,272)
As December 31, 2016	2,356,231	11,281,940	311,807	1,718,251	1,724,078	(269,831)	155,659	(1,681,059)	3,888,806	32,780,274	18,069,455	(1,343,399)	68,992,212

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2016

	Note	Year ended December 31, 2016 RMB'000	2015 (As restated) RMB'000
Cash flows from operating activities			
Cash generated from operations	44	**6,776,316**	419,989
Income tax paid		**(2,674,201)**	(1,941,882)
Net cash generated from/(used in) operating activities of continuing operations		**4,102,115**	(1,521,893)
Net cash generated from operating activities of discontinued operations		**8,180,521**	2,215,676
Net cash generated from operating activities		**12,282,636**	693,783
Cash flows from investing activities			
Purchases of property, plant and equipment, and intangible assets		**(6,470,707)**	(6,943,594)
Proceeds from sale of property, plant and equipment, and intangible assets		**2,793,851**	547,654
Purchase of financial assets at fair value through profit or loss		**(1,848,291)**	(2,694,355)
Proceeds from the disposal of financial assets at fair value through profit or loss		**10,333**	1,420,786
Dividends from financial assets at fair value through profit or loss		**331,513**	553,823
Capital injection in associates measured at fair value through profit or loss		**(2,741,127)**	(1,979,840)
Distributions from associates measured at fair value through profit or loss		**1,369,808**	5,358,446
Acquisition of and capital injection in associates and joint ventures using equity accounting		**(579,780)**	(723,985)
Proceeds from partial disposal of associates using equity accounting		**33,591**	14,594
Distributions from associates using equity accounting		**194,364**	376,790
Purchase of available-for-sale financial assets		**(3,752,194)**	(1,972,616)
Proceeds from disposal of available-for-sale financial assets		**2,104,601**	620,606
Dividends from available-for-sale financial assets		**258,336**	287,599
Acquisition of subsidiaries, net of cash acquired		**(1,592,180)**	(196,521)
Disposal of subsidiaries, net of cash disposed		**288,651**	271,153
Interest received		**343,917**	548,864
Increase in bank deposits		**(4,770,526)**	(358,731)
(Prepayment to)/advanced from proposed transactions		**(1,135,226)**	112,014
Net cash used in investing activities of continuing operations		**(15,161,066)**	(4,757,313)
Net cash used in investing activities of discontinued operations		**(7,182,051)**	(66,771)
Net cash used in investing activities		**(22,343,117)**	(4,824,084)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2016

	Note	Year ended December 31, 2016 RMB'000	Year ended December 31, 2015 (As restated) RMB'000
Cash flows from financing activities			
Proceeds from borrowings		**60,240,185**	17,476,768
Repayments of borrowings		**(54,082,718)**	(23,216,594)
Issuance of new shares		**–**	12,080,309
Payment of costs on issuance of new shares		**(244,017)**	(174,966)
Repurchase of shares		**(269,831)**	–
Capital contributions from non-controlling interests		**840,759**	157,528
Distribution to non-controlling interests		**(1,776,550)**	(1,664,356)
Transaction with non-controlling interests		**(1,561,152)**	(1,332,089)
Cash proceeds from issuance of bonds,net of issuance costs		**8,881,200**	5,757,650
Dividends paid to equity holders of the Company	43	**(518,371)**	(366,025)
Interest paid		**(3,178,265)**	(3,500,883)
Net cash generated from financing activities of continuing operations		**8,331,240**	5,217,342
Net cash generated from financing activities of discontinued operations		**(3,015,350)**	(2,125,665)
Net cash generated from financing activities		**5,315,890**	3,091,677
Net decrease in cash and cash equivalents of continuing operations		**(2,727,711)**	(1,061,864)
Net (decrease)/increase in cash and cash equivalents of discontinued operations		**(2,016,880)**	23,240
Net decrease in cash and cash equivalents		**(4,744,591)**	(1,038,624)
Cash and cash equivalents at beginning of year		**34,802,953**	35,772,890
Exchange gains on cash and cash equivalents		**1,040**	68,687
Cash and cash equivalents at end of year	30	**30,059,402**	34,802,953

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

1. GENERAL INFORMATION

Legend Holdings Corporation (the "Company") is a joint stock company with limited liability under Company Law of the PRC. It was incorporated in November 1984 under the name of Chinese Academy of Sciences Computer Technology Research Institute New Technology Development Company (中國科學院計算技術研究所新技術發展公司), as an enterprise owned by the whole people (全民所有制企業). Since then, the Company has completed a series of reorganizations and was converted into a joint stock limited liability company on February 18, 2014. The Company's shares have been listed on the Main Board of the Hong Kong Stock Exchange since June 29, 2015. The registered capital is RMB2,356 million.

The address of the Company's registered office is Room 1701, 17/F, Block 1, Court No. 2, Ke Xue Yuan Nanlu, Hai Dian District, Beijing 100190, PRC.

The Company operates businesses through two principal business platforms, strategic investments and financial investments.

The strategic investments consist of operations in (a) IT industry, which is primarily engaged in the development, manufacturing and marketing high-quality and easy-to-use technology products and services for customers and enterprises; (b) financial services industry, which offers services including short-term financing, credit guarantees, entrusted loans, finance lease, banking, insurance brokerage services, payment and internet finance and trusts, customised financial solutions to customers; (c) innovative consumption and services industry, which operates mainly to provide comprehensive medical and health services, logistics, car rental business, digital marketing solutions of enterprises and internet healthcare services; (d) agriculture and food industry, which is mainly engaged in planting and sales of premium fruit and tea products in agriculture business, produce and sell various Chinese liquor brands, provide seafoods and accessory products, agriculture-oriented e-commerce platform and liquor direct sales chain; and (e) new materials industry, which includes the fine chemicals and energy materials production services and lithium-ion battery business.

The Company's subsidiaries operates in property industry, mainly in the business of development and sale of residential properties and office buildings and property management services to projects that the Group developed. As described below, the business of development and sale of residential properties and office buildings and property management service to projects("Real Estate Development Business") was disposed to Sunac Real Estate Group Co., Ltd. ("Sunac Real Estate") and minority shareholders of several subsidiaries(hereinafter collectively referred to as the "Purchasers") (Note 32).

The financial investments platform conducts investment in private equity and venture capital funds as a limited partner and holds interest in the general partners of certain funds. The Group also makes early stage or "angel" investments in technology start-ups and minority investments in other entities. In 2016, the subsidiaries under continuing operations operate in office rental services, which is classified into financial investments.

Sell Target Companies' Relevant equity interests and debts to Purchasers

At September 16, 2016, The Company and the Company's subsidiary Raycom Real Estate Development Co., Ltd ("Raycom Real Estate") and Sunac Real Estate entered into a framework agreement ("Framework Agreement") to sell the relevant equity interests and debts of 40 Target Companies ("Target Companies' Relevant equity interests and debts") to Sunac Real Estate. Several target companies' minority shareholders executed the right of pre-emption and purchased the relevant equity interests and debts. Raycom Real Estate agreed to sell and the Purchasers agreed to purchase Target Companies' Relevant equity interests and debts. At November 30, 2016 and December 31, 2016 ("Transfer Dates"), Raycom Real Estate transferred the actual control over the operation and management of the 40 Target Companies and their respective subsidiaries to Sunac Real Estate ("Transfer of Management Rights") respectively.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies Ordinance (Cap. 622) under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, associates measured at fair value through profit or loss, investment properties and biological assets other than bearer plants, which are carried at fair value.

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

As described in Note 1, the Group sold Target Companies' Relevant equity interests and debts and finished Transfer of Management Rights to the Purchasers on Transfer Dates. The results and cash flows of the operations of the Real Estate Development Business of the Group have been presented as discontinued operations in the consolidated income statement and consolidated cash flow statement of the Group for the year ended December 31, 2016, and the 2015 comparative figures for the consolidated income statement and consolidated cash flow statement were also reclassified as discontinued operations accordingly. The difference between the consideration received or receivable and the book value of net assets disposed of is recorded into "profit from discontinued operations for the year" in the consolidated income statement for the year ended December 31, 2016 (Note 32).

2.1.1 New standards and interpretations adopted

The Group has adopted the following amendments and interpretations to standards which are mandatory for the accounting period beginning on January 1, 2016:

IAS 1 (Amendment)	The Disclosure Initiative
IAS 16 and IAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
Annual Improvement Project	Annual Improvements 2012-2014 Cycle

The adoption of above amendments and interpretations to standards does not have any significant financial effect on the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (CONTINUED)

2.1.2 New standards and interpretations not yet adopted

The following are new standards and amendments to standards that have been issued but are not yet effective for the financial year beginning on January 1, 2016 and have not been early adopted.

IAS 12(Amendment)	Income Tax (1)
IAS 7(Amendment)	Statement of Cash Flow (1)
IFRS 15	Revenue from Contracts with Customers (2)
IFRS 9	Financial Instruments (2)
IFRS 16	Lease (3)

(1) Effective for the accounting period beginning on January 1, 2017

(2) Effective for the accounting period beginning on January 1, 2018

(3) Effective for the accounting period beginning on January 1, 2019

The Group will apply the above new standards and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new standards and amendments to standards in the consolidated financial statements of the group upon initial application.

2.2 Subsidiaries

Subsidiaries are all entities (including structured entities) 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 fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination

The Group uses the acquisition method of accounting 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 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. Acquisition-related costs are expensed as incurred. 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 either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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 consolidated income statement.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (CONTINUED)

(a) Business combination (CONTINUED)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group will report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group will retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group will also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period does not exceed one year from the acquisition date.

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 IAS 39 either in income statement or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, 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 (Note 2.10). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements have the same reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (CONTINUED)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid/received and the relevant share acquired/disposed of the carrying value of net assets of the subsidiary is recorded in equity.

The potential cash payments related to put options issued by the Group over the equity of a subsidiary are accounted for as financial liabilities when such options may only be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of shares in the subsidiary. The amount that may become payable under the option on exercise is initially recognised at fair value as a written put option liability with a corresponding charge directly to equity.

Written put option liability is subsequently re-measured at fair value as a result of the change in the expected performance at each balance sheet date, with any resulting gain or loss recognised in income statement. In the event that the option expires unexercised, the written put option liability is derecognised with a corresponding adjustment to equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may cause amounts previously recognised in other comprehensive income reclassified to income statement.

(d) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. Impairment testing of the investments in subsidiaries accounted for at cost is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates

Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

(a) Equity method of accounting

Investments in associates other than those investments in venture capital funds ("VC Funds"), private equity funds ("PE Funds") and preferred shares investments of the Group are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the income statement of the investee after the date of acquisition. The Group's investment in associates using equity accounting includes goodwill identified on acquisition, net of any accumulated impairment losses.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to income statement where appropriate.

The Group's share of its associates' post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in the associates' other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit of associates and joint ventures accounted for using the equity method" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated income statement only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates (CONTINUED)

(b) Fair value through profit or loss

The Group has invested as a limited partner in certain VC Funds and PE Funds and exerted significant influence. The Group has applied the measurement exemption within IAS 28 "Investment in Associates and Joint Ventures" for mutual funds, unit trusts and similar entities and such investments are measured at fair value through profit or loss, and presented as "associates measured at fair value through profit or loss" in the balance sheet.

The Group has invested in preferred shares of associates, which are designated at fair value through profit or loss at initial recognition and presented as "financial assets at fair value through profit or loss" in the balance sheet.

2.4 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income of the joint ventures. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.5 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 Board of Directors that makes strategic decisions.

2.6 Foreign currency translation

(a) 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 the Company's functional and the Group's presentation currency.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (CONTINUED)

(b) 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 income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to monetary assets and liabilities denominated in foreign currency are presented in the consolidated income statement within "other income and gains/(losses)".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognized in other comprehensive income.

(d) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (CONTINUED)

(e) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity owners of the Company are reclassified to income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in income statement. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to income statement.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and accumulated impairment. 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation of buildings, building-related equipment and leasehold improvements is calculated using the straight-line method to allocate their costs to their estimated residual values over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter.

Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate their costs to their estimated residual values over their estimated useful lives to the Group. The principal annual rates used for this purpose are:

–	Buildings and leasehold improvements	10-50 years
–	Machinery and equipment	2-8 years
–	Motor & Vehicles	5-6 years
–	Office equipment and others	3-10 years
–	Bearer plants	20 years

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment (CONTINUED)

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 (Note 2.11).

Gains or losses on disposals of assets are determined by comparing the proceeds with the carrying amount and are recognised within "other income and gains/(losses)" in the consolidated income statement.

2.8 Construction-in-progress

Construction-in-progress represents buildings, plant and machinery and internal use software under construction and pending installation and is stated at historical cost, less any accumulated impairment losses. Historical cost comprises all direct and indirect costs of acquisition or construction or installation of buildings, plant and machinery or internal use software as well as interest expenses and exchange differences on the related funds borrowed during the construction, installation and testing periods and prior to the date when the assets were available for use. No depreciation or amortization is provided for construction-in-progress. On completion, the carrying values of the buildings, plant and machinery or internal use software are transferred from construction-in-progress to property, plant and equipment or intangible assets.

2.9 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. 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, 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 flow projections. Changes in fair values are recorded in the consolidated income statement as part of a valuation gain or loss in "other income and gains/(losses)".

Property that is being constructed or developed as investment property is carried at fair value. Where fair value is not reliably determinable, such property under construction is measured at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market condition.

Subsequent expenditure is charged to the asset's carrying amount 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. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment property (CONTINUED)

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

When the owner-occupied properties transferring to investment properties, a revaluation surplus is credited to other comprehensive income and accumulated in equity under the heading of revaluation surplus. The revaluation surplus included in equity may be transferred directly to retained earnings when the surplus is realised.

2.10 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree and the non-controlling interest in the acquiree. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in investments in associates and joint ventures.

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

(b) Trademarks

Separately acquired trademarks and licences are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks with a definite useful life are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of up to 8 years. Trademarks with an indefinite useful life are subject to impairment testing annually.

(c) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Customer relationships have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated lives, which are not more than 15 years.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Intangible assets (CONTINUED)

(d) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Development costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Acquired computer software licences costs and computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 5 years.

(e) Patents, technology and marketing right

Expenditures on acquired patents, technology and marketing rights are capitalised at historical cost which is the fair value at acquisition and amortised using the straight-line method over their estimated useful lives of not more than 10 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use 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 largely independent cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Biological assets

Bearer plants of the Group consist of blueberry and kiwi trees, which are recognised as property, plant and equipment and measured at cost less accumulated depreciation and impairment.

Agricultural products harvested from bearer biological assets is measured at its fair value less costs to sell at the point of harvest and recognised as inventory subsequently. The fair value of agricultural products is based on market prices of agricultural products of similar size and weight or alternative estimates of fair value.

2.13 Financial assets

2.13.1 Classification

The Group classifies its financial assets in the following categories: (a) at fair value through profit or loss, (b) loans and receivables, and (c) available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade, notes and other receivables, deposits, bank deposits and cash and cash equivalents in the balance sheet (Note 2.16 and 2.17).

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Financial assets (CONTINUED)

2.13.1 Classification (CONTINUED)

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of reporting period.

2.13.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are transferred to the income statement as "investment income and gains".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of "investment income and gains". Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of "investment income and gains" when the Group's right to receive payments is established.

2.13.3 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Financial assets (CONTINUED)

2.13.4 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities classified as available for sale, if any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Financial assets (CONTINUED)

2.13.4 Impairment of financial assets (CONTINUED)

(b) Assets classified as available-for-sale (CONTINUED)

For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.14 Derivative financial instruments and hedging activities

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. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 20. Movements on the hedging reserve in shareholders' equity are shown in consolidated statements of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Derivative financial instruments and hedging activities (CONTINUED)

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within “other income and gains/(losses)”.

Amounts accumulated in equity are reclassified to income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within “finance cost”. The gain or loss relating to the ineffective portion is recognised in the income statement within “other income and gains/(losses)”.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument that has been recognised as other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that has been recognised as other comprehensive income from the period when the hedge was effective shall be immediately reclassified from equity to the income statement within “other income and gains/(losses)”.

2.15 Inventories, properties under development and completed properties held for sale

Inventories are stated at the lower of cost and net realisable value.

Cost of inventories is determined on a weighted average basis. The cost of finished goods (except for trading products) and work-in-progress comprises direct materials, direct labor and an attributable proportion of production overheads. For trading products, cost represents invoiced value on purchases, less purchase returns and discounts. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Development cost of properties under development comprise land use rights, construction costs, borrowing costs and professional fees incurred during the development period. On completion, all development costs of the properties are transferred to completed properties held for sale. Net realisable value of properties under development is determined by reference to estimated sales proceeds of the properties sold in the ordinary course of business less costs to complete development and estimated selling expenses.

Completed properties held for sale are completed properties remaining unsold at year end and are stated at the lower of cost and net realisable values. Cost comprises development costs attributable to the unsold properties. Net realisable values are determined by reference to the estimated sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. The majority of other receivables are arising from IT business and represent amounts due from subcontractors for part components sold in the ordinary course of business. If collection 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.

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

2.17 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity holders of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.19 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 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 income statement 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.

2.21 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.

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

All other borrowing costs are recognised in income statement in the period in which they are incurred.

2.22 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Tax is recognised in the income statement, 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.

(a) 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 the countries where the Company's 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 FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Current and deferred income tax (CONTINUED)

(b) Deferred income tax

Inside basis differences

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 financial statement. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, 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.

(c) 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 taxes assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation can not be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgment. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within "general and administrative expenses".

2.25 Employee benefits

The Group operates various post-employment schemes. The schemes are generally funded through payments to insurance companies or trustee-administrated funds, which are measured by periodic actuarial calculation. The Group has both defined benefit and defined contribution plans.

(a) Pension obligations

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. Significant portion of the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Employee benefits (CONTINUED)

(a) Pension obligations (CONTINUED)

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income/expenses in the period in which they arise.

Past service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. 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 services in the current and prior periods. The contributions are recognised as employee benefit expense when they are due and are reduced by employer's portion of voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group's contributions to local municipal government retirement schemes in connection with retirement benefit schemes in the Mainland of China are expensed as incurred. The local municipal governments in the Mainland of China assume the retirement benefit obligations of the qualified employees.

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, the largest being in the United States. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as other comprehensive income/expense in the period in which they arise. The obligations of these schemes in the United States are valued annually by independent qualified actuaries.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Share-based payments

The Group operates a number of equity-settled compensation plans, including the long-term incentive program and share option plan adopted by a principal subsidiary, Lenovo Group Limited ("Lenovo"), and the restricted shares granted by the Company (collectively referred to as "Incentive Awards") under which the Group receives services from employees as consideration for the Incentive Awards granted. The fair value of the employee services received in exchange for the grant of the Incentive Awards is recognised as employ benefit expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the Incentive Awards granted, including any market performance conditions (for example, an entity's share price); excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets); and including the impact of non-vesting conditions. Non-market performance and service conditions are included in assumptions about the number of Incentive Awards granted that are expected to become exercisable/vested. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At each balance sheet date, the Group revises its estimates of the number of Incentive Awards granted that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to share-based compensation reserve under equity.

2.27 Provisions

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.

(a) Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labour associated with warranty repair and service actions. The period ranges from one to three years. The Group revaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Provisions (CONTINUED)

(b) Provision for guarantee losses

Provisions for guarantee losses are recognised when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in liabilities from guarantees in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

When determining the amounts to be recognised in respect of liabilities arising from the guarantee business, management estimates the provisions based on prior experience and default history of the business. It is possible that the prior experience and default history is not indicative of future loss on the guarantees issued. Any increase or decrease in the provisions would affect the income statement in future years.

(c) Other provisions

Provisions for environmental restoration, restructuring costs and legal claims 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 has been reliably estimated. Restructuring costs provision comprises lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

2.28 Discontinued Operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal groups constituting the discontinued operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied and service rendered, stated net of discounts, estimated returns and value added taxes. 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. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Revenue from sale of hardware, software and peripherals, mobile devices, chemicals and energy materials, agriculture products and other products is recognised, net of value-added tax, an allowance for estimated returns, rebates and discounts, when both ownership and risk of loss are effectively transferred to customer, generally when there is a persuasive evidence that a sales arrangement exists, the price is fixed or determinable, collectability is reasonably assured and delivery has occurred. The Group enters into different shipping terms with customers. Delivery is generally considered as occurred once the goods are shipped. For certain transactions, the Group defers the recognition of revenue and cost of shipped products until the goods are delivered to designated locations. Revenue from extended warranty contracts is deferred and amortised as earned over the contract period, ranging from one to four years. Revenue associated with undelivered elements is deferred and recorded when delivery occurs.

(b) Sales of properties

Revenue from sales of properties is recognised upon the delivery of property sold and transfer of ownership of the property to the customer which is deemed to be the earlier of the actual date of delivery or the first day after the last day of the delivery period as stipulated in the property delivery notice. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in current liabilities, and are separately stated in the balance sheet as advances from customers.

(c) Guarantee income

Guarantee income is determined based on the total agreed fee in the guarantee contracts and is recognised in the income statement over the period of guarantee.

(d) Rental income

Revenue is recognised on a time proportion basis over the lease terms.

(e) Provision of service

Revenues from the provision of logistic services, property management services, financial leasing services, dental care services, consultancy and commission income and management fees are all recognised in the accounting period in which the services are rendered. Revenues from provision of system integration services and information technology technical services are recognised over the term of contract or when services are rendered.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Revenue recognition (CONTINUED)

(f) Interest income

Interest income is recognised using the effective interest method. When a financial asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired financial assets is recognised using the original effective interest rate.

2.30 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.31 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised as “other income and gains/(losses)” in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are recognised in the consolidated income statement on a systematic basis over the periods in which the entity recognises as expenses the related assets for which the grants are intended to compensate.

2.32 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.33 Related party transactions

A related party transaction is a transfer of resources, services or obligations between the Group and a related party of the Group, regardless of whether a price is charged.

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

- has control or joint control over the Group;
- has significant influence over the Group; or
- is a member of the key management personnel of the Group.

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.33 Related party transactions (CONTINUED)

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

- The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- Both entities are joint ventures of the same third party;
- One entity is a joint venture of a third entity and the other entity is an associate of the third party;
- The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- The entity is controlled or jointly controlled by a person identified in (a) above;
- A person, or a close member of that person's family, who has control or joint control over the Group, has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.34 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price 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 Group has implemented a unified and multitiered financial control management system. The Company guides and supervises major aspects of financial management of its subsidiaries and each subsidiary manages its financial risks locally. Certain subsidiaries of the Group use derivative financial instruments to hedge certain risk exposures.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (CONTINUED)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to United States dollar, Renminbi, and Euro. Foreign currency risk arises from the future business transactions, recognised assets and liabilities and net investment in foreign operations denominated in a currency other than the functional currency of the Group's subsidiaries. Each subsidiary of the Group monitors the amount of assets and liabilities and transactions denominated in foreign currencies closely in order to minimise the foreign exchange risk and enter into forward exchange contracts to mitigate the foreign currency risk as appropriate.

The carrying amount in RMB equivalents of the financial assets and liabilities held by the Company and its subsidiaries denominated in the currencies other than their respective functional currencies are summarised below:

	As at December 31, 2016			
	USD	RMB	EUR	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables	351,056	90,882	793,961	1,235,899
Bank deposits and cash and cash equivalents	3,480,626	98,172	478,187	4,056,985
Trade and other payables	(3,867,953)	(944,153)	(413,861)	(5,225,967)
Borrowings	–	(3,977,190)	–	(3,977,190)
Intercompany balances before elimination	(14,456,410)	2,667,422	(2,253,353)	(14,042,341)
Gross exposure	(14,492,681)	(2,064,867)	(1,395,066)	(17,952,614)
Notional amounts of forward exchange contracts used as economic hedge	15,552,803	–	1,756,364	17,309,167
Net exposure	1,060,122	(2,064,867)	361,298	(643,447)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (CONTINUED)

(a) Market risk (CONTINUED)

(i) Foreign exchange risk (CONTINUED)

	As at December 31, 2015			
	USD	RMB	EUR	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables	685,868	28,950	1,366,825	2,081,643
Bank deposits and cash and cash equivalents	611,378	219,091	65,647	896,116
Trade and other payables	(3,498,541)	(247,958)	(349,072)	(4,095,571)
Borrowings	(586,954)	–	–	(586,954)
Intercompany balances before elimination	(11,044,366)	2,547,550	(1,852,955)	(10,349,771)
Gross exposure	(13,832,615)	2,547,633	(769,555)	(12,054,537)
Notional amounts of forward exchange contracts used as economic hedge	15,868,184	–	1,936,767	17,804,951
Net exposure	2,035,569	2,547,633	1,167,212	5,750,414

As at December 31, 2016 and 2015, if RMB had weakened/strengthened by 5% against the major currencies with all other variables held constant, the Group would generate extra exchange gains or losses of approximately RMB174 million and RMB33 million, respectively.

The analysis above is based on the assumption that RMB weakened or strengthened against all other currencies in the same direction and magnitude, but it may not be necessarily true in reality.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheets either as available-for-sale or at fair value through profit or loss. The commodity price risk the Group exposed is not material. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

The Group's investments in equity of other entities that are publicly traded in the following four capital markets: HK, China, US and Japan.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (CONTINUED)

(a) Market risk (CONTINUED)

(ii) Price risk (CONTINUED)

The table below summarises the impact of increases/decreases of the four capital markets on the group's pre-tax profit and other comprehensive income for the year. The analysis is based on the assumption that the equity indexes had increased/decreased by 5% with all other variables held constant.

	Impact on pre-tax profit Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Equity securities – HK	**6,329**	7,248
Equity securities – US	**–**	3,668
Equity securities – China	**48,575**	517
	54,904	11,433

	Impact on other comprehensive income Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Equity securities – HK	**19,910**	26,732
Equity securities – US	**–**	3,635
Equity securities – Japan	**5,253**	4,074
Equity securities – China	**271,512**	244,880
	296,675	279,321

Pre-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other comprehensive income would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

Other market price risk also arises from the Group's investments in unlisted equity securities, including VC Funds and PE Funds.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (CONTINUED)

(a) Market risk (CONTINUED)

(iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings and loans from related parties. Long-term borrowings at floating rates expose the Group to cash flow interest rate risk. Long-term borrowings and loans from related parties at fixed rates expose the Group to fair value interest rate risk. The Group's long-term borrowings with floating interest rates amounted to approximately RMB6 billion and RMB7 billion as at December 31, 2016 and 2015; long-term borrowings and loans from related parties with fixed interest rates amounted to approximately RMB50 billion and RMB50 billion as at December 31, 2016 and 2015.

The Group operates various customer financing programs primarily in IT business. The Group is exposed to fluctuation of interest rates of all the currencies covered by those programs.

The Group manage its interest rate risk by performing regular review and monitoring its interest rate exposure and when appropriate using floating-to-fixed interest rate swaps.

If interest rates on the floating rate borrowings had risen/fallen 50 basis points while all other variables had been held constant, the Group's post-tax profit would have decreased/increased by approximately RMB30 million and RMB31 million as at December 31, 2016 and 2015.

If interest rates on customer financing programs had risen/fallen 50 basis points while all other variables had been held constant, the Group's post-tax profit would have decreased/increased by approximately RMB50 million and RMB38 million as at December 31, 2016 and 2015.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash and cash equivalents, bank deposits, restricted deposits, trade and notes receivable, loans to customers, other receivables and derivative financial instruments etc.

For the cash at bank, the Group controls its credit risk through monitoring their credit rating and setting approved credit limits that are regularly reviewed.

The Group has no significant concentration of customer credit risk. The Group has policies to limit the credit exposure on receivables. The Group assesses the credit quality of and sets credit limits on its customers, taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (CONTINUED)

(b) Credit risk (CONTINUED)

The subsidiaries of the Group has taken measures to identify credit risks arising from guarantee business. The subsidiaries of the Group manages credit risk at every stage of the risk management system, including pre-approval, review and credit approval and post-transaction monitoring processes. The subsidiaries of the Group conducts customer acceptance and due diligence by business department and risk management department during the pre-approval process. A transaction may be subject to the review and approval of credit approval officer, regional risk committee, deputy chairman and chairman depending on the transaction size. During the post-transaction monitoring process, the subsidiaries of the Group conducts on-site inspection and ongoing post-transaction reviews focusing on various aspects, including but not limited to customers' product markets, operating income, assets and liabilities, cash flows from operating activities to detect potential risks. The subsidiaries of the Group takes proactive preventive actions based on the risk analysis and design contingency plans accordingly.

The subsidiaries of the Group adopts the same pre-approval, review and credit approval risk management system for credit risk arising from loan business. During the post-transaction monitoring process, the subsidiaries of the Group conducts a visit of customers within one month after disbursement of loans, and conducts on-site inspection on a semi-annual basis. The review focuses on the use of loans, the financial and operational conditions of the borrowers or the progress of projects and status of the collateral.

The subsidiaries of the Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

At the same time, the subsidiaries of the Group has established relevant mechanisms to apply tiered management of credit risks, and set limits to acceptable risks for different individual or group counterparties, different industries and geographical regions. The subsidiaries of the Group monitors the risk status of these customers regularly and reviews their risk positions at least on a quarterly basis.

(c) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group. The Group monitors its subsidiaries' rolling forecasts of short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that it does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (CONTINUED)

(c) Liquidity risk (CONTINUED)

The table below set forth the financial liabilities of the Group based on the remaining period at the balance sheet date to the contractual maturity date at their contractual undiscounted cash flows:

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
As at December 31, 2016					
Borrowings	**29,377,590**	**17,864,895**	**39,780,533**	**5,609,834**	**92,632,852**
Trade and notes payables	**49,233,992**	**–**	**–**	**–**	**49,233,992**
Other payables and accruals	**65,608,468**	**–**	**–**	**–**	**65,608,468**
Other liabilities excluding non-financial liabilities	**14,199**	**685,095**	**1,280,752**	**84,865**	**2,064,911**
Derivative financial instruments settled in gross:					
Forward foreign exchange contracts					
– outflow	**43,369,129**	**–**	**–**	**–**	**43,369,129**
– inflow	**(43,987,726)**	**–**	**–**	**–**	**(43,987,726)**
Financial guarantee contracts (Note 45)	**12,278,923**	**–**	**–**	**–**	**12,278,923**
As at December 31, 2015					
Borrowings	23,661,693	17,920,764	41,115,084	3,899,656	86,597,197
Trade and notes payables	45,728,181	–	–	–	45,728,181
Other payables and accruals	45,665,445	–	–	–	45,665,445
Other liabilities excluding non-financial liabilities	2,148,494	13,662,434	1,385,633	–	17,196,561
Derivative financial instruments settled in gross:					
Forward foreign exchange contracts					
– outflow	9,203,215	–	–	–	9,203,215
– inflow	(32,801,207)	–	–	–	(32,801,207)
Financial guarantee contracts (Note 45)	12,369,366	–	–	–	12,369,366

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital 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 shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of debt to equity ratio. Debt to equity ratio is calculated by dividing net debt by total equity at the end of each financial period. The Group's strategy remains unchanged and debt to equity ratios and net cash position of the Group as at December 31, 2016 and 2015 are as follows:

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Total borrowings (Note 39)	**82,669,630**	77,256,775
Less: cash and cash equivalents (Note 30)	**(30,059,402)**	(34,802,953)
	52,610,228	42,453,822
Total equity	**68,992,212**	65,067,083
Debt to equity ratio	**76.3%**	65.2%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (CONTINUED)

The following table presents the group's financial assets and liabilities that are measured at fair value at December 31, 2016 and 2015.

	As at December 31, 2016			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Associates measured at fair value through profit or loss	–	–	15,515,436	15,515,436
Financial assets at fair value through profit or loss				
– Listed securities	1,098,072	–	–	1,098,072
– Unlisted securities	–	–	4,046,279	4,046,279
– Listed corporate bond	219,303	–	–	219,303
Derivative financial instruments (i)	–	964,752	–	964,752
Available-for-sale financial assets				
– Listed securities	2,116,969	3,816,505	–	5,933,474
– Unlisted securities	–	–	3,642,459	3,642,459
– Listed corporate bond	272,869	–	–	272,869
– Bank's wealth management product	–	–	30,000	30,000
	3,707,213	4,781,257	23,234,174	31,722,644
Liabilities				
Derivative financial instruments (i)	–	367,619	–	367,619
Written put option liability	–	–	1,547,992	1,547,992
	–	367,619	1,547,992	1,915,611

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (CONTINUED)

	As at December 31, 2015			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Associates measured at fair value through profit or loss	–	–	13,132,653	13,132,653
Financial assets at fair value through profit or loss				
– Listed securities	228,667	–	–	228,667
– Unlisted securities	–	–	2,500,976	2,500,976
– Listed corporate bond	212,589	–	–	212,589
Derivative financial instruments (i)	–	412,443	–	412,443
Available-for-sale financial assets				
– Listed securities	1,516,085	4,070,336	–	5,586,421
– Unlisted securities	–	–	1,400,934	1,400,934
– Bank's wealth management product	–	–	78,900	78,900
	1,957,341	4,482,779	17,113,463	23,553,583
Liabilities				
Derivative financial instruments (i)	–	213,516	–	213,516
Contingent considerations	–	–	1,944,931	1,944,931
Written put option liability	–	–	1,434,767	1,434,767
	–	213,516	3,379,698	3,593,214

(i) Derivatives primarily related to foreign currency forward contracts that are designated as hedges for the fair value of recognized assets or liabilities or a firm commitment, or of highly probable forecast transactions from IT business of the Group.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

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. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (CONTINUED)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- The fair value of interest rate swap is calculated as the present value of estimated future cash flow based on observable yield curves.

- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

As at December 31, 2016 and 2015, associates measured at fair value through profit or loss comprise investments in VC Funds and PE Funds which are subject to the terms and conditions of the respective fund's offering documentation. The investments in VC Funds and PE Funds are primarily valued based on the latest available consolidated financial statements provided by their General Partners. The VC Funds and PE Funds are not publicly traded; prior to maturity, an exit can only be made by the Group through a sale of its investment and commitment in a fund through a secondary market. The Group's objective is to invest in VC Funds and PE Funds with the intention to recover the capital invested through distributions funded through their realisation of their private equity and venture capital investment portfolios. As a result, the carrying values of VC Funds and PE Funds may be significantly different from the values ultimately realised on an exit via a secondary market sale.

All of the VC Funds and PE Funds in the investment portfolio are managed by investment managers who are compensated by the respective funds for their services. Such compensation generally consists of a commitment/investment-based management fee and a performance based incentive fee which is accounted for at VC Funds and PE Funds level. Such compensation is reflected in the valuation of the Group's investment in each of the funds.

For those funds that are not traded on an active market, their fair value is determined using valuation techniques. The value is primarily based on the latest available financial/capital account statement of VC Funds and PE Funds as reported by the General Partner of the funds, unless the Group is aware of reasons that such a valuation may not be the best approximation of fair value. The Group may make adjustments to the value based on considerations such as: the underlying investments of each fund, the value date of the net asset value provided, cash flows since the latest value date, geographic and sector exposures, market movements and the basis of accounting of the underlying funds. The unobservable inputs which significantly impact the fair value are the net asset value advised by the fund's general partner. No adjustment has been made by the Group on such value.

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (CONTINUED)

The following table presents the changes in level 3 financial assets for the year ended December 31, 2016 and 2015, respectively.

	Associates measured at fair value through profit or loss *RMB'000*	Financial assets measured at fair value through profit or loss *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
At January 1, 2016	**13,132,653**	**2,500,976**	**1,479,834**	**17,113,463**
Additions/capital contributions	**3,948,900**	**1,438,335**	**2,769,813**	**8,157,048**
Disposals/return of capital	**(1,766,200)**	**(499,392)**	**(442,150)**	**(2,707,742)**
Exchange adjustment	**496,730**	**52,718**	**32,852**	**582,300**
Transfers out from level 3	**–**	**(90,466)**	**(37,604)**	**(128,070)**
(Losses)/gains recognised in income statement	**(296,647)**	**644,108**	**–**	**347,461**
Gains recognised in other comprehensive income	**–**	**–**	**(130,286)**	**(130,286)**
At December 31, 2016	**15,515,436**	**4,046,279**	**3,672,459**	**23,234,174**
At January 1, 2015	12,676,928	1,044,393	1,145,954	14,867,275
Additions/capital contributions	1,754,952	1,042,737	963,066	3,760,755
Disposals/return of capital	(944,971)	(96,767)	(375,302)	(1,417,040)
Exchange adjustment	409,612	28,073	22,613	460,298
Transfers out from level 3	–	–	(271,465)	(271,465)
(Losses)/gains recognised in income statement	(763,868)	482,540	(12,652)	(293,980)
Gains recognised in other comprehensive income	–	–	7,620	7,620
At December 31, 2015	13,132,653	2,500,976	1,479,834	17,113,463

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (CONTINUED)

The following table presents the changes in level 3 financial liabilities of the Group for the year ended December 31, 2016 and 2015.

	Amounts *RMB'000*
At January 1, 2016	**3,379,698**
De-recognition	**(1,994,688)**
Exchange adjustment	**206,757**
Recognised in the consolidated income statement	**(43,775)**
At December 31, 2016	**1,547,992**
At January 1, 2015	3,240,775
De-recognition	(101,453)
Exchange adjustment	195,965
Recognised in the consolidated income statement	44,411
At December 31, 2015	3,379,698

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

4.1 Critical accounting estimates and key assumptions

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(a) Estimated impairment of non-financial assets

The Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amounts of an asset or a cash generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates.

The value-in-use calculations primarily use cash flow projections based on financial budgets, in general covered five years, approved by management and estimated terminal values at the end of the five-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and operating margin and selection of discount rates, to reflect the risks involved and the earnings multiple that can be realised for the estimated terminal value.

Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(b) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analyses for various available-for-sale financial assets and financial assets measured at fair value through profit or loss that are not traded in active markets.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and key assumptions (CONTINUED)

(c) Fair value of VC Funds and PE Funds

The fair value of investments in VC Funds and PE Funds that are not quoted in an active market is primarily valued based on the latest available consolidated financial statements provided by their general partners. The Group reviews the details of the reported information and may make adjustments to the reported net asset value based on considerations such as:

(i) the valuation of VC Funds and PE Funds' underlying investments;

(ii) the value date of the net asset value provided;

(iii) cash flows (calls/distributions) since the latest value date; and

(iv) the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by fund's general partner.

The models used to determine fair values are validated and periodically reviewed by the Group. The carrying values of the VC Funds and PE Funds may be significantly different from the values ultimately realised on an exit via a secondary market sale.

(d) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognised are based on management's assessment of the likely outcome.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and key assumptions (CONTINUED)

(d) Income taxes (CONTINUED)

Deferred income tax assets are mainly recognised for temporary differences such as warranty provision, accrued sales rebates, bonus accruals, fair value change on financial assets, and other accrued expenses, and unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which deductible temporary differences and the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred income tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred income tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred income tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilization periods to allow utilization of the carry forward tax losses, the asset balance will be reduced and the difference charged to the consolidated income statement.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions and deferred income tax assets and liabilities in the period in which such determination is made.

The implementation and settlement of land appreciation tax ("LAT") varies among various tax jurisdictions in cities of the PRC. LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land use rights, borrowing costs, business taxes, property development and other related expenditures. These taxes are incurred upon transfer of property ownership.

Significant judgment is required in determining the extent of land appreciation and its related taxes. The Group recognised LAT based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the consolidated income statement in the periods in which such taxes are finalised with local tax authorities.

(e) Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate, expected return on assets and salary growth. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and key assumptions (CONTINUED)

(e) Pension obligations (CONTINUED)

The expected return on plan assets is based on market expectation for return over the life of the related assets and obligations. The salary growth assumption reflects the Group's long-term actual experience and future and near-term outlook. Actual results that differ from assumption are generally recognised in the year they occur.

(f) Fair value of contingent considerations and written put option liabilities

The Group's certain business combination activities involved post-acquisition performance-based contingent considerations. The Group recognises contingent considerations and the corresponding written put option liabilities at their fair values, which is determined based on the terms of agreements and with reference to the estimated post-acquisition performance of the acquired subsidiaries/businesses. Judgment is required to determine key assumptions (such as growth rate, margins and discount rate) adopted in the estimation of post-acquisition performance of the acquired subsidiaries/businesses. Changes to key assumptions can significantly affect the amounts of considerations to be paid. Contingent considerations shall be re-measured at their fair value resulting from events or factors emerge after the acquisition date, with any resulting gain or loss recognised in the consolidated income statement.

(g) Fair value of identifiable assets and liabilities acquired through business combinations

The Group records assets acquired and liabilities assumed in business combinations at fair value on the date of acquisition. Significant judgment is used to estimate the fair value of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset useful lives and other assumptions.

(h) Principal assumptions underlying management's estimation of fair value of investment properties

The fair value of investment properties is determined by using valuation techniques. The key assumptions used in this determination and the sensitivity of the directors' estimates of these assumptions to the carrying amount of the investment properties are set out in Note 18.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and key assumptions (CONTINUED)

(i) Depreciation and amortisation

Leasehold land and land use rights, property, plant and equipment (excluding land and construction in progress) and intangible assets (excluding goodwill and intangible assets with indefinite useful life) are depreciated and amortised using the straight-line method during the estimated useful lives of these assets to allocate the cost of the assets to their estimated net residual values. The Group reviews the estimated useful lives and estimated residual values periodically, to ensure that method and rate of depreciation/amortisation are consistent with the pattern how such assets' economic benefits are expected to be realised.

The Group makes estimates of the useful lives and residual values of such assets, based on historical experience and with reference to estimated technical improvement. In case of significant changes in estimated useful lives and residual values, depreciation and amortisation expenses will be adjusted accordingly.

(j) Provisions for bad debts

Losses on bad debts are accounted for using allowance method. Provision for bad debts is made based on the assessment of the recoverability of receivable, which requires the judgments and estimates of the management. Any difference between actual outcome and the initial estimates will affect the carrying value of accounts receivable as well as the accrual and reversal of bad debts provision during the period when estimates are adjusted.

(k) Provision for decline in the value of inventories

The Group measures inventories according to the lower of cost and net realisable value at the balance sheet date, and the calculation of net realisable value requires assumptions and estimates. If the management revises the estimated selling price and cost and expenses to be incurred till completion, the estimates of net realisable value will be impacted, and the difference from the original estimates will affect the provision for decline in the value of inventories.

(l) Warranty provision

Warranty provision is provided based on the estimated cost of product warranties when revenue is recognised. Factors that affect the Group's warranty liability include the number of units sold currently under warranty, historical and anticipated rates of warranty claims on those units, and cost expected to be incurred to satisfy warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangements with the suppliers. These amounts are recognised as a separate asset and reduce the warranty expense provision, to the extent of the amount received or receivable, when it is virtually certain that reimbursement will be received if the Group settles the obligation.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Critical judgments in applying the accounting policies

(a) Classification of investments

The classification of an investment is based on the commercial substance of the contractual arrangement, and the fact whether the Group is determined to have control, joint control or significant influence, also, the purpose of the investment and moreover, it could also be influenced by the certain terms stipulated in the investment agreement which may lead to a complex accounting treatment. Subsidiaries are all entities (including structured entities) 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. Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

The Group made its assessment on whether it has the level of power to govern the financial and operating policies of the VC Funds and PE Funds in accordance with the guidance of IFRS 10, given the significant exposure to variable returns from involvement with these funds. Pursuant to the investment agreements entered into between the Group and the general partners/management companies, the general partners/management companies have the power to direct the relevant activities of the funds and are functioning as principals. Therefore, the directors determined that the Group does not have control but only exercise significant influence over most VC Funds and PE Funds (Note 13(b)).

Investments in preferred shares of associates of the Group are designated as financial assets at fair value through profit or loss at initial recognition.

The investments over which the group do not have control, joint control or significant influence are recognised as financial assets. The Group classifies its financial assets in the following categories: (a) at fair value through profit or loss, (b) loans and receivables, and (c) available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(b) Revenue recognition

The Group needs to make judgments and estimates of the revenue recognition. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting treatment, including whether the deliverables specified in a bundling arrangement should be treated as individual units for accounting treatment. Other significant judgments include determining whether the Group or a distributor is acting as the principal in a transaction and whether separate contracts are considered as part of one arrangement.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Critical judgments in applying the accounting policies (CONTINUED)

(b) Revenue recognition (CONTINUED)

Revenue recognition of IT products

The Group's subsidiary, Lenovo sells the products to channels. Sales through channels are primarily made under agreements allowing for volume discounts, price protection and rebates, etc. Revenue recognition is also influenced by the estimated provision for volume discount, price protection and rebate. Lenovo calculates such provisions, taking into account various factors, which include specific transactions, historical experience, and market and economic situations. Lenovo monitors the channel's inventory level with reference to historical data, using systematic and consistent method, and defers the related excess revenue and costs of sales if channel's inventory exceeds the reasonable level.

Revenue from sales of goods is recognized when both ownership and risk of loss are effectively transferred to customer, which are generally occurred upon shipment. For certain transactions, risk of loss associated with goods-in-transit is retained by Lenovo, the Group's subsidiary, in which Lenovo books revenue upon delivery of products and defers the amounts of revenue based on the estimated days-in-transit at the end of each month. The days-in-transit is estimated based on Lenovo's weighted average estimated time of shipment arrival. Cost of in-transit products is deferred in deposits, prepayment and other receivables in the balance sheet until revenue is recognized. The estimates of days-in-transit are reviewed semi-annually.

Revenue recognition of properties

In the normal commercial environment, the subsidiaries of the Group's property segment sign the sales contracts with the customers. If the customer needs to obtain mortgage loan from banks for payment of the properties, the Group would sign a three-party agreement with the customer and the bank. According to the agreement, the Group would provide periodic joint liability guarantee for the mortgage loan that the bank grants to customer, and such responsibility ceases when the customer obtains ownership certificate and completes property mortgage registration.

Under the three-party agreement, during the guarantee period, the Group only provides guarantee for the part of mortgage loan that are not repaid by the customer, and the bank will only exercise recourse right when the customer defaults on repayment of the mortgage loan.

According to the Group's experience of the sales of properties, the Group believes that, during the period of providing joint liability guarantee, the probability of assuming guarantee responsibility, in case of customer not repaying the mortgage loan, is really low. Besides, in case of customer default, the Group can recover the amount paid for the guarantee by exercising the recourse right to customer, and avoid losses by disposing the property in accordance with relative clauses in the sales contract. Therefore, the Group believes that such financial guarantee has no significant impact over the revenue recognition for sales of properties.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Critical judgments in applying the accounting policies (CONTINUED)

(c) Consolidation of entities in which the Group holds less than 50% voting rights

Management consider that the Group has de facto control over Lenovo even though it has less than 50% of the voting rights based on the following factors: 1) as of December 31, 2016 and 2015 the Group is the single largest shareholder of Lenovo with a 31.48% and 30.91% equity interest; 2) the Company obtained an "acting in concert" undertaking from another shareholder; and 3) the rest of the voting rights of Lenovo is dispersed and since the date of Lenovo's listing, there has been no history of any other shareholders collaborating to exercise their vote collectively or to out vote the Group.

5. SEGMENT INFORMATION

The Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purpose of allocating resources and assessing performance.

For management purpose, the Group is organized into business units based on their products and services. Different businesses require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

In 2016, Raycom Real Estate sold the Target Companies' relevant equity interests and debts. The management reassessed the segment disclosure for the year ended 31 December 2016. The comparative figures have been restated to conform with the current year's presentation.

The Group identifies 6 continuing operations segments and a discontinued operations segment as follows:

- **Continuing Operations**
  - IT segment, which is primarily engaged in the development, manufacturing and marketing high-quality and easy-to-use for technology products and services for customers and enterprises;
  - Financial services segment, which offers services including short-term financing, credit guarantees, entrusted loans, finance lease, banking, insurance brokerage services, payment and internet finance and trusts, customised financial solutions to customers;
  - Innovative consumption and services segment, which operates mainly to provide comprehensive medical and health services, logistics, car rental business, digital marketing solutions of enterprises and Internet healthcare services;
  - Agriculture and food segment, which is mainly engaged in planting and sales of premium fruit and tea products in agriculture business, produce and sell various Chinese liquor brands, provide seafoods and accessory products, agriculture-oriented e-commerce platform and liquor direct sales chain;

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

5. SEGMENT INFORMATION (CONTINUED)

– Continuing Operations (CONTINUED)

– New materials segment, which includes the fine chemicals and energy materials production services and lithium-ion battery business;

– Financial investments segment, which is engaged in investment in the private equity and venture capital funds as a limited partner and holds interest in the general partners of certain funds. It also makes early stage or "angel" investments in technology start-ups and minority investments in other entities. It also provides office rental services to consumers and enterprises.

– Discontinued operations

– Property segment, which is primarily engaged in the business of the development and sale of residential properties and office buildings and property management services to projects that the Group developed.

The unallocated amounts primarily represent corporate expenses that are not directly allocated to one of the aforementioned operating segments. The unallocated amounts also include other income statement items such as employee benefit expenses, finance income and finance costs, which cannot be directly identified to specific operating segments. Segment assets consist, primarily of land use rights, investment properties, property, plant and equipment, intangible assets, inventories, receivables and cash and cash equivalents. Segment liabilities primarily comprise operating liabilities.

The Board of Directors assesses the performance of the operating segments based on a measure of profit before tax.

5. SEGMENT INFORMATION (CONTINUED)

Year ended December 31, 2016

	Continuing operations									Discontinued operations (Up to effective date of disposal)	Elimination	Total
	Strategic investment											
	IT	Financial services	Innovative consumption and services	Agriculture and food	New materials	Financial investments	Unallocated	Elimination	Sub-total	Property		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue												
Sales to external customers	282,551,029	906,728	2,131,895	3,266,429	4,702,079	534,572	-	-	294,092,732	12,207,136	-	306,299,868
Net interest income	-	652,978	-	-	-	-	-	-	652,978	-	-	652,978
Inter-segment sales	-	23,487	-	-	-	4,775	-	(28,262)	-	-	-	-
Total	282,551,029	1,583,193	2,131,895	3,266,429	4,702,079	539,347	-	(28,262)	294,745,710	12,207,136	-	306,952,846
Segment results												
(Loss)/profit before income tax	4,431,608	1,849,734	(826,709)	129,251	(150,215)	3,698,085	(987,578)	(5,417)	8,138,759	1,550,571	(150,903)	9,538,427
Income tax credit/(expense)	(245,629)	(236,914)	22,800	(58,615)	334,389	(539,625)	247,339	-	(476,255)	(1,077,162)	-	(1,553,417)
(Loss)/profit for the year	4,185,979	1,612,820	(803,909)	70,636	184,174	3,158,460	(740,239)	(5,417)	7,662,504	473,409	(150,903)	7,985,010
Segment assets	180,178,870	37,126,517	8,727,463	7,815,411	8,808,065	70,585,125	15,821,770	(6,804,393)	322,258,828	-	-	322,258,828
Segment liabilities	166,090,476	23,925,051	6,229,855	2,900,051	6,905,768	10,480,369	43,539,439	(6,804,393)	253,266,616	-	-	253,266,616
Other segment information:												
Depreciation and amortisation	(4,968,807)	(7,068)	(188,804)	(80,770)	(329,651)	(16,382)	(8,633)	-	(5,600,115)	(10,511)	-	(5,610,626)
Impairment loss for non-current assets	-	-	(43,161)	(30,754)	(18,664)	-	-	-	(92,579)	-	-	(92,579)
Investment income and gains	77,100	1,044,319	(22,649)	36,626	(400,415)	2,102,663	-	(5,417)	2,832,227	(467,077)	-	2,365,150
Finance income	170,557	15,930	3,595	10,346	8,119	1,105	610,607	(328,051)	492,208	-	-	492,208
Finance costs	(1,474,661)	(148,115)	(233,813)	(56,893)	(254,656)	(53,512)	(1,392,275)	351,538	(3,262,387)	(415,633)	-	(3,678,020)
Share of profit of associates and joint ventures accounted for using the equity method	120,169	331,747	307,089	34,126	40,893	232,469	-	-	1,066,493	-	(150,903)	915,590
Material non-cash items other than depreciation and amortisation	(1,238,470)	-	-	-	-	-	-	-	(1,238,470)	-	-	(1,238,470)
Capital expenditure	5,166,185	10,984	894,460	130,717	39,253	33,373	44,830	-	6,319,802	4,083	-	6,323,885
Associates and joint ventures using equity accounting	483,668	5,342,943	2,974,222	1,853,253	337,846	939,642	-	-	11,931,574	-	-	11,931,574
Associates measured at fair value through profit or loss	-	-	-	-	-	15,515,436	-	-	15,515,436	-	-	15,515,436

5. SEGMENT INFORMATION (CONTINUED)

Year ended December 31, 2015 (As restated)

	Continuing operations									Discontinued operations	Elimination	Total
	Strategic investment											
	IT	Financial services	Innovative consumption and services	Agriculture and food	New materials	Financial investments	Unallocated	Elimination	Sub-total	Property		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue												
Sales to external customers	293,255,377	309,730	1,494,615	1,638,511	1,838,988	412,349	–	–	298,949,570	10,284,277	–	309,233,847
Net interest income	–	592,292	–	–	–	–	–	–	592,292	–	–	592,292
Inter-segment sales	–	2,800	–	102	–	5,342	–	(8,244)	–	–	–	–
Total	293,255,377	904,822	1,494,615	1,638,613	1,838,988	417,691	–	(8,244)	299,541,862	10,284,277	–	309,826,139
Segment results												
(Loss)/profit before income tax	(2,081,053)	1,187,753	(365,370)	156,978	(1,100,870)	6,900,480	(1,056,552)	(8,040)	3,633,326	1,925,667	(120,914)	5,438,079
Income tax credit/(expense)	751,478	(175,213)	(64,193)	(22,832)	39,979	(1,248,591)	264,138	–	(455,234)	(1,207,239)	–	(1,662,473)
(Loss)/profit for the year	(1,329,575)	1,012,540	(429,563)	134,146	(1,060,891)	5,651,889	(792,414)	(8,040)	3,178,092	718,428	(120,914)	3,775,606
Segment assets	168,136,915	16,615,141	7,656,512	4,320,678	9,710,935	62,994,685	20,148,854	(11,604,865)	277,978,855	41,070,829	(12,806,792)	306,242,892
Segment liabilities	153,900,327	6,797,593	4,620,131	4,276,823	11,021,960	22,202,692	34,730,699	(11,331,239)	226,218,986	27,763,615	(12,806,792)	241,175,809
Other segment information:												
Depreciation and amortisation	(4,670,940)	(5,020)	(158,735)	(117,442)	(200,758)	(4,211)	(7,787)	–	(5,164,893)	(20,367)	–	(5,185,260)
Impairment loss for non-current assets	–	–	(36,366)	–	(946,629)	–	–	–	(982,995)	–	–	(982,995)
Investment income and gains	13,601	542,653	177,978	310,015	145,271	4,049,294	–	(8,040)	5,230,772	807	–	5,231,579
Finance income	196,414	10,214	4,243	5,580	5,320	693	779,393	(526,384)	475,473	36,674	–	512,147
Finance costs	(1,437,088)	(35,613)	(134,218)	(145,706)	(191,025)	(30,279)	(1,558,825)	529,184	(3,003,570)	(366,883)	–	(3,370,453)
Share of profit/(loss) of associates and joint ventures accounted for using the equity method	96,467	60,622	326,368	(24,740)	5,635	373,906	–	–	838,258	(5,140)	(120,914)	712,204
Material non-cash items other than depreciation and amortisation	(808,275)	–	–	–	–	–	–	–	(808,275)	–	–	(808,275)
Capital expenditure	4,838,945	11,719	947,240	209,498	1,372,079	5,365	20,227	–	7,405,073	161,025	–	7,566,098
Associates and joint ventures using equity accounting	287,842	4,831,931	2,564,949	1,300,564	275,348	960,745	–	(206,626)	10,014,753	134,157	–	10,148,910
Associates measured at fair value through profit or loss	–	–	–	–	–	13,132,653	–	–	13,132,653	–	–	13,132,653

5. SEGMENT INFORMATION (CONTINUED)

(a) Revenue from external customers/Net interest income

	Year ended December 31,	
	2016	2015 (As restated)
	RMB'000	*RMB'000*
China	**88,891,347**	87,664,325
Overseas countries and regions	**205,854,363**	211,877,537
Total	**294,745,710**	299,541,862

(b) Non-current assets

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
China	**49,144,162**	50,328,499
Overseas countries and regions	**44,435,497**	40,881,179
Total	**93,579,659**	91,209,678

The non-current assets information above is based on the locations of the assets and excludes financial assets, investment in associates and deferred income tax assets.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

6. INVESTMENT INCOME AND GAINS

	Year ended December 31,	
	2016	2015 (As restated)
	RMB'000	*RMB'000*
Gains on disposal/dilution of associates	**503,892**	412,088
Gains on disposal of available-for-sale financial assets	**944,723**	172,476
(Losses)/gains on disposal of subsidiaries	**(479,055)**	216,043
Dividend income from available-for-sale financial assets	**205,469**	279,584
Fair value gains and dividend income from associates measured at fair value through profit or loss	**840,514**	3,235,010
Fair value gains and dividend income from financial assets at fair value through profit or loss	**751,587**	872,137
Others	**65,097**	43,434
	2,832,227	5,230,772

7. OTHER INCOME AND GAINS/(LOSSES)

	Year ended December 31,	
	2016	2015 (As restated)
	RMB'000	*RMB'000*
Government grants	**1,440,682**	1,131,500
Gains/(Losses) on disposal of property, plant and equipment and intangible assets (i)	**2,207,296**	(1,926,650)
Fair value gains on investment properties(Note 18)	**344,017**	1,646,139
Net foreign exchange gains/(losses)	**200,270**	(184,515)
Severance and related costs (i)	**(902,126)**	(1,452,307)
Inventories write off (i)	**–**	(1,168,276)
Provision for lease obligations (i)	**–**	(378,979)
Others	**70,393**	(554,068)
	3,360,532	(2,887,156)

(i) In 2016, Lenovo announced resource actions and severance costs of approximately RMB902 million were recognised. In 2015, Lenovo made restructuring and one-time charges in order to drive greater efficiency across its organizations and it is primarily associated with severance costs of RMB1,452 million, loss on impairment and disposal of assets of RMB1,870 million, provision for lease obligations of RMB379 million; and smartphone inventories write off of RMB1,168 million in relation to realignment of key elements under Mobile Business Group in Lenovo.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

8. EXPENSES BY NATURE

	Year ended December 31,	
	2016	2015 (As restated)
	RMB'000	*RMB'000*
Expenditure of inventories sold	**233,620,969**	238,462,637
Employee benefit expenses (Note 9)	**24,382,110**	24,603,257
Advertising costs	**6,501,625**	5,887,317
Depreciation and amortisation	**5,600,115**	5,164,893
Impairment loss for non-financial assets	**92,579**	982,995
Office and administrative expenses	**2,860,031**	3,081,770
Consultancy and professional fees	**1,721,511**	1,261,887
Auditors' remuneration	**103,369**	94,664
Labs and testing	**415,273**	527,047
Operating lease payments	**957,588**	1,244,958
Business tax and surcharge and other taxes	**724,324**	664,941
Transportation expenses	**571,951**	459,205
Inventory write-down	**158,207**	142,312
Other expenses (i)	**13,386,372**	13,984,430
	291,096,024	296,562,313

(i) Other expenses mainly include non-base manufacturing costs from IT business, which are costs that are periodic in nature as opposed to product specific. They are typically incurred after the physical completion of the product and include items such as outbound freight for in-country finished goods shipments, warranty costs, engineering charges, storage and warehousing costs, and contribute to bringing inventories to their present location and condition. Non-base manufacturing costs enter into the calculation of gross margin but not inventoriable costs.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

9. EMPLOYEE BENEFIT EXPENSE

	Year ended December 31,	
	2016	2015 (As restated)
	RMB'000	*RMB'000*
Wages and salaries	**18,387,045**	18,461,717
Social security costs other than pension	**1,605,159**	1,739,901
Long-term incentive awards granted	**1,238,470**	808,275
Pension costs – defined contribution plans	**1,174,530**	1,208,483
Pension costs – defined benefit plans (Note 41)	**139,574**	158,171
Others	**1,837,332**	2,226,710
	24,382,110	24,603,257

10. HIGHEST PAID INDIVIDUALS

The emoluments of the five highest paid individuals of the Group for the year ended December 31, 2016 include one director, whose emoluments are reflected in the analysis in Note 47(a), whereas the emoluments of the five highest paid individuals of the Group for the year ended December 31, 2015 did not include any director. The emoluments paid to those remaining four (2015: five) individuals are as follows:

	For the year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Salaries	**40,085**	41,096
Discretionary bonuses	**35,726**	131,550
Share option and rewards	**189,883**	163,971
Retirement payment and employer's contribution to pension schedule	**13,514**	17,105
Other benefits	**5,254**	5,365
	284,462	359,087

10. HIGHEST PAID INDIVIDUALS (CONTINUED)

The emoluments fell within the following bands:

	Number of individuals For the year ended December 31,	
	2016	2015
Emolument bands		
HKD43,500,001 – HKD44,000,000	**1**	–
HKD47,000,001 – HKD47,500,000	**1**	–
HKD52,000,001 – HKD52,500,000	**–**	1
HKD52,500,001 – HKD53,000,000	**–**	1
HKD57,500,001 – HKD58,000,000	**–**	1
HKD103,000,001 – HKD103,500,000	**1**	–
HKD115,000,001 – HKD115,500,000	**–**	1
HKD138,500,001 – HKD139,000,000	**1**	–
HKD169,500,001 – HKD170,000,000	**–**	1

For the year ended December 31, 2016 and 2015, there was no emolument paid by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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For the year ended December 31, 2016

11. FINANCE INCOME AND COSTS

	For the year ended December 31,	
	2016	2015 (As restated)
	RMB'000	*RMB'000*
Interest expenses		
– Bank loans and overdrafts	**1,315,405**	1,362,259
– Other loans	**290,890**	221,618
– Bonds	**1,404,404**	1,304,564
Factoring costs	**202,408**	336,099
Interest costs on contingent considerations and put option liability	**43,775**	44,411
Commitment fee	**6,946**	33,703
Total finance costs	**3,263,828**	3,302,654
Less: amounts capitalised on qualifying assets	**(1,441)**	(299,084)
Finance costs	**3,262,387**	3,003,570
Finance income:		
– Interest income on bank deposits and money market funds	**(398,134)**	(421,879)
– Interest income on loans to related parties	**(94,074)**	(53,594)
Finance income	**(492,208)**	(475,473)
Net finance costs	**2,770,179**	2,528,097

12. SUBSIDIARIES

The following includes the principal subsidiaries directly or indirectly held by the Company and, in the opinion of the directors, are significant to the results of the Group for the year ended December 31, 2016 and 2015 or form a substantial portion of the net assets of the Group at December 31, 2016 and 2015. The directors consider that giving details of other subsidiaries would result in particulars of excessive length.

Company name	Place of incorporation	Issued share capital/ Paid-in capital (in RMB, unless otherwise stated)	Principal activities	Effective interest held		Statutory auditor
				2016	2015	
Lenovo Group Limited (聯想集團有限公司)	Hong Kong	11,108,654,724 shares	Develop, manufacture and market reliable, high-quality, secure and easy-to-use technology products and services	**31.48%**	30.91%	(1)
Raycom Real Estate Development Co., Ltd. (融科智地房地產股份有限公司)(i)	Beijing	270,000,000	Office building rental and service(i)	**93.09%**	93.09%	(2)
Raycom Property Investment Co., Ltd. (融科物業投資有限公司)	Beijing	60,000,000	Real estate investment and asset management	**100.00%**	100.00%	(2)
Right Lane Limited (南明有限公司, "Right Lane")	Hong Kong	HKD4	Investment and management	**100.00%**	100.00%	(3)
Legend Holdings Tianjin Limited (聯想控股（天津）有限公司)	Tianjin	500,000,000	Investment and management	**100.00%**	100.00%	(2)
Legend Capital Limited (聯想投資有限公司, "Legend Investment")	Lhasa	429,476,555	Investment and management	**92.78%**	92.78%	(2)
Xizang Dongfangqihui Investment Co., Ltd. (西藏東方企慧投資有限公司)	Lhasa	50,000,000	Investment and management	**100.00%**	100.00%	(2)
Kaola Technology Co., Ltd. (西藏考拉科技發展有限公司)(ii)	Lhasa	2,000,000,000	Electronic technology development, transfer, service, promotion and internet technology service	**67.00%**	N/A	(4)
Beijing Legendstar Venture Capital Co., Ltd. (北京聯想之星創業投資有限公司)	Beijing	150,000,000	Angel investment and start-up incubator	**100.00%**	100.00%	(2)
Tianjin Legendstar Venture Capital Co., Ltd. (天津聯想之星創業投資有限公司)	Tianjin	100,000,000	Angel investment and start-up incubator	**100.00%**	100.00%	(2)
Beijing Huaxia United Auto Network Technology Co., Ltd. (北京華夏聯合汽車網絡技術有限公司)	Beijing	369,816,970	Development of car management software and providing car services information consultant	**100.00%**	100.00%	(2)
Funglian Holdings Co., Ltd. (豐聯酒業控股集團有限公司, "Funglian Group")(iii)	Beijing	1,712,511,957	Manufacturing and distribution of Chinese liquor	**79.71%**	93.30%	(2)
Zeny Supply Chain Co., Ltd. (增益供應鏈有限公司)	Beijing	200,000,000	Providing cold chain and various logistics service	**94.00%**	94.00%	(2)
Levima Group Limited (聯泓集團有限公司, "Levima Group")(iv)	Beijing	2,300,000,000	Development and production of chemicals and energy materials	**100.00%**	90.00%	(2)
Joyvio Group Co., Ltd. (佳沃集團有限公司, "Joyvio")(v)	Beijing	3,482,840,000	Agriculture and food investment and other relevant business operations	**100.00%**	100.00%	(2)
Zhengqi Anhui Financial Holding Co., Ltd. (正奇安徽金融控股有限公司, "Zhengqi Financial")(vi)	Hefei	2,547,065,338	Providing financial service for small-and medium-sized entities	**90.30%**	92.00%	(2)
Beijing EnsenCare Holdings Co., Ltd. (北京安信頤和控股有限公司, "EnsenCare")(vii)	Beijing	200,000,000	Operation of senior care facilities and development senior apartments	**N/A**	100.00%	(2)
Bybo Dental Group Co., Ltd. (拜博醫療集團有限公司, "Bybo Dental")	Zhuhai	50,815,358	Investment and operation of dental care and other medical projects	**54.90%**	54.90%	(2)
Shanghai Weimin Hospital Investment Management Co., Ltd. (上海為民醫院投資管理有限公司, "Shanghai Weimin")(viii)	Shanghai	56,969,808	Investment management and Medical consultation	**58.00%**	N/A	(2)
JC International Finance&Leasing Co,.Ltd (君創國際融資租賃有限公司, "JC Finance & Leasing")	Shanghai	1,500,000,000	Finance lease, lease business, purchase lease assets from domestic and overseas.	**100.00%**	100.00%	(5)
KB Food International Holding (Pte.) Limited ("KB Food")(ix)	Singapore	USD87,645,588	Investment holding	**90.00%**	N/A	(6)

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For the year ended December 31, 2016

12. SUBSIDIARIES (CONTINUED)

(1) Lenovo has adopted March 31 as its financial year end date for statutory reporting purpose. For the preparation of the consolidated financial statements, financial statements of Lenovo for the years ended December 31, 2016 and 2015 have been used and they were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

(2) The statutory financial statements of this subsidiary for the year ended December 31, 2016 were audited by Ruihua Certified Public Accountants.

(3) The statutory financial statements of this subsidiary for the year ended December 31, 2016 were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

(4) The statutory financial statements of this subsidiary for the year ended December 31, 2016 were audited by Lixin Certified Public Accountants.

(5) The statutory financial statements of this subsidiary for the year ended December 31, 2016 were audited by PricewaterhouseCoopers Zhong Tian LLP.

(6) The statutory financial statements of this subsidiary for the year ended December 31, 2016 were audited by PricewaterhouseCoopers LLP, Singapore.

(i) The Group currently owns 93.09% equity interest in Raycom Real Estate, of which 70.57% is directly owned by the Company and 22.52% is indirectly held through Legend Investment. Legend Investment's interest in Raycom Real Estate is solely attributed to the equity owner of the Company. Principal activities of Raycom Real Estate changed from "Residential and commercial property development" to "Office building rental and service".

(ii) In September 2016, the Company set up Kaola Technology Co., Ltd. in Lhasa, Tibet. The paid-in capital was RMB2,000 million.

(iii) In January 2016, the Group made a capital injection to Funglian Group. The paid-in capital increased from RMB200 million to RMB1,713 million and the equity interest held by the Group was 99.71%. In April 2016, the Group transferred 20.00% equity interest to third party. As at December 31, 2016, the equity interest held by the Group was 79.71%.

(iv) In January 2016, the Company made a capital injection to Levima Group. The paid-in capital increased from RMB400 million to RMB2,300 million and the equity interest held by the Group increased from 90.00% to 98.26%. In December 2016, the Company entered into an equity transfer agreement with other shareholders to acquire 1.74% equity interest in Levima Group and the equity interest held by the Group increased from 98.26% to 100.00%.

(v) In August 2016, the Group made a capital injection to Joyvio. The paid-in capital increased from RMB200 million to RMB3,483 million.

(vi) In January 2016, the Company and other shareholders made a capital injection to Zhengqi Financial. The paid-in capital increased from RMB2,000 million to RMB2,500 million. In December 2016, third party made a capital injection to Zhengqi Financial. The paid-in capital increased from RMB2,500 million to RMB2,547 million and the equity interest held by the Group was diluted to 90.30%.

(vii) In November 2016, the Company entered into an equity transfer agreement with third party to transfer 100.00% equity interest in EnsenCare.

(viii) In August 2016, the Company made a capital injection to Shanghai Weimin. The equity interest held by the Group was 58.00%.

(ix) In March 2016, a subsidiary of the Group set up KB Food with the management of KB Seafoods Pty Ltd (KB Seafoods). The equity interest held by the Group was 90.00%.

12. SUBSIDIARIES (CONTINUED)

Subsidiaries with significant non-controlling interest

The total comprehensive income attributable to non-controlling interests as shown in the consolidated statements of comprehensive income are income RMB3,335 million and loss RMB2,847 million, of which income RMB3,360 million and loss RMB3,214 million is the comprehensive income/loss attributable to non-controlling interest in Lenovo during the year ended December 31, 2016 and 2015. The total non-controlling interests at December 31, 2016 and 2015 as shown in the consolidated balance sheet are RMB18,069 million and RMB17,514 million, of which RMB15,936 million and RMB14,448 million is attributed to Lenovo. The non-controlling interest in respect of other subsidiaries is not considered material by the directors. The summarised consolidated financial statements of Lenovo is set out below.

Summarised Balance Sheet of Lenovo	**As at December 31,**	
	2016	2015
	RMB'000	*RMB'000*
Current		
Assets	**106,926,335**	98,816,975
Liabilities	**(137,685,320)**	(115,280,569)
Net current liabilities	**(30,758,985)**	(16,463,594)
Non-current		
Assets	**81,973,398**	75,420,995
Liabilities	**(29,976,331)**	(40,027,824)
Net non-current assets	**51,997,067**	35,393,171
Net assets	**21,238,082**	18,929,577

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

12. SUBSIDIARIES (CONTINUED)

Subsidiaries with significant non-controlling interest (CONTINUED)

Summarised Income Statement of Lenovo	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**282,551,029**	293,255,379
Profit/(loss) before income tax	**4,431,608**	(2,081,053)
Income tax (expense)/credit	**(245,629)**	888,485
Net profit/(loss)	**4,185,979**	(1,192,568)
– Attributable to equity owner of Lenovo	**4,222,223**	(1,097,402)
– Attributable to non-controlling interest	**(36,244)**	(95,166)
Other comprehensive income/(loss)	**739,444**	(3,407,454)
Total comprehensive income/(loss)	**4,925,423**	(4,600,022)
– Attributable to equity owner of Lenovo	**4,961,667**	(4,504,856)
– Attributable to non-controlling interest	**(36,244)**	(95,166)
Dividends paid to non-controlling interest	**–**	–

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

12. SUBSIDIARIES (CONTINUED)

Subsidiaries with significant non-controlling interest (CONTINUED)

Summarised Cash Flow Statement of Lenovo	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**12,504,800**	3,858,218
Income tax paid	**(2,315,071)**	(1,798,046)
Net cash generated from operating activities	**10,189,729**	2,060,172
Net cash used in investing activities	**(2,984,310)**	(4,429,770)
Net cash used in financing activities	**(5,979,428)**	(3,622,639)
Net increase/(decrease) in cash and cash equivalents	**1,225,991**	(5,992,237)
Cash and cash equivalents at beginning of the year	**16,567,394**	23,224,395
Exchange losses on cash and cash equivalents	**(291,112)**	(664,764)
Cash and cash equivalents at end of the year	**17,502,273**	16,567,394

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Investments in associates and joint ventures:		
– using equity accounting (a)	**11,931,574**	10,148,910
– measured at fair value through profit or loss (b)	**15,515,436**	13,132,653
	27,447,010	23,281,563

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Associates and joint ventures using equity accounting

Set out below are the associates of the Group as at December 31, 2016 and 2015, which, in the opinion of the directors, are material to the Group, and the intention of the Group to hold these associates is for strategic investment purpose, not only for capital appreciation.

Name	Place of incorporation/ principal place of operations	Principal activities	Effective interest held	
			2016	2015
CAR Inc. ("CAR")(i)	Cayman Islands/ China	Offering comprehensive car rental services including short-term rentals, long-term rentals, finance lease and sales of used rental vehicles	**24.10%**	23.54%
Hankou Bank Co., Ltd. (漢口銀行股份有限公司, "Hankou Bank")(ii)	Wuhan	Commercial banking business	**15.33%**	15.33%
Suzhou Trust Co., Ltd. (蘇州信託有限公司, "Suzhou Trust")(ii)	Suzhou	Trust business	**10.00%**	10.00%
Lakala Payment Corporation (拉卡拉支付股份有限公司, "Lakala Payment")	Beijing	Provision of terminal-based payment and various internet financial services	**31.38%**	31.38%
Union Insurance Broker Group Co., Ltd. (聯保投資集團有限公司, "Union Insurance")	Beijing	Insurance brokerage	**48.00%**	48.00%
Wenkang Group Co., Ltd. (聞康集團股份有限公司, "Wenkang Group")(ii)	Beijing	Internet medical and health care services	**17.02%**	17.02%
Phylion Battery Co., Ltd. (星恒電源股份有限公司, "Phylion Battery")(iii)	Suzhou	Manufacturing and sales of lithium-ion battery products and related research and development	**33.21%**	44.51%
Golden Wing Mau Agricultural Produce Corporation (深圳市鑫榮懋農產品股份有限公司, "Golden Wing Mau")(iv)	Shenzhen	Providing fruit supply chain service	**41.82%**	39.42%

(i) As at December 31, 2016, the fair value of the Group's interest in CAR, which is listed on the Hong Kong Stock Exchange, was RMB3,811 million (2015: RMB6,063 million) and the carrying amount of the Group's interests was RMB2,429 million (2015: RMB2,054 million).

(ii) The directors determine the Group has significant influence over Hankou Bank, Suzhou Trust and Wenkang Group. by way of representation on the Board of Directors and participation in the policy-making process, although the Group's equity interests in these three companies are lower than 20%.

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Associates and joint ventures using equity accounting (CONTINUED)

(iii) On May 30, 2016, Phylion Battery entered into an equity financing agreement with third party, the equity interest held by the Group was diluted to 35.61% as a result. On December 30, 2016, the Group sold 2.4% interest of Phylion Battery. As of December 31, 2016, equity interest held by the Group is 33.21%.

(iv) In July, 2016, the Group and third party increased investment in Golden Wing Mau, the equity interest held by the Group increased to 41.82% as a result.

The English names of the above associates represent the best efforts by management of the Group in translating their Chinese names as they do not have official English names.

Set out below is the summarized consolidated financial statements of the significant associates of the Group accounted for using equity method. The directors consider that giving details of other associates would result in particulars of excessive length.

CAR

Summarised balance sheet

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Total assets	**21,189,219**	16,342,415
Total liabilities	**(12,970,613)**	(9,243,094)
Net assets	**8,218,606**	7,099,321

Summarised statement of comprehensive income

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Operating income	**6,453,958**	5,002,719
Operating expenses	**(4,694,213)**	(3,333,992)
Income tax expense	**(300,154)**	(267,331)
Net profit	**1,459,591**	1,401,396
Total comprehensive income attribute to equity holders of CAR	**1,459,591**	1,401,396

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Associates and joint ventures using equity accounting (CONTINUED)

CAR (CONTINUED)

Reconciliation of summarised consolidated financial statements

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Share of net assets at January 1	**1,671,180**	1,334,234
Share of profit for the year	**347,613**	333,191
(Decrease)/addition	**(38,109)**	3,755
Share of net assets at December 31	**1,980,684**	1,671,180
Goodwill	**448,625**	383,097
Carrying value of investment in associates	**2,429,309**	2,054,277

Hankou Bank

Summarised balance sheet

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Total assets	**211,666,540**	183,142,076
Total liabilities	**(194,801,635)**	(167,259,420)
Net assets	**16,864,905**	15,882,656

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Associates and joint ventures using equity accounting (CONTINUED)

Hankou Bank (CONTINUED)

Summarised statement of comprehensive income

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Operating income	**5,007,391**	5,159,053
Operating expenses	**(3,254,300)**	(3,303,257)
Non-operation profit	**126,914**	34,260
Income tax expense	**(358,764)**	(394,701)
Net profit	**1,521,241**	1,495,355
Total comprehensive income attribute to equity holders of Hankou Bank	**1,360,429**	1,666,905

Reconciliation of summarised consolidated financial statements

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Share of net assets at January 1	**2,413,536**	2,222,204
Share of profit for the year	**233,102**	228,333
Share of other comprehensive (loss)/income	**(24,559)**	26,299
Share of distribution of profit	**(56,970)**	(63,300)
Share of net assets at December 31	**2,565,109**	2,413,536
Goodwill	**675,857**	675,857
Carrying value of investment in associates	**3,240,966**	3,089,393

For the year ended December 31, 2016 and 2015, except for CAR and Hankou Bank, the Group's share of the other associates' profits are RMB486 million and RMB277 million respectively.

For the year ended December 31, 2016 and 2015, except for CAR and Hankou Bank, share of the other associates' other comprehensive income are loss of RMB95 million and income of RMB42 million respectively.

For the year ended December 31, 2016 and 2015, except for CAR and Hankou Bank, share of the other associates' total comprehensive income are RMB391 million and RMB319 million respectively.

As at December 31, 2016 and 2015, except for CAR and Hankou Bank, the aggregate carrying amount of the Group's investments in the other associates using equity accounting are RMB6,261 million and RMB5,005 million respectively.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Associates measured at fair value through profit or loss

Company Name	Place of incorporation/ registration	Type	As at December 31, 2016 Fair value RMB'000	2016 Effective interest held	2015 Fair value RMB'000	2015 Effective interest held
– Hony Capital Fund V, L.P.(i)	Cayman Islands	USD Funds	2,418,115	10.98%	2,093,863	10.98%
– Beijing Junlian Maolin Equity Investment L.P. (北京君聯茂林股權投資合夥企業(有限合夥))	Beijing	RMB Funds	1,498,468	31.21%	1,115,228	31.31%
– Tianjin Junruiqi Equity Investment L.P. (天津君睿祺股權投資合夥企業(有限合夥))	Tianjin	RMB Funds	1,474,888	31.67%	1,571,389	31.67%
– Hony Capital RMB Fund 2010, L.P. (北京弘毅貳零壹零股權投資中心(有限合夥))	Beijing	RMB Funds	1,340,485	20.07%	1,190,126	20.07%
– LC Fund VI, L.P.	Cayman Islands	USD Funds	1,114,630	23.20%	736,069	23.20%
– LC Fund IV, L.P.	Cayman Islands	USD Funds	1,031,213	29.77%	927,418	29.77%
– Hony Capital Fund 2008, L.P.(i)	Cayman Islands	USD Funds	998,177	14.31%	1,031,820	14.31%
– LC Fund V, L.P.(i)	Cayman Islands	USD Funds	728,890	19.42%	931,892	19.42%
– Hony Capital Fund III, L.P.	Cayman Islands	USD Funds	601,627	34.48%	721,069	34.48%
– Hony Capital Fund VIII(Cayman), L.P.(i)	Cayman Islands	USD Funds	536,455	16.40%	–	–
– LC Fund III, L.P.	Cayman Islands	USD Funds	525,339	49.41%	507,456	49.41%
– Beijing Junlian Ruizhi Venture Capital Center L.P. (北京君聯睿智創業投資中心(有限合夥))	Beijing	RMB Funds	497,928	31.00%	504,089	31.00%
– Beijing Junlianhuicheng Equity Investment L.P. (北京君聯慧誠股權投資合夥企業(有限合夥))	Beijing	RMB Funds	465,876	28.98%	–	–
– Beijing Junlianxinhai Equity Investment L.P. (北京君聯新海股權投資合夥企業(有限合夥))(i)	Beijing	RMB Funds	380,545	17.67%	298,002	22.34%
– Hony Capital RMB I, L.P. (弘毅投資產業一期基金(天津)(有限合夥))	Tianjin	RMB Funds	321,831	29.84%	851,033	29.84%
– Hony Capital Fund 2015, L.P. (弘毅貳零壹伍(深圳)股權投資基金中心(有限合夥))	Shenzhen	RMB Funds	214,939	22.81%	–	–
– Hony Capital Real Estate Fund 2015, L.P. ("Hony Shenzhen 2015") (弘毅貳零壹伍(深圳)地產投資中心(有限合夥))	Shenzhen	RMB Funds	214,740	28.52%	–	–
– Hongchuang Lianchi Assets Management, L.P. (弘創聯持(深圳)資產管理(有限合夥))(i)	Shenzhen	RMB Funds	199,999	12.40%	–	–
– LC Healthcare Fund I, L.P.	Cayman Islands	USD Funds	116,737	20.00%	19,956	24.65%
– Beijing Junlian Mingde Equity Investment, L.P. (北京君聯名德股權投資合夥企業(有限合夥))(i)	Beijing	RMB Funds	113,913	19.65%	–	–
– Hony International Limited	Hong Kong	USD Funds	65,431	40.00%	76,848	40.00%
– Hony Capital II, L.P.	Cayman Islands	USD Funds	14,059	41.38%	66,777	41.38%
– Others		RMB/USD Funds	641,151	NA	489,618	NA
			15,515,436		13,132,653	

The principal activities of the above associates are investment holding as venture capital funds and private equity funds.

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Associates measured at fair value through profit or loss (CONTINUED)

(i) The directors determined that the Group has significant influence on Hony Capital Fund V, L.P., Hony Capital Fund 2008, L.P., LC Fund V, L.P., Hony Capital Fund VIII(Cayman), L.P., Beijing Junlianxinhai Equity Investment L.P., Hongchuang Lianchi Assets management, L.P. and Beijing Junlian Mingde Equity Investment, L.P., even though the capital contribution percentage in these funds are below 20% by virtue of its significant influence on the general partner and/or management company of these funds. Consequently, these investments have been classified as associates.

Set out below is the summarised consolidated financial statements of associates measured at fair value through profit or loss aggregated by RMB funds and USD funds based on the underlying GAAP applied when prepare their statutory accounts. The consolidated financial statements on RMB funds is prepared in accordance with IFRS while the consolidated financial statements on USD funds is prepared in accordance with the General Accepted Accounting Principles in USA.

	Year ended December 31, 2016	
	Profit for the year	**Total comprehensive income**
	RMB'000	***RMB'000***
RMB funds	**3,512,803**	**3,512,803**
USD funds	**170,852**	**170,852**
Total	**3,683,655**	**3,683,655**

	Year ended December 31, 2015	
	Profit for the year	Total comprehensive income
	RMB'000	*RMB'000*
RMB funds	7,583,771	7,583,771
USD funds	8,796,005	8,796,005
Total	16,379,776	16,379,776

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14. INCOME TAX EXPENSE

Majority of the group entities are subject to PRC enterprise income tax, which has been provided based on the statutory income tax rate of 25% of the assessable income of each of these group entities. Hong Kong profits have been provided at the rate of 16.5%. Income tax of other group entities operating in overseas countries and regions are calculated at the rates applicable in the respective jurisdictions.

	Year ended December 31,	
	2016	2015 (As restated)
	RMB'000	*RMB'000*
Current income tax	**2,870,208**	2,462,511
Deferred income tax	**(2,393,953)**	(2,007,277)
Income tax expense	**476,255**	455,234

Taxation on the Group's profit before tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the Group entities as follows:

	Year ended December 31,	
	2016	2015 (As restated)
	RMB'000	*RMB'000*
Profit before income tax from continuing operations	**8,138,759**	3,633,326
Tax effects of:		
Tax calculated at domestic rates applicable in countries concerned	**1,961,788**	(133,348)
Income not subject to tax	**(3,341,761)**	(3,430,474)
Expenses not deductible for tax purposes	**1,698,773**	2,061,669
Utilisation of previously unrecognised tax losses	**(452,201)**	(209,658)
Deferred income tax assets not recognised	**462,717**	2,193,855
Others	**146,939**	(26,810)
Enterprise income tax	**476,255**	455,234

14. INCOME TAX EXPENSE (CONTINUED)

The tax credit/(charge) relating to components of other comprehensive income is as follows:

	Year ended December 31,					
	2016			2015		
	Before tax	**Tax credit/ (charge)**	**After tax**	Before tax	Tax (charge)/ credit	After tax
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Fair value changes on available-for-sale financial assets	**(655,048)**	**71,847**	**(583,201)**	2,349,801	(311,982)	2,037,819
Investment revaluation reserve reclassified to consolidated income statement on disposal of an available-for-sale financial assets	**(979,972)**	**200,693**	**(779,279)**	(71,345)	7,880	(63,465)
Share of other comprehensive (loss)/income of associates	**(119,310)**	**–**	**(119,310)**	68,169	–	68,169
Actuarial loss on retirement benefit obligations	**(271,732)**	**–**	**(271,732)**	(179,041)	6,934	(172,107)
Fair value changes on cashflow hedges	**251,934**	**(27,806)**	**224,128**	(522,169)	65,234	(456,935)
Currency translation differences	**1,531,146**	**–**	**1,531,146**	(2,134,874)	–	(2,134,874)
Revaluation of investment properties upon reclassification from property, plant and equipment	**123,752**	**(30,938)**	**92,814**	163,629	(40,907)	122,722
Other comprehensive loss	**(119,230)**	**213,796**	**94,566**	(325,830)	(272,841)	(598,671)
Current tax		**–**			–	
Deferred tax (Note 40)		**213,796**			(272,841)	
		213,796			(272,841)	

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For the year ended December 31, 2016

15. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding shares held for the restricted share incentive scheme (Note 31).

	Year ended December 31,	
	2016	2015 (As restated)
Weighted average number of issued ordinary shares (thousands)	**2,356,231**	2,181,369
Less shares held for restricted share scheme (thousands) (Note 31)	**(3,637)**	–
Weighted average number of issued ordinary shares for calculating basic earnings per share (thousands)	**2,352,594**	2,181,369
Basic earnings attributable to equity holders of the Company (*RMB'000*)		
– Continuing operations	**4,851,984**	4,390,867
– Discontinued operations	**6,940**	268,216
	4,858,924	4,659,083
Diluted impact on earnings (*RMB'000*) (i)	**(7,318)**	–
Potential dilutive effect arising from restricted shares (thousands) (ii) (Note 31)	**3,637**	–
Diluted earnings attributable to the equity holders of the Company (*RMB'000*)		
– Continuing operations	**4,844,666**	4,390,867
– Discontinued operations	**6,940**	268,216
	4,851,606	4,659,083
Weighted average number of issued ordinary shares for calculating diluted earnings per share (thousands) (ii)	**2,356,231**	2,181,369
Earnings per share		
– Basic (RMB per share)		
– Continuing operations	**2.06**	2.02
– Discontinued operations	**–**	0.12
	2.06	2.14
– Diluted (RMB per share)		
– Continuing operations	**2.06**	2.02
– Discontinued operations	**–**	0.12
	2.06	2.14

15. EARNINGS PER SHARE (CONTINUED)

(i) Diluted impact on earnings is due to the effect of two categories of dilutive instruments, namely share options and long-term incentive awards.

(ii) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares issued under the restricted share incentive scheme. A calculation is done to determine the number of shares that could have been converted at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding unvested awarded shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the conversion of the restricted shares, with the difference being adjusted in arriving at the weighted average number of shares for diluted earnings per share.

16. LEASEHOLD LAND AND LAND USE RIGHTS

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

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**2,234,255**	1,512,285
Additions	**1,908,529**	1,487,626
Acquisition of subsidiaries	**–**	26,563
Disposals	**(622,845)**	(629,661)
Amortisation	**(49,450)**	(51,737)
Disposal of subsidiaries	**(440,055)**	(110,821)
Disposal of discontinued operations	**(7,549)**	–
At end of the year	**3,022,885**	2,234,255

As at December 31, 2016 and 2015, the land use rights with a carry amount of RMB89 million and RMB82 million were pledged as collateral for RMB124 million, and RMB20 million borrowings, respectively.

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17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *RMB'000*	Vehicles *RMB'000*	Machinery *RMB'000*	Furniture *RMB'000*	Equipment *RMB'000*	Construction in Progress *RMB'000*	Bearer plants *RMB'000*	Total *RMB'000*
As at January 1, 2015								
Cost	8,226,948	205,174	6,006,476	3,598,341	122,903	7,721,653	660,069	26,541,564
Accumulated depreciation	(1,521,719)	(90,946)	(2,146,061)	(1,679,679)	(54,558)	–	(15,410)	(5,508,373)
Accumulated impairment	–	–	(306,788)	–	–	(44,844)	–	(351,632)
Net book amount	6,705,229	114,228	3,553,627	1,918,662	68,345	7,676,809	644,659	20,681,559
For the year ended December 31, 2015								
Opening net book amount	6,705,229	114,228	3,553,627	1,918,662	68,345	7,676,809	644,659	20,681,559
Exchange adjustment	(79)	(4,864)	(35,406)	27,564	75	24,515	2,604	14,409
Acquisition of subsidiaries	109,871	574	53,469	1,090	–	–	–	165,004
Additions	547,680	30,662	804,851	642,111	30,923	3,846,263	123,886	6,026,376
Transfers to intangible assets	–	–	–	–	–	(274,407)	–	(274,407)
Transfers from construction in progress	2,763,978	3,488	5,018,450	120,588	3,500	(7,910,004)	–	–
Disposals	(973,376)	(8,498)	(72,557)	(279,858)	(6,230)	(797,283)	(20,310)	(2,158,112)
Depreciation charge	(600,535)	(36,391)	(770,793)	(666,900)	(23,848)	–	(8,327)	(2,106,794)
Disposal of subsidiaries	(219,396)	(3,159)	(198,328)	(1,307)	(7,639)	(37,783)	(665,857)	(1,133,469)
Impairment charge	(124,813)	(2,844)	(353,965)	–	–	–	–	(481,622)
Closing net book amount	8,208,559	93,196	7,999,348	1,761,950	65,126	2,528,110	76,655	20,732,944
As at December 31, 2015								
Cost	10,413,935	207,622	11,416,377	3,884,209	113,359	2,572,954	86,301	28,694,757
Accumulated depreciation	(2,080,563)	(111,582)	(2,756,276)	(2,122,259)	(48,233)	–	(9,646)	(7,128,559)
Accumulated impairment	(124,813)	(2,844)	(660,753)	–	–	(44,844)	–	(833,254)
Net book amount	8,208,559	93,196	7,999,348	1,761,950	65,126	2,528,110	76,655	20,732,944
For the year ended December 31, 2016								
Opening net book amount	**8,208,559**	**93,196**	**7,999,348**	**1,761,950**	**65,126**	**2,528,110**	**76,655**	**20,732,944**
Exchange adjustment	**352,633**	**1,066**	**70,755**	**44,081**	**(52)**	**48,695**	**-**	**517,178**
Acquisition of subsidiaries	**69,828**	**9,833**	**44,168**	**214**	**5,960**	**-**	**-**	**130,003**
Additions	**762,434**	**26,962**	**644,985**	**466,497**	**34,676**	**2,491,582**	**-**	**4,427,136**
Transfers to intangible assets	**-**	**-**	**-**	**-**	**-**	**(679,621)**	**-**	**(679,621)**
Transfers from construction in progress	**652,721**	**1,557**	**171,504**	**43,098**	**83**	**(868,963)**	**-**	**-**
Disposals	**(461,406)**	**(6,769)**	**(56,641)**	**(63,062)**	**(4,692)**	**(986,039)**	**-**	**(1,578,609)**
Depreciation charge	**(609,207)**	**(28,622)**	**(1,054,001)**	**(677,840)**	**(20,455)**	**-**	**-**	**(2,390,125)**
Disposal of subsidiaries	**(895,870)**	**(3,597)**	**(379,067)**	**(1,468)**	**(4,277)**	**(58,295)**	**(76,655)**	**(1,419,229)**
Impairment charge	**(26,557)**	**(150)**	**(1,095)**	**(62)**	**(475)**	**-**	**-**	**(28,339)**
Disposal of discontinued operations	**(60,836)**	**(11,344)**	**(3,813)**	**(4,747)**	**(17,869)**	**(5,714)**	**-**	**(104,323)**
Closing net book amount	**7,992,299**	**82,132**	**7,436,143**	**1,568,661**	**58,025**	**2,469,755**	**-**	**19,607,015**
As at December 31, 2016								
Cost	**10,054,069**	**199,774**	**11,007,825**	**4,374,563**	**109,772**	**2,469,755**	**-**	**28,215,758**
Accumulated depreciation	**(2,033,227)**	**(117,572)**	**(3,536,801)**	**(2,805,871)**	**(51,747)**	**-**	**-**	**(8,545,218)**
Accumulated impairment	**(28,543)**	**(70)**	**(34,881)**	**(31)**	**-**	**-**	**-**	**(63,525)**
Net book amount	**7,992,299**	**82,132**	**7,436,143**	**1,568,661**	**58,025**	**2,469,755**	**-**	**19,607,015**

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation expense of RMB1,266 million and RMB961 million has been charged in "cost of sales", RMB129 million and RMB119 million in "selling and distribution expenses" and RMB985 million and RMB1,027 million million in "general and administrative expenses" and RMB10 million and RMB20 million in "discontinued operation" for the year ended December 31, 2016 and 2015.

The property, plant and equipment with a carrying amount of RMB534 million and RMB303 million were pledged as collateral for the borrowings of RMB626 million and RMB285 million as at December 31, 2016 and 2015, respectively.

No bearer plants were pledged as collateral as at December 31, 2016. The bearer plant with a carrying amount of RMB57 million were pledged as collateral for the borrowings of RMB58 million as at December 31, 2015.

The construction in progress with a carrying amount of RMB2,073 million were pledged as collateral for the borrowings of RMB1,020 million as at December 31, 2016. No construction in progress was pledged as collateral for borrowings as at December 31, 2015.

18. INVESTMENT PROPERTIES

	Year ended December 31,	
	2016	2015 (As restated)
	RMB'000	*RMB'000*
At beginning of the year	**10,219,472**	6,023,298
Additions	**14,921**	64,324
Transfer from completed properties held for sale	**–**	2,053,314
Subsequent expenditure capitalised	**–**	2,515
Disposals	**–**	(11,256)
Fair value gains	**336,089**	1,923,648
– Continuing operations	**344,017**	1,646,139
– Discontinued operations	**(7,928)**	277,509
Disposal of discontinued operations (Note 32)	**(390,574)**	–
Transfer to Property, plant and equipment	**(201,783)**	–
Transfer from owner-occupied property	**133,459**	163,629
At end of the year	**10,111,584**	10,219,472

The Group's investment properties are all situated in the Mainland of China. All the investment properties are rented out under operating leases. All signed lease contracts are less than 50 years.

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For the year ended December 31, 2016

18. INVESTMENT PROPERTIES (CONTINUED)

(a) Amounts recognised in income statement for investment properties

	Year ended December 31,	
	2016	2015 (As restated)
	RMB'000	*RMB'000*
Rental income	**502,473**	351,143
Direct operating expenses from properties that generated rental income	**(118,671)**	(71,527)
	383,802	279,616

The direct operating expenses from properties that did not generate rental income is immaterial to the Group during the year ended December 31, 2016 and 2015.

(b) Valuation basis

Investment properties held by the Group were revalued at the end of 2016 and 2015 based on valuations performed by independent qualified valuers, Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"). JLL is an industry specialist in investment property valuation, who has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

The valuations are derived using the income capitalisation method. This method is based on the capitalisation of net income with due allowance for outgoings and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations or, where appropriate, by reference to market evidence of transaction prices for the similar properties in the surrounding areas. Prevailing market rents are estimated based on the independent valuer's view of recent letting transactions within the subject properties and other comparable properties. There were no changes to the valuation techniques for the year ended December 31, 2016 and 2015.

As at December 31, 2016 and 2015, all of the Group's investment properties were within level 3 of the fair value hierarchy as the valuation were arrived at by reference to certain significant unobservable inputs. There were no transfers from levels 3 to other levels during the year ended December 31, 2016 and 2015.

As at December 31, 2016 and 2015, the directors:

- verifies all major inputs to the independent valuation reports;
- assesses property valuation movements when compared to the prior year valuation reports;
- holds discussion with the independent valuer.

18. INVESTMENT PROPERTIES (CONTINUED)

(b) Valuation basis (CONTINUED)

The key assumptions used by the directors in determining fair value for the year ended December 31, 2016 and 2015 were in the following ranges:

	Year ended December 31,	
	2016	2015
Capitalisation rate	**4.0%-5.3%**	4.0%-5.5%
Expected vacancy rate		
– Office	**5.00%**	5.00%
– Retail	**10.00%-15.00%**	10.00%-15.00%
– Car park	**5.00%**	5.00%
Prevailing market rents		
– Office (per sq.m. per month)	**RMB330-RMB420**	RMB220-RMB380
– Retail (per sq.m. per month)	**RMB150-RMB480**	RMB160-RMB190
– Car park (per spot per month)	**RMB850-RMB900**	RMB850-RMB900

The following tables show the sensitivity of the fair value of the investment properties to the key assumptions had the director's estimates to increase or decrease by 10%.

	Year ended December 31, 2016	
	Favourable change by 10%	**Unfavourable change by 10%**
	RMB'000	**RMB'000**
Capitalisation rate	**728,181**	**(652,655)**
Expected vacancy rate	**52,246**	**(52,246)**

	Year ended December 31, 2015	
	Favourable change by 10%	Unfavourable change by 10%
	RMB'000	*RMB'000*
Capitalisation rate	769,427	(685,999)
Expected vacancy rate	57,744	(57,744)

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18. INVESTMENT PROPERTIES (CONTINUED)

(c) Investment properties pledged as security

The investment properties with a fair value of RMB6,572 million and RMB9,754 million were pledged as collateral for the borrowings of RMB576 million and RMB1,640 million as at December 31, 2016 and 2015.

(d) Leasing arrangements

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Within one year	**504,047**	372,477
Later than one year but no later than 5 years	**622,500**	512,663
Later than 5 years	**119,617**	6,877
	1,246,164	892,017

19. INTANGIBLE ASSETS

	Mining rights RMB'000	Trademarks RMB'000	Softwares RMB'000	Goodwill RMB'000	Patent and technology RMB'000	Customer relationships RMB'000	Others RMB'000	Total RMB'000
As at January 1, 2015								
Cost	644,522	9,444,347	4,998,419	34,097,871	8,786,572	8,832,446	134,536	66,938,713
Accumulated amortisation and impairment	(120,754)	(876,558)	(3,724,971)	(853,295)	(1,197,201)	(509,264)	(1,842)	(7,283,885)
Net book amount	523,768	8,567,789	1,273,448	33,244,576	7,589,371	8,323,182	132,694	59,654,828
For the year ended December 31, 2015								
Opening net book amount	523,768	8,567,789	1,273,448	33,244,576	7,589,371	8,323,182	132,694	59,654,828
Additions	–	1,992	489,700	–	817,143	–	41,857	1,350,692
Acquisition of subsidiaries	–	–	–	157,141	–	–	–	157,141
Exchange adjustment	–	428,185	48,853	(1,251,231)	458,237	254,214	–	(61,742)
Disposals	–	–	(2,621)	–	(5,809)	–	–	(8,430)
Disposal of subsidiaries	–	(480)	(2,503)	(490,095)	–	(15,624)	(115,120)	(623,822)
Amortisation charge	(22,395)	(143,024)	(651,254)	–	(1,453,345)	(755,082)	(1,629)	(3,026,729)
Impairment loss	(501,373)	–	–	–	–	–	–	(501,373)
Closing net book amount	–	8,854,462	1,155,623	31,660,391	7,405,597	7,806,690	57,802	56,940,565
As at December 31, 2015								
Cost	644,522	9,930,350	4,859,243	32,406,498	10,423,144	9,073,527	60,294	67,397,578
Accumulated amortisation and impairment	(644,522)	(1,075,888)	(3,703,620)	(746,107)	(3,017,547)	(1,266,837)	(2,492)	(10,457,013)
Net book amount	–	8,854,462	1,155,623	31,660,391	7,405,597	7,806,690	57,802	56,940,565
For the year ended December 31, 2016								
Opening net book amount	**–**	**8,854,462**	**1,155,623**	**31,660,391**	**7,405,597**	**7,806,690**	**57,802**	**56,940,565**
Additions	**–**	**21**	**1,157,865**	**–**	**676,290**	**–**	**128**	**1,834,304**
Acquisition of subsidiaries	**–**	**40,674**	**–**	**672,476**	**–**	**91,972**	**90,854**	**895,976**
Exchange adjustment	**–**	**553,095**	**50,124**	**2,112,709**	**441,487**	**453,659**	**2,269**	**3,613,343**
Disposals	**–**	**–**	**(6,848)**	**–**	**(2,169)**	**–**	**(42,451)**	**(51,468)**
Disposal of subsidiaries	**–**	**–**	**(861)**	**(58,854)**	**(1,900)**	**–**	**–**	**(61,615)**
Amortisation charge	**–**	**(15,762)**	**(804,861)**	**–**	**(1,526,805)**	**(808,301)**	**(15,322)**	**(3,171,051)**
Impairment loss	**–**	**(30,754)**	**–**	**(33,486)**	**–**	**–**	**–**	**(64,240)**
Disposal of discontinued operations	**–**	**–**	**(318)**	**–**	**–**	**–**	**–**	**(318)**
Closing net book amount	**–**	**9,401,736**	**1,550,724**	**34,353,236**	**6,992,500**	**7,544,020**	**93,280**	**59,935,496**
As at December 31, 2016								
Cost	**597,736**	**9,699,544**	**6,233,181**	**35,101,830**	**11,798,587**	**9,610,097**	**110,428**	**73,151,403**
Accumulated amortisation and impairment	**(597,736)**	**(297,808)**	**(4,682,457)**	**(748,594)**	**(4,806,087)**	**(2,066,077)**	**(17,148)**	**(13,215,907)**
Net book amount	**–**	**9,401,736**	**1,550,724**	**34,353,236**	**6,992,500**	**7,544,020**	**93,280**	**59,935,496**

Amortisation of RMB293 million and RMB237 million are included in the "cost of sales"; RMB69 million and RMB51 million in "selling and distribution expenses"; and RMB2,809 million and RMB2,739 million in "general and administrative expenses" in the consolidated income statement for the years ended December 31, 2016 and 2015.

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19. INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill and intangible assets with indefinite useful life

Management reviews the business performance based on type of business and monitor goodwill and intangible assets with indefinite useful lives at cash generating unit or a group of cash generating units.

The carrying amount of goodwill and intangible assets with indefinite useful lives, less accumulated impairment charged, are presented below:

	Goodwill	
CGUs	**As at December 31, 2016** *RMB'000*	As at December 31, 2015 *RMB'000*
– IT		
– China	**10,295,905**	11,015,191
– Europe-Middle East-Africa ("EMEA")	**4,608,000**	5,155,918
– Americas ("AG")	**11,300,000**	8,376,744
– Asia Pacific ("AP")	**6,965,000**	6,513,081
– Agriculture and food		
– Seafood business (i)	**391,760**	–
– Innovative consumption and services		
– Comprehensive medical service business (ii)	**677,396**	425,781
– All others (iii)	**115,175**	173,676
	34,353,236	31,660,391

19. INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill and intangible assets with indefinite useful life (CONTINUED)

CGUs	Intangible assets with indefinite useful life	
	As at December 31, 2016	As at December 31, 2015
	RMB'000	*RMB'000*
– IT		
– China	**2,566,690**	2,655,882
– EMEA	**1,637,132**	1,792,234
– AG	**3,170,209**	2,396,138
– AP	**1,408,211**	1,357,162
– Agriculture and food		
– Chinese liquor business	**264,238**	294,992
– Seafood business	**93,686**	–
– Innovative consumption and services		
– Comprehensive medical service business	**306,781**	306,781
	9,446,947	8,803,189

(i) The increase in goodwill by RMB392 million is caused by the acquisition of KB Seafoods by Right Lane in seafood business sector.

(ii) The goodwill of the comprehensive medical service business have increased by RMB252 million. On one hand, it is caused by the acquisition of Shanghai Neuromedical Center by Shanghai Weimin which resulted in the increase by RMB138 million. The remaining amount of increase is caused by the acquisition of dental clinics by Bybo Dental Group.

(iii) All others have decreased by 59 million which is mainly caused by the disposal of overseas farms by Joyvio Group.

The Group completed its annual impairment test on goodwill and intangible assets with indefinite useful life for its various CGUs by comparing their recoverable amounts to the carrying amounts, as at December 31, 2016. The recoverable amount of all CGUs 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 with a terminal value related to the future cash flow of the CGUs extrapolated using the estimated growth rates stated below beyond the five-year period.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

19. INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill and intangible assets with indefinite useful life (CONTINUED)

The key assumptions used for value-in-use calculations under the five-year financial budget period for CGUs with significant goodwill and intangible assets with indefinite useful lives are as follows:

		Year ended December 31, 2016						
		IT				Agriculture and food		Innovative consumption and services
		China	AP	EMEA	AG	Chinese liquor business	Sea food business	Comprehensive medical service business
Growth rate	PC and intellectual device business	2.9%	0.4%	-3.9%	-2.6%	10%-12%	2.5%	10%-12%
	Mobility business	N/A	5.3%	0.2%	0.9%			
	Data center business	10%	0.6%	2.8%	8%			
Discount rate		9%-11%	9%-11%	9%-11%	9%-11%	13%	9.0%-9.9%	13%

	Year ended December 31, 2015						
	IT				Agriculture and food		Innovative consumption and services
	China	AP	EMEA	AG	Chinese liquor business	Sea food business	Comprehensive medical service business
Growth rate	8%	8%	5%	8%	3%-10%	N/A	11%-16%
Discount rate	9%-12%	9%-12%	9%-12%	9%-12%	12%	N/A	14%

The estimated growth rates used in the value-in-use calculations beyond the five-year period of 2016 and 2015 are zero.

The weighted average growth rates applied by the Group are consistent with those estimated in the industry reports, and do not exceed the long-term average growth rates in the industry each CGU operates. Management determines budgeted gross margin based on past experience and forecast on future market development. The discount rates used by management are the pre-tax interest rates that are able to reflect the risks specific to the relevant operating segments.

As at December 31, 2016, the directors are of the view that there was no evidence of impairment of goodwill and trademarks except comprehensive medical service business and agriculture business.

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. A reasonably possible change in key assumptions used in the impairment test for goodwill would not cause any CGU's carrying amount to exceed its respective recoverable amount.

20. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at December 31, 2016					
Assets					
Available-for-sale financial assets	–	–	–	9,878,802	9,878,802
Derivative financial instruments	–	482,406	482,346	–	964,752
Trade and notes receivables	41,158,176	–	–	–	41,158,176
Loans to customers	11,430,798	–	–	–	11,430,798
Other receivables and other current assets	44,925,362	–	–	–	44,925,362
Other non-current assets	6,254,200	–	–	–	6,254,200
Financial assets at fair value through profit or loss	–	5,363,654	–	–	5,363,654
Associates measured at fair value through profit or loss	–	15,515,436	–	–	15,515,436
Restricted deposits	1,874,463	–	–	–	1,874,463
Bank deposits	10,900,422	–	–	–	10,900,422
Cash and cash equivalents	30,059,402	–	–	–	30,059,402
	146,602,823	21,361,496	482,346	9,878,802	178,325,467

	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Borrowings	–	–	82,669,630	82,669,630
Derivative financial instruments	309,716	57,903	–	367,619
Trade and notes payables	–	–	49,233,992	49,233,992
Other payables	1,547,992	–	70,558,801	72,106,793
Other non-current liabilities	–	–	1,088,854	1,088,854
	1,857,708	57,903	203,551,277	205,466,888

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

20. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Loans and receivables *RMB'000*	Assets at fair value through profit or loss *RMB'000*	Derivatives used for hedging *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
As at December 31, 2015					
Assets					
Available-for-sale financial assets	–	–	–	7,066,255	7,066,255
Derivative financial instruments	–	154,093	258,350	–	412,443
Trade and notes receivables	38,288,360	–	–	–	38,288,360
Loans to customers	4,569,434	–	–	–	4,569,434
Other receivables and other current assets	28,454,469	–	–	–	28,454,469
Other non-current assets	1,906,851	–	–	–	1,906,851
Financial assets at fair value through profit or loss	–	2,942,232	–	–	2,942,232
Associates measured at fair value through profit or loss	–	13,132,653	–	–	13,132,653
Restricted deposits	1,410,625	–	–	–	1,410,625
Bank deposits	5,660,249	–	–	–	5,660,249
Cash and cash equivalents	34,802,953	–	–	–	34,802,953
	115,092,941	16,228,978	258,350	7,066,255	138,646,524

	Liabilities at fair value through profit or loss *RMB'000*	Derivatives used for hedging *RMB'000*	Other financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Liabilities				
Borrowings	–	–	77,256,775	77,256,775
Derivative financial instruments	119,651	93,865	–	213,516
Trade and notes payables	–	–	45,728,181	45,728,181
Other payables	1,944,931	–	48,958,609	50,903,540
Other non-current liabilities	1,434,767	–	9,629,755	11,064,522
	3,499,349	93,865	181,573,320	185,166,534

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets of the Group include the following:

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Listed securities:		
Equity securities – HK	**398,190**	534,639
Equity securities – China	**5,430,230**	4,897,594
Equity securities – US	**–**	72,706
Equity securities – Japan	**105,054**	81,482
Subtotal	**5,933,474**	5,586,421
Listed corporate bonds	**272,869**	–
Unlisted securities:		
Unlisted equity instruments	**3,642,459**	1,400,934
Bank's wealth management product	**30,000**	78,900
Subtotal	**3,672,459**	1,479,834
Total	**9,878,802**	7,066,255
Less: Non-current portion	**(9,848,802)**	(6,987,355)
Current portion	**30,000**	78,900

22. OTHER NON-CURRENT ASSETS

Other non-current assets primarily include long-term receivable arising from finance lease in Financial Service segment.

As at December 31, 2016, no other non-current assets were used as collateral for borrowings. As at December 31, 2015, other non-current assets with a net amount of RMB22 million were used as collateral for short-term borrowings of RMB20 million.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

23. TRADE AND NOTES RECEIVABLES

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**37,640,837**	36,296,742
Notes receivables	**1,383,867**	1,674,319
Receivables arising from finance leases	**2,863,537**	947,968
Less: provision for impairment	**(730,065)**	(630,669)
Trade and notes receivables – net	**41,158,176**	38,288,360

At December 31, 2016 and 2015, the ageing analyses of the trade receivables based on invoice date were as follows:

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Up to 3 months	**34,213,481**	33,108,364
3 to 6 months	**2,218,385**	2,463,900
6 months to 1 year	**905,399**	355,990
1 to 2 years	**216,924**	320,490
2 to 3 years	**41,917**	5,353
Over 3 years	**44,731**	42,645
	37,640,837	36,296,742

As at December 31, 2016 and 2015, trade and notes receivables with a net amount of RMB1,676 million and RMB40 million were used as collateral for short-term borrowings of RMB1,383 million and RMB40 million.

Notes receivables of the Group are bank accepted notes mainly with maturity dates within six months.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

23. TRADE AND NOTES RECEIVABLES (CONTINUED)

Movements on the provision for impairment of trade receivables are as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**(630,669)**	(498,258)
Exchange adjustment	**(60,320)**	(34,085)
Provision made	**(294,127)**	(550,501)
– Continuing operations	**(294,127)**	(550,943)
– Discontinued operations	**–**	442
Uncollectible receivable written off	**27,847**	78,645
Unused amounts reversed	**226,762**	373,530
Disposal of discontinued operations	**442**	–
At end of the year	**(730,065)**	(630,669)

Trade receivables of RMB5,788 million and RMB7,112 million at December 31, 2016 and 2015 were past due. The ageing of these receivables, based on due date, is as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
3 months	**5,045,001**	6,010,105
3 to 6 months	**420,938**	527,523
Over 6 months	**322,421**	574,388
	5,788,360	7,112,016

The carrying amounts of trade and notes receivables approximate their fair values. The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivables mentioned above.

Credit terms of IT segment granted to the customers is around 0-120 days while other segments do not have specific credit terms.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

24. PREPAYMENT, OTHER RECEIVABLES AND OTHER CURRENT ASSETS

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Receivables from parts subcontractors	**17,026,714**	13,404,989
Prepayments	**10,363,030**	7,684,653
Prepaid tax	**5,359,974**	5,625,298
Amounts due from related parties	**1,160,217**	3,445,025
Amount due from non-controlling shareholders of subsidiaries	**–**	1,596,654
Advance to suppliers	**1,395,915**	1,403,637
Deposits receivable	**446,047**	482,122
Advance to employees	**101,955**	261,426
Adjustment for in-transit products	**207,985**	97,513
Consideration receivable from disposal of discontinued operations (Note 32)	**12,891,000**	–
Others	**3,735,030**	1,730,278
	52,687,867	35,731,595
Less: provision for bad debt	**(66,695)**	(49,093)
	52,621,172	35,682,502

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

25. LOANS TO CUSTOMERS

Loan balances are loans derive from the subsidiaries of the Group which engages in the loans business.

(a) Analysed by nature

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Direct loans and pawn loans to customers	**10,167,805**	3,087,660
Entrusted loans to customers	**1,641,054**	1,586,396
Gross loans to customers	**11,808,859**	4,674,056
Less: allowances for impairment loss		
– Individually assessed	**(51,283)**	(38,072)
– Collectively assessed	**(326,778)**	(66,550)
Total allowances for impairment loss	**(378,061)**	(104,622)
Net loans to customers	**11,430,798**	4,569,434
Less: non-current portion	**(769,988)**	–
Current portion	**10,660,810**	4,569,434

(b) Movement of allowances for impairment losses

	Allowance for loans which are individually assessed	**Allowance for loans which are collectively assessed**	**Total**
As at January 1, 2015	(40,959)	(47,249)	(88,208)
Provision made	(11,429)	(19,301)	(30,730)
Write-offs	14,316	–	14,316
As at December 31, 2015	(38,072)	(66,550)	(104,622)
Provision made	**(45,679)**	**(286,374)**	**(332,053)**
Write-offs	**32,468**	**26,146**	**58,614**
As at December 31, 2016	**(51,283)**	**(326,778)**	**(378,061)**

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

26. INVENTORIES

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Raw materials	**8,811,009**	6,750,526
Work in progress	**500,746**	413,459
Finished goods	**8,231,504**	8,928,631
Service parts	**3,417,409**	2,214,668
Others	**36,297**	55,068
	20,996,965	18,362,352

27. PROPERTIES UNDER DEVELOPMENT

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**27,296,999**	28,569,482
Additions	**9,139,013**	8,270,539
Provision for impairment	**–**	(321,687)
Transfer to completed properties held for sale	**(9,083,622)**	(9,221,335)
Disposal of discontinued operations	**(27,168,721)**	–
At end of the year	**183,669**	27,296,999
Properties under development comprise:		
Land use rights	**102,759**	16,810,984
Construction costs and capitalised expenditure	**80,652**	6,622,134
Interest capitalised	**258**	3,863,881
	183,669	27,296,999

As at December 31, 2016, no properties under development were pledged as collateral for borrowings. As at December 31, 2015, the properties under development with a carrying value of RMB9,828 million were pledged as collateral for the long-term borrowings of RMB4,979 million.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

28. COMPLETED PROPERTIES HELD FOR SALE

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Completed properties held for sale comprise:		
Land use rights	**–**	1,957,962
Construction costs and capitalised expenditure	**–**	3,732,670
Interest capitalised	**–**	524,164
	–	6,214,796

All the completed properties held for sale were disposed in 2016 and they were pledged as collateral with a carrying value of RMB928 million for the long term borrowings of RMB496 million as at December 31, 2015.

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Listed securities:		
Equity securities – HK	**126,579**	144,957
Equity securities – US	**–**	73,364
Equity securities – China	**971,493**	10,346
Market value of listed securities	**1,098,072**	228,667
Listed corporate bond	**219,303**	212,589
Unlisted equity instruments	**4,046,279**	2,500,976
	5,363,654	2,942,232
Less: non-current portion	**(1,347,003)**	(713,461)
Current portion	**4,016,651**	2,228,771

The fair value of listed securities is based on their current bid prices in an active market while the fair value of unlisted equity instruments is estimated by management using valuation techniques where applicable.

Changes in fair values of financial assets at fair value through profit or loss are recorded in "investment income and gains" in the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

30. RESTRICTED DEPOSITS, BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Restricted deposits		
Deposits for guarantee business	**327,387**	481,708
Deposits for notes payables and borrowings	**588,803**	519,816
Other restricted deposits	**958,273**	409,101
	1,874,463	1,410,625
Current portion	**1,874,463**	1,410,625
Bank deposits		
Matured between three to twelve months	**10,900,422**	5,660,249
Cash and cash equivalents		
Cash at bank and in hand	**27,416,574**	32,681,323
Money market funds	**2,642,828**	2,121,630
	30,059,402	34,802,953
Total	**42,834,287**	41,873,827
Maximum exposure to credit risk	**42,834,287**	41,873,827
Effective annual interest rates	**0% – 13.75%**	0% – 14.25%

NOTES TO FINANCIAL STATEMENTS

31. SHARE-BASED PAYMENTS

The Group operates several share-based payment schemes, including the long-term incentive program and share option plan administrated at Lenovo and the share award plan operated by the Company in exchange of services rendered by employees.

(a) Share-based payment plans of Lenovo

(i) Long-term incentive program

A performance-related long-term incentive program was approved by Lenovo on May 26, 2005 for the purpose of rewarding and motivating directors, executives and top-performing employees of Lenovo and its subsidiaries (the "Participants").

The long-term incentive program is designed to enable Lenovo to attract and retain the best available personnel, and encourage and motivate Participants to work towards enhancing the value of Lenovo and its shares by aligning their interests with those of the shareholders of Lenovo.

Under the long-term incentive program, Lenovo may grant awards, at its discretion, using any of the two types of equity-based compensation: (i) share appreciation rights and (ii) restricted share units, which are described below:

(i) Share Appreciation Rights ("SARs")

An SAR entitles the holder to receive the appreciation in value of Lenovo's share price above a predetermined level.

(ii) Restricted Share Units ("RSUs")

An RSU equals to the value of one ordinary share of Lenovo. Once vested, an RSU is converted to an ordinary share.

Under the two types of compensation, Lenovo reserves the right, at its discretion, to pay the award in cash or ordinary shares of Lenovo.

Lenovo has launched an employee share purchase plan ("Plan") in October 2016. The purpose of the Plan is to facilitate and encourage Lenovo share ownership by the general employee population. Under the Plan, eligible employees will be awarded one matching restricted share unit for every four ordinary shares of Lenovo purchased through qualified employee contributions. The matching restricted share unit are subject to a vesting schedule of up to two years. Executive and non-executive directors and senior management of the Lenovo are not eligible to participate in the Plan.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

31. SHARE-BASED PAYMENTS (CONTINUED)

(a) Share-based payment plans of Lenovo (CONTINUED)

(i) Long-term incentive program (CONTINUED)

(ii) Restricted Share Units ("RSUs") (CONTINUED)

Movements in the number of units of awards granted for the year ended December 31, 2016 and 2015 and their related weighted average fair values are as follows:

	Number of units	
	SARs	RSUs
Outstanding as at January 1, 2015	176,828,000	315,365,000
Granted during the year	306,233,000	153,284,000
Vested during the year	(73,104,000)	(162,687,000)
Lapsed/cancelled during the year	(94,466,000)	(51,820,000)
Outstanding as at December 31, 2015	315,491,000	254,142,000
Granted during the year	454,624,265	294,628,528
Vested during the year	(103,963,836)	(117,622,903)
Lapsed/cancelled during the year	(56,418,507)	(53,647,872)
Outstanding as at December 31, 2016	**609,732,922**	**377,499,753**
Average fair value per unit (HKD)		
At December 31, 2016	**1.40**	**6.60**
At December 31, 2015	2.10	10.99

The fair values of the SARs awarded under the long-term incentive program were calculated by applying a Black-Scholes pricing model. For the year ended December 31, 2016 and 2015, the model inputs were the fair value (i.e. market value) of the Lenovo's shares at the grant date, taking into account the expected volatility of 37.06% and 36.63%, expected dividends rate during the vesting periods of 2.74% and 2.22%, contractual life of 4.5 years and 4.75 years, and a risk-free interest rate of 0.70% and 0.60%.

As at December 31, 2016 and 2015, the average remaining vesting period of the awards granted under the above long-term incentive plans for Lenovo is 2.16 years and 2.02 years.

31. SHARE-BASED PAYMENTS (CONTINUED)

(b) Share incentive plan of the Company

(i) Share incentive plan in 2011

The Company approved and implemented a share-based payment plan in 2011, under which the Company's shareholder China Oceanwide Holdings Group Co., Ltd. (中國泛海控股集團有限公司) (the "COHG") would transfer certain shares in the Company to the Company's employees in 2011, representing 18.50% of the total issued and outstanding shares at February 18, 2014 upon conversion of the Company into a joint stock limited company, as if such shares had been outstanding for all periods. The related consideration for purchasing the shares will be paid to COHG by the employees within three years as an interest free loan.

A portion representing 17.14% of the total issued and outstanding shares of the Company was granted to certain qualified employees in 2011, at a price of RMB6.23 per share while the rest of 1.36% of the total issued and outstanding shares were granted to employees in 2013 at a price of RMB9.25 per share.

A part of awards granted to eligible employees were vested immediately upon the grant, a part of awards will be vested on the date of Initial Public Offering, and the others are conditional on the employees completing requisite service period.

These awards are classified as equity-settled share-based payment.

Movements in the number of shares granted for the year ended December 31, 2016 and 2015 are as follows:

	Number of shares
Outstanding as at January 1, 2015	35,484,000
Granted during the year	704,000
Exercised during the year	(20,910,000)
Forfeited during the year	(704,000)
Outstanding as at December 31, 2015	14,574,000
Granted during the year	**–**
Exercised during the year	**(5,111,000)**
Forfeited during the year	**–**
Outstanding as at December 31, 2016	**9,463,000**

The remaining service period of the awards granted under the Company's above incentive plan as at December 31, 2016 and 2015 is 1.80 years and 2.19 years, respectively.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

31. SHARE-BASED PAYMENTS (CONTINUED)

(b) Share incentive plan of the Company (CONTINUED)

(ii) Share incentive plan in 2016

In order to establish and enhance the restricted mechanism for incentive scheme in the medium and long run, fully motivate elite and employees of the Company and attract and retain core value creators (the "Plan Participants"), annual general meeting of the Company voted and approved the restricted stock incentive plan(the "Plan") by special resolution on June 2, 2016. According to the Plan, the Company will entrust the custodian to purchase no more than 20 million H shares of the Company in the market as an incentive subject, which is valid for 5 years.

The Plan Participants do not required to make any cash contribution when the shares are granted. The ownership will be attributed to the Plan Participants after the company's strategic moments (2018 and 2020) respectively.

During the year, the Company entrusted the custodian to purchase 16,048,700 shares of the Company from the market at a total consideration of approximately RMB270 million, which would be deducted from "shares held for restricted share scheme" under Reserves. The shares are held by a trust.

Movement in the number of shares granted for the year ended December 31, 2016 is as follows:

	Number of shares
Granted during the year	**8,722,000**
Exercised during the year	**–**
Forfeited during the year	**–**
Outstanding as at December 31, 2016	**8,722,000**

(c) For the year ended December 31, 2016 and 2015, the share-based payment expenses of RMB1,238 million and RMB808 million were recognised in the consolidated income statement.

32. DISCONTINUED OPERATIONS

At September 16, 2016, the Company and the Company's subsidiary Raycom Real Estate and Sunac Real Estate entered into Framework Agreement to sell Target Companies' Relevant equity interests and debts to Sunac Real Estate. Several target companies' minority shareholders executed the right of pre-emption and purchased the relevant equity interests and debts. Raycom Real Estate agreed to sell and the Purchasers agreed to purchase Target Companies' Relevant equity interests and debts. At Transfer Dates, Raycom Real Estate transferred the actual control over the operation and management of the 40 Target Companies and their respective subsidiaries to the Purchasers respectively.

Net assets disposed of:	**As at Transfer Dates** ***RMB'000***
Cash and cash equivalents	**10,133,043**
Properties under development and Completed properties held for sale	**29,399,670**
Investment properties (Note 18)	**390,574**
Deferred income tax assets (Note 40)	**415,175**
Other assets	**6,260,874**
Advance from customers	**(12,708,694)**
Borrowings	**(7,261,500)**
Deferred income tax liabilities (Note 40)	**(66,206)**
Other liabilities	**(8,463,289)**
Non-controlling interests	**(1,706,657)**
	16,392,990
Loss on disposal of Real Estate Development Business	**(541,990)**
Add: Transfer to gain on disposal from currency translation differences	**113,537**
Loss on disposal of Real Estate Development Business before tax	**(428,453)**
Less: Income tax expense arising from the disposal of Real Estate Development Business	**(29,777)**
Loss on disposal of Real Estate Development Business recognised in income statement	**(458,230)**
Cash consideration on the disposal of Real Estate Development Business	**15,851,000**
Less: Cash consideration receivable from disposal of Real Estate Development Business (Note 24)	**(12,891,000)**
Cash and cash equivalents included in disposed business	**(10,133,043)**
Net cash outflow	**(7,173,043)**

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

32. DISCONTINUED OPERATIONS (CONTINUED)

	For the period from January 1, 2016 to Transfer Dates RMB'000	2015 RMB'000
Revenue	**12,207,136**	10,284,277
Expenses	**(10,228,112)**	(8,358,610)
Profit before income tax from discontinued operations	**1,979,024**	1,925,667
Income tax expenses	**(1,047,385)**	(1,207,239)
Profit for the period of discontinued operations	**931,639**	718,428
Loss on disposal of discontinued operations before tax	**(428,453)**	–
Income tax expenses	**(29,777)**	–
Loss on disposal of discontinued operations after tax	**(458,230)**	–
Elimination with continuing operations	**(150,903)**	(120,914)
Profit for the period/year from discontinued operations	**322,506**	597,514

32. DISCONTINUED OPERATIONS (CONTINUED)

	For the period from January 1, 2016 to Transfer Dates RMB'000	2015 RMB'000
Net cash inflow from operating activities	**8,180,521**	2,215,676
Net cash outflow from investing activities	**(9,008)**	(66,771)
Cash outflow from disposal of Real Estate Development Business	**(7,173,043)**	–
Net cash outflow from investing activities	**(7,182,051)**	(66,771)
Net cash outflow from financing activities	**(3,015,350)**	(2,125,665)
Net cash (outflow)/inflow from discontinued operations	**(2,016,880)**	23,240

33. SHARE CAPITAL

Ordinary shares issued and fully paid

	Share capital	
	Number of shares '000	Share capital RMB'000
As at January 1, 2015	2,000,000	2,000,000
– Issuance of new shares (i)	356,231	356,231
As at December 31, 2015	2,356,231	2,356,231
As at December 31, 2016	**2,356,231**	**2,356,231**

(i) On June 29, 2015, the Company completed its global public offering of shares ("Global Offering") by issuing 352,944,000 new shares with nominal value of RMB1.00 each at a price of HKD42.98 per share. The Company's shares were then listed on the Main Board of the Stock Exchange of Hong Kong.

On July 17, 2015, the over-allotment option under the Company's Global Offering was partially exercised by the Joint Global Coordinators (on behalf of the International Underwriters) in respect of an aggregate of 3,286,900 shares, representing approximately 0.93% of the Offer Shares initially available under the Global Offering. On July 21, 2015, the over-allotment shares were issued and allotted by the Company at HK$42.98 per share, being the offer price per share under the Global Offering.

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34. TRADE AND NOTES PAYABLES

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Trade payables	**43,836,895**	43,776,777
Notes payables	**5,397,097**	1,951,404
	49,233,992	45,728,181

At December 31, 2016 and 2015, the ageing analyses of the trade payables based on invoice date were as follows:

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
0 – 30 days	**24,303,028**	23,558,493
31 – 60 days	**12,169,486**	12,272,403
61 – 90 days	**5,444,328**	3,957,412
90 days – 1 year	**1,879,918**	2,576,514
Over 1 year	**40,135**	1,411,955
	43,836,895	43,776,777

Notes payable of the Group is mainly repayable within three months.

35. DEFERRED REVENUE

Deferred revenue are advance received for extend warranty from our customers in IT segment.

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For the year ended December 31, 2016

36. OTHER PAYABLES AND ACCRUALS

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Payable to parts subcontractors	**35,131,133**	25,037,780
Allowance for billing adjustment (i)	**11,699,646**	13,422,700
Accrued expenses	**10,230,639**	12,071,648
Payroll payable	**2,939,559**	2,872,929
Other taxes payable	**1,786,792**	1,717,506
Amounts due to related parties (ii)	**552,461**	423,828
Deposits payable	**477,747**	491,216
Royalty payable	**769,008**	779,330
Amount due to non-controlling shareholders of subsidiaries (iii)	**–**	1,297,125
Social security payable	**732,498**	850,922
Deferred considerations (Note 38(i))	**10,474,978**	191,998
Contingent considerations (Note 38(i))	**–**	1,944,931
Written put option liability (Note 38(iii))	**1,547,992**	–
Interest payable	**605,760**	419,964
Loans from third parties	**1,109,643**	231,282
Transferred loans to be redeemed	**5,584,850**	–
Asset management program	**1,436,000**	320,000
Others	**2,709,648**	1,643,155
	87,788,354	63,716,314

(i) Allowance for billing adjustment relates primarily to allowances for future volume discounts, price protection, rebates and customer sales returns.

(ii) As at December 31, 2016 and December 31, 2015, RMB281 million and RMB424 million of amounts due to related parties are unsecured, bearing interest rate from 6.50% to 8.00%. The remaining balance is unsecured and interest-free payables.

(iii) As at December 31, 2016, no amount due to non-controlling equity holders of subsidiaries. As at December 31, 2015, RMB1,045 million of amounts due to non-controlling equity holders of subsidiaries was unsecured, bearing interest rate from 6.53% to 8.80% and repayable on demand. The remaining balance is unsecured and interest-free payables.

37. ADVANCES FROM CUSTOMERS

Advances from customers represent amounts received from sale of properties and inventories, where the risks and rewards of the properties and inventories sold had not yet been transferred as at year-end.

38. OTHER NON-CURRENT LIABILITIES

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Deferred considerations (i)	**173,924**	8,920,010
Government incentives and grants received in advance (ii)	**1,164,597**	1,780,228
Written put option liability (iii)	**–**	1,434,767
Guaranteed dividend to non-controlling equity holders of a subsidiary (iv)	**–**	64,007
Loans from related parties	**–**	400,000
Unfavourable lease contracts assumed	**514,076**	585,041
Long-term payables	**1,577,309**	953,644
Government loan	**–**	656,726
Others	**670,140**	716,738
	4,100,046	15,511,161

(i) In connection with certain business combinations, the Group is required to pay in cash to the then respective shareholders/sellers contingent considerations with reference to certain performance indicators as written in the respective agreements with those then shareholders/sellers; and deferred consideration. Accordingly, non-current liabilities in respect of the present values of contingent and deferred considerations have been recognised. The contingent considerations are subsequently re-measured at their fair values as a result of change in the expected performance at each balance sheet date, with any resulting gain or loss recognised in the consolidated income statement. Deferred consideration is subsequently measured at amortised cost.

As at December 31, 2016 and 2015, the potential undiscounted amounts of future payments in respect of the contingent and deferred considerations that the Group could be required to make to the then respective shareholders/sellers under the arrangements are as follows:

	As at December 31,	
	2016	2015
Joint venture with NEC Corporation	**USD25 million**	Nil – USD309 million
Joint venture with EMC Corporation	**–**	USD39 – 59 million
Stoneware Inc.	**–**	Nil – USD48 million
Google Inc. (a)	**USD1,448 million**	USD1,448 million

(a) Since the consideration will be settled at October 30, 2017, the balance was reclassified to other payables and accruals this year.

With reference to the performance indicators, if their actual performances had been 10% higher/lower than their respective expected performances, contingent considerations would have been increased/decreased by approximately USD4 million and USD30 million, USD4 million and USD30 million on December 31, 2016 and 2015, respectively with the corresponding loss/gain recognised in consolidated income statement.

38. OTHER NON-CURRENT LIABILITIES (CONTINUED)

(ii) Government incentives and grants received in advance by certain group companies included in other non-current liabilities are mainly related to research and development projects and construction of property, plant and equipment. These group companies are obliged to fulfil certain conditions under the terms of the government incentives and grants. The government incentives and grants are credited to the consolidated income statement upon fulfilment of those conditions. Government incentives and grants relating to assets are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

(iii) Pursuant to the joint venture agreement entered into in 2012 between Lenovo and Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JV Co") to manufacture notebook computer products and related parts, Lenovo and Compal are respectively granted call and put options which entitle Lenovo to purchase from Compal and Compal to sell to Lenovo the 49% Compal's interests in the JV Co. The call and put options will be exercisable at any time after October 1, 2019 and October 1, 2017, respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of USD750 million.

The financial liability that may become payable under the put option is initially recognised at fair value within other non-current liabilities with a corresponding charge directly to equity, as a put option written on non-controlling interest with an amount of RMB1,343 million.

The put option liability shall be re-measured at its fair value resulting from the change in the expected performance of the JV Co at each balance sheet date, with any resulting gain or loss recognised in the consolidated income statement. If the actual performance of JV Co had been 10% higher/lower than its expected performances, the written put option liability would have been increased/decreased by approximately USD4 million and USD4 million on December 31, 2016 and 2015, with the corresponding loss/gain recognised in the consolidated income statement. In the event that the put option lapses unexercised, the liability will be derecognised with a corresponding adjustment to equity.

As the put options will be exercisable at any time after October 1, 2017, the entire balance has been reclassified to other payables and accruals.

(iv) Following the acquisition of Medion AG ("Medion") on July 29, 2011, Lenovo Germany Holding GmbH ("Lenovo Germany"), an indirect wholly-owned subsidiary of Lenovo and the immediate holding company of Medion entered into a domination and profit and loss transfer agreement (the "Domination Agreement") with Medion on October 25, 2011. Pursuant to the Domination Agreement, Lenovo Germany has guaranteed to the non-controlling shareholders of Medion an annual guaranteed pre-tax dividend amounting to EUR0.82 per share for each fiscal year. The Domination Agreement became effective on January 3, 2012 and is terminable by either Lenovo Germany or Medion after March 31, 2017. Accordingly, a non-current liability in respect of future guaranteed dividend has been recognised. The corresponding amount stated at its discounted value on the date of acquisition of Medion was charged to retained earnings in equity.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

39. BORROWINGS

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Bank loans		
– Unsecured loans	**21,032,644**	17,137,375
– Guaranteed loans	**15,663,020**	13,909,088
– Collateralised loans	**3,214,646**	5,713,809
Other loans		
– Unsecured loans	**30,000**	100,000
– Guaranteed loans	**7,954,505**	11,654,240
– Collateralised loans	**1,042,651**	3,182,370
Corporate bonds (i)		
– Unsecured	**32,948,267**	24,851,504
– Guaranteed	**783,897**	708,389
	82,669,630	77,256,775
Less: non-current portion	**(56,516,221)**	(56,621,152)
Current portion	**26,153,409**	20,635,623

As at December 31, 2016 and 2015, the carrying value of the borrowings approximates their fair value.

(i) The information about corporate bonds issued as of December 31, 2016 is as below:

Issuer	**Type of bonds**	**Currency**	**Issuance date**	**Term**	**Principal amount** ***'000***
The Company	Corporate bonds	RMB	October 31, 2011	7 years	2,900,000
The Company	Corporate bonds	RMB	November 30, 2012	10 years	2,300,000
The Company	Private placement bonds	RMB	March 21, 2014	5 years	2,000,000
The Company	Private placement bonds	RMB	March 27, 2014	5 years	740,000
Lenovo	Long term notes	USD	May 8, 2014	5 years	1,500,000
Lenovo	Long term notes	RMB	June 10, 2015	5 years	4,000,000
Zhengqi Financial	Guaranteed bonds (i)	RMB	September 16, 2015	3 years	500,000
The Company	Private placement bonds	RMB	October 29, 2015	3 years	1,000,000
Zhengqi Financial	Corporate bonds	RMB	March 3, 2016	3 years	400,000
The Company	Private placement bonds	RMB	March 17, 2016	1 year	2,000,000
Raycom Real Estate	Guaranteed bonds (i)	RMB	May 31, 2016	3 years	1,450,000
The Company	Corporate bonds	RMB	July 6, 2016	5 years	1,500,000
The Company	Corporate bonds	RMB	July 6, 2016	10 years	2,000,000
JC Finance & Leasing	Asset backed securities	RMB	November 17, 2016	1-3 years	830,000
The Company	Private placement bonds	RMB	November 28, 2016	3 years	3,000,000

(i) The guaranteed bonds issued by Zhengqi Financial and Raycom Real Estate are both secured by the Company.

The annual interest rates of the above bonds are from 3.10% to 7.00%.

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For the year ended December 31, 2016

39. BORROWINGS (CONTINUED)

(a) **Effective interest rates per annum on borrowings are as follows:**

	As at December 31,	
	2016	2015
Bank loans	**1.28%-8.50%**	1.35%-10.20%
Other loans	**5.48%-9.50%**	0.37%-10.80%

(b) **Borrowings are repayable as follows:**

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Within 1 year	**26,153,409**	20,635,623
After 1 year but within 2 years	**15,269,157**	15,223,597
After 2 years but within 5 years	**36,306,545**	37,935,019
After 5 years	**4,940,519**	3,462,536
	82,669,630	77,256,775

(c) **The carrying amounts of the Group's borrowings are denominated in the following currencies:**

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
RMB	**61,784,874**	57,202,845
USD	**20,743,052**	19,934,802
HKD	**116,625**	96,066
EUR	**–**	12,344
Others	**25,079**	10,718
	82,669,630	77,256,775

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For the year ended December 31, 2016

40. DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Deferred tax assets:		
Recovered after 12 months	**5,492,853**	3,304,204
Recovered within 12 months	**3,566,827**	3,457,822
	9,059,680	6,762,026
Deferred tax liabilities:		
Recovered after 12 months	**(4,676,491)**	(4,948,916)
Deferred tax assets – net	**4,383,189**	1,813,110

The gross movement on the deferred income tax account is as follows:

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**1,813,110**	(233,953)
Acquisition of subsidiaries	**119,362**	(1,989)
Credited to the income statement	**2,324,280**	2,100,228
– Continuing operations	**2,393,953**	2,007,277
– Discontinued operations	**(69,673)**	92,951
Credited/(charged) to other comprehensive income	**213,796**	(272,841)
Disposal of subsidiaries	**(49,558)**	–
Disposal of discontinued operations (Note 32)	**(348,969)**	–
Exchange adjustment	**311,168**	221,665
At end of the year	**4,383,189**	1,813,110

40. DEFERRED INCOME TAX (CONTINUED)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Fair value gains-investment properties	Fair value gains-financial assets	Fair value gains-associates	Outside basis differences	Assets valuation (i)	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2015	1,352,522	437,277	196,411	336,863	1,530,520	167,089	4,020,682
Acquisition of subsidiaries	–	–	–	–	1,989	–	1,989
Charged/(credited) to the income statement	496,539	108,127	288,806	99,228	(265,558)	383,895	1,111,037
Charged/(credited) to other comprehensive income	40,907	304,102	–	–	–	(67,139)	277,870
Exchange adjustment	–	1,091	–	41,006	(37,373)	47,630	52,354
At December 31, 2015	1,889,968	850,597	485,217	477,097	1,229,578	531,475	5,463,932
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**10,500**	**–**	**10,500**
Charged/(credited) to the income statement	**107,201**	**77,655**	**(18,741)**	**52,514**	**(131,423)**	**(41,870)**	**45,336**
Charged/(credited) to other comprehensive income	**30,938**	**(272,540)**	**–**	**–**	**–**	**27,806**	**(213,796)**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**–**	**(10,094)**	**(10,094)**
Disposal of discontinued operations (Note 32)	**(66,144)**	**–**	**–**	**–**	**–**	**(62)**	**(66,206)**
Exchange adjustment	**–**	**(54,066)**	**–**	**(10,581)**	**44,378**	**110,497**	**90,228**
At December 31, 2016	**1,961,963**	**601,646**	**466,476**	**519,030**	**1,153,033**	**617,752**	**5,319,900**

(i) Assets valuation included valuation gain on property, plant and equipment, land use rights and intangible assets arising from initial recognition in business combination.

40. DEFERRED INCOME TAX (CONTINUED)

Deferred tax assets	Provision and accruals RMB'000	Tax losses RMB'000	Deferred revenue RMB'000	Others RMB'000	Total RMB'000
At January 1, 2015	2,125,227	680,165	618,815	362,522	3,786,729
Credited/(charged) to the income statement	725,441	2,434,750	161,159	(110,085)	3,211,265
Credited to other comprehensive income	–	–	–	5,029	5,029
Exchange adjustment	209,946	126,586	(68,897)	6,384	274,019
At December 31, 2015	3,060,614	3,241,501	711,077	263,850	7,277,042
Acquisition of subsidiaries	**129,862**	**–**	**–**	**–**	**129,862**
(Charged)/credited to the income statement	**(597,954)**	**2,851,340**	**133,640**	**(17,410)**	**2,369,616**
Disposal of subsidiaries	**(157)**	**(59,495)**	**–**	**–**	**(59,652)**
Disposal of discontinued operations (Note 32)	**(280,085)**	**(127,518)**	**–**	**(7,572)**	**(415,175)**
Exchange adjustment	**52,747**	**228,052**	**81,420**	**39,177**	**401,396**
At December 31, 2016	**2,365,027**	**6,133,880**	**926,137**	**278,045**	**9,703,089**

Deferred income tax assets are recognised for deductible temporary differences and tax losses carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable.

At December 31, 2016 and 2015, the Group did not recognise deferred income tax assets in respect of deductible temporary differences of approximately RMB13,396 million and RMB16,209 million and tax losses of approximately RMB18,845 million and RMB14,137 million that can be carried forward against future taxable income, of which tax losses of RMB13,353 million and RMB10,064 million can be carried forward indefinitely. The balances of tax losses will expire as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Expiring in		
– within 1 year	**37,210**	56,785
– 1 to 2 years	**1,368,767**	326,138
– 2 to 3 years	**778,790**	1,756,042
– 3 to 4 years	**834,523**	1,040,170
– Over 4 years	**15,825,211**	10,958,316
	18,844,501	14,137,451

41. RETIREMENT BENEFIT OBLIGATIONS

The Group's retirement benefit obligations are related to IT operating segment.

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Pension obligation included in non-current liabilities		
Pension benefits (a)	**2,621,020**	2,336,211
Post-employment medical benefits (b)	**169,909**	159,267
	2,790,929	2,495,478
Expensed in income statement		
Pension benefits (Note 9)	**129,472**	164,608
Post-employment medical benefits	**10,102**	(6,437)
	139,574	158,171
Remeasurements for		
Defined pension benefits	**(269,443)**	(179,514)
Post-employment medical benefits	**(2,289)**	473
	(271,732)	(179,041)

The Group operates a sectionalized plan that has both defined contribution and defined benefit features in Germany, including benefits based on a final pay formula. This plan is closed to new entrants. Following the acquisition of Motorola and System X in 2014, the Group assumed approximately RMB1,087 million of defined benefit obligations in Germany. The defined benefit plan for Motorola's employees in Germany contains less than 20 active employees but a large number of retirees and former employees with benefits which have vested, but where payment will be deferred until they retire. As a result of these acquisitions and decreases in Euro interest rates, the Group's largest pension liabilities are now in Germany.

The Group continues to maintain significant pension liabilities in Japan where a cash balance benefit is provided for substantially all employees.

In the United States, the defined benefit plan is closed to new entrants, and now covers only 2% of employees. There is also a supplemental defined benefit plan that covers certain executives. The Group also operates final salary defined benefit plans in a number of countries as a result of past acquisition.

The Group's major plans are valued by qualified actuaries annually using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period they arise.

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41. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(a) Pension benefits

The amounts recognised in the consolidated balance sheet are determined as follows:

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Present value of funded obligations	**3,753,870**	3,560,418
Fair value of plan assets	**(1,830,647)**	(1,760,257)
Deficit of funded plans	**1,923,223**	1,800,161
Present value of unfunded obligations	**697,797**	536,050
Liability in the balance sheet	**2,621,020**	2,336,211
Representing:		
Pension benefits obligation	**2,621,020**	2,336,211
Pension plan asset in the balance sheet	**–**	–
	2,621,020	2,336,211

The principal actuarial assumptions used were as follows:

	As at December 31,	
	2016	2015
Discount rate	**0.5%-3.25%**	1.0%-3.25%
Future salary increases	**0%-3%**	0%-3%
Future pension increases	**0%-2%**	0%-2%
Life expectancy for male aged 60	**27**	27
Life expectancy for female aged 60	**29**	29

41. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(a) Pension benefits (CONTINUED)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions are as below:

	Year ended December 31, 2016 Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	**0.5%**	**Decrease by 10.8%**	**Increase by 12.7%**
Salary growth rate	**0.5%**	**Increase by 2.0%**	**Decrease by 2.0%**
Pension growth rate	**0.5%**	**Increase by 7.4%**	**Decrease by 6.7%**
		Increase by 1 year in assumption	**Decrease by 1 year in assumption**
Life expectancy		**Increase by 3.9%**	**Decrease by 4.0%**

	Year ended December 31, 2015 Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 10.7%	Increase by 12.5%
Salary growth rate	0.5%	Increase by 1.6%	Decrease by 1.5%
Pension growth rate	0.5%	Increase by 6.8%	Decrease by 6.4%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 3.7%	Decrease by 3.8%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change for the year ended December 31, 2016 and 2015.

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41. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

The US plan (Lenovo Future Health Account and Retiree Life Insurance Program) is currently funded by a trust that qualifies for tax exemption under US tax law, out of which benefits to eligible retirees and dependents will be made.

Changes in future medical cost trend rates have no effect on the liabilities for post-employment medical benefits.

The amounts recognised in the consolidated balance sheet are determined as follows:

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Present value of funded obligations	**189,604**	187,450
Fair value of plan assets	**(29,978)**	(37,660)
Deficit of funded plans	**159,626**	149,790
Present value of unfunded obligations	**10,283**	9,477
Liability in the balance sheet	**169,909**	159,267

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41. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Additional information on post-employment benefits (pension and medical)

Percentage of fair value of the plan assets are analysed below:

	2016			2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Pension						
Equity instruments						
– Information technology	1.51%	–	0.66%	2.03%	–	0.74%
– Energy	0.28%	–	0.12%	0.69%	–	0.25%
– Manufacturing	2.96%	–	1.30%	3.94%	–	1.43%
– Others	3.70%	–	1.61%	11.63%	0.01%	4.21%
	8.45%	–	3.69%	18.29%	0.01%	6.63%
Debt instruments						
– Government	38.85%	–	17.04%	25.29%	13.51%	17.79%
– Corporate bonds (investment grade)	35.84%	–	15.72%	49.87%	3.33%	20.23%
– Corporate bonds (non-investment grade)	1.06%	–	0.47%	0.01%	0.51%	0.33%
	75.75%	–	33.23%	75.17%	17.35%	38.35%
Property	–	9.03%	5.07%	–	9.68%	6.17%
Qualifying insurance policies	–	35.57%	19.97%	–	29.22%	18.61%
Cash and cash equivalents	15.80%	–	6.94%	5.76%	0.94%	2.69%
Investment funds	–	21.50%	12.07%	0.09%	42.36%	27.02%
Others	–	33.90%	19.03%	0.69%	0.44%	0.53%
	15.80%	100.00%	63.08%	6.54%	82.64%	55.02%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Medical Plan						
– Cash and cash equivalents	100.00%	–	100.00%	100.00%	–	100.00%

The long-term strategic asset allocations of the plans are set and reviewed from time to time by the plans' trustees taking into account the membership and liability profile, the liquidity requirements of the plans.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

41. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Additional information on post-employment benefits (pension and medical) (CONTINUED)

For the year ended December 31, 2016 and 2015, the weighted average duration of the defined benefit obligation is 15 years and 14.5 years respectively.

Pension and medical plan assets do not include any of the Company's ordinary shares or US real estate occupied by the Group for the year ended December 31, 2016 and 2015.

Reconciliation of fair value of plan assets of the Group:

	As at December 31,	
Pension	**2016**	2015
	RMB'000	*RMB'000*
Opening fair value	**1,760,257**	1,712,788
Exchange adjustment	**93,833**	(57,358)
Interest income	**40,678**	41,581
Actuarial (losses)/gains	**(38,619)**	71,730
Contributions by the employer	**113,913**	123,905
Contributions by plan participants	**4,080**	2,571
Benefits paid	**(143,495)**	(134,960)
Closing fair value	**1,830,647**	1,760,257
Actual return on plan assets	**2,059**	113,311

	As at December 31,	
Medical	**2016**	2015
	RMB'000	*RMB'000*
Opening fair value	**37,660**	37,028
Exchange adjustment	**233**	1,566
Interest income	**577**	761
Actuarial losses	**(836)**	(344)
Contributions by the employer	**139**	218
Benefits paid	**(7,795)**	(1,569)
Closing fair value	**29,978**	37,660
Actual return on plan assets	**(259)**	417

Contribution of RMB49.57 million are estimated to be made for the year ending December 31, 2017.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

41. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Additional information on post-employment benefits (pension and medical) (CONTINUED)

Reconciliation of movements in present value of defined benefit obligations of the Group:

Pension	As at December 31, 2016 RMB'000	2015 RMB'000
Opening defined benefit obligation	**4,096,468**	3,802,083
Exchange adjustment	**95,850**	(28,724)
Current service cost	**114,143**	96,495
Past service cost	**(13,082)**	(10,426)
Interest cost	**74,517**	73,324
Actuarial losses	**230,824**	251,244
Contributions by plan participants	**4,080**	2,571
Benefits paid	**(145,705)**	(136,895)
Curtailments	**(5,428)**	46,796
Closing defined benefit obligation	**4,451,667**	4,096,468

Medical	As at December 31, 2016 RMB'000	2015 RMB'000
Opening defined benefit obligation	**196,927**	197,028
Exchange adjustment	**(1,330)**	8,620
Current service cost	**4,098**	2,372
Past service cost	**–**	–
Interest cost	**6,812**	3,523
Actuarial gains/(losses)	**1,453**	(817)
Benefits paid	**(7,842)**	(2,228)
Curtailments	**(231)**	(11,571)
Closing defined benefit obligation	**199,887**	196,927

For the year ended December 31, 2016 and 2015, benefit of RMB5.3 million and RMB4.6 million were paid directly by the Group.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

41. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Additional information on post-employment benefits (pension and medical) (CONTINUED)

The amounts recognised in the consolidated income statement were as follows:

Pension	As at December 31, 2016 RMB'000	2015 RMB'000
Current service cost	**114,143**	96,495
Past service cost	**(13,082)**	(10,426)
Interest cost	**74,517**	73,324
Interest income	**(40,678)**	(41,581)
Curtailment (gains)/losses	**(5,428)**	46,796
Total expense recognised in the consolidated income statement	**129,472**	164,608

Medical	As at December 31, 2016 RMB'000	2015 RMB'000
Current service cost	**4,098**	2,372
Past service cost	**–**	–
Interest cost	**6,812**	3,523
Interest income	**(577)**	(761)
Curtailment gains	**(231)**	(11,571)
Total expense recognized in the consolidated income statement	**10,102**	(6,437)

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

41. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Additional information on post-employment benefits (pension and medical) (CONTINUED)

Summary of pensions and post-retirement medical benefits of the Group:

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Present value of defined benefit obligations	**4,651,554**	4,293,395
Fair value of plan assets	**(1,860,625)**	(1,797,917)
Deficit	**2,790,929**	2,495,478
Actuarial (losses)/gains arising on plan assets	**(39,455)**	71,386
Actuarial losses arising on plan liabilities	**(232,277)**	(250,427)
	(271,732)	(179,041)

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

42. PROVISIONS

	Warranties *RMB'000*	Environmental restoration *RMB'000*	Restructuring *RMB'000*	Provision on guarantee *RMB'000*	Total *RMB'000*
At beginning of the year	**9,429,065**	**54,968**	**1,204,764**	**134,558**	**10,823,355**
Provision made	**4,968,250**	**64,611**	**902,126**	**–**	**5,934,987**
Unused amounts reversed	**–**	**(292)**	**–**	**(15,795)**	**(16,087)**
Amount utilised	**(6,990,500)**	**(65,621)**	**(1,325,527)**	**(10,301)**	**(8,391,949)**
Exchange adjustment	**471,724**	**3,682**	**80,566**	**–**	**555,972**
At end of the year	**7,878,539**	**57,348**	**861,929**	**108,462**	**8,906,278**
Non-current portion	**(2,036,800)**	**(38,299)**	**–**	**–**	**(2,075,099)**
As at December 31, 2016	**5,841,739**	**19,049**	**861,929**	**108,462**	**6,831,179**
At beginning of the year	9,899,690	139,384	–	145,990	10,185,064
Provision made	6,695,788	40,627	2,192,854	–	8,929,269
Unused amounts reversed	(22,221)	(76,891)	–	(11,432)	(110,544)
Amount utilised	(7,309,574)	(48,626)	(1,034,717)	–	(8,392,917)
Exchange adjustment	165,382	474	46,627	–	212,483
At end of the year	9,429,065	54,968	1,204,764	134,558	10,823,355
Non-current portion	(2,064,400)	(37,422)	–	–	(2,101,822)
As at December 31, 2015	7,364,665	17,546	1,204,764	134,558	8,721,533

The Group records its warranty liability at the time of sales based on estimated costs. Warranty claims are reasonably predictable based on historical failure rate information. The warranty accrual is reviewed quarterly to verify it properly reflects the outstanding obligation over the warranty period. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangement with them.

The Group records its environmental restoration provision at the time of sales based on estimated costs of environmentally-sound disposal of waste electrical and electronic equipment upon return from end-customers and with reference to the historical or projected future return rate. Environmental restoration provision is reviewed at least annually to assess its adequacy to meet the Group's obligation.

Restructuring costs provision mainly comprises lease termination obligation and employee termination payments, arising from a series of restructuring actions to reduce costs and enhance operational efficiency. The Group records its restructuring costs provision when it has a present legal or constructive obligation as a result of restructuring actions.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

43. DIVIDENDS

The dividends paid in 2016 and 2015 were RMB518 million (RMB0.22 per share) and RMB366 million (RMB0.183 per share) respectively. A dividend in respect of the year ended 31 December 2016 of RMB0.242 per share, amounting to a total dividend of RMB570 million, is to be proposed at the forthcoming 2016 annual general meeting. These financial statements do not reflect this dividend payable.

44. CASH GENERATED FROM OPERATIONS

	Year ended December 31,	
	2016	2015 (As restated)
	RMB'000	*RMB'000*
Profit before income tax from continuing operations	**8,138,759**	3,633,326
Adjustments for:		
Impairment loss	**817,025**	1,928,241
Inventories write off (Note 7)	**–**	1,168,276
Provision for lease obligations (Note 7)	**–**	378,979
Depreciation of property, plant and equipment (Note 17)	**2,380,015**	2,086,845
Amortisation	**3,220,100**	3,078,048
(Gains)/losses on disposal of property, plant and equipment and intangible assets (Note 7)	**(2,207,296)**	1,926,650
Fair value gains on investment properties (Note 7)	**(344,017)**	(1,646,139)
Fair value gains and dividend income from financial assets at fair value through profit or loss (Note 6)	**(751,587)**	(872,137)
Fair value gains and dividend income from associates measured at fair value through profit or loss (Note 6)	**(840,514)**	(3,235,010)
Finance costs – net (Note 11)	**2,770,179**	2,528,097
Gains on disposal/dilution of associates (Note 6)	**(503,892)**	(412,088)
Gains on disposal of available-for-sale financial assets (Note 6)	**(944,723)**	(172,476)
Losses/(gains) on disposal of subsidiary (Note 6)	**479,055**	(216,043)
Dividend income from available-for-sale financial assets (Note 6)	**(205,469)**	(279,584)
Share-based payments (Note 31(c))	**1,238,470**	808,275
Share of profit of associates and joint ventures using equity accounting	**(1,066,493)**	(838,258)
Net foreign exchange (gains)/losses	**(200,270)**	184,515
Changes in working capital (excluding the effects of acquisition, disposal of discontinued operations and exchange differences on consolidation):		
Inventories, properties under development and completed properties held for sale	**(1,715,050)**	2,068,222
Trade and other receivables	**(9,106,830)**	308,431
Trade and other payables	**5,618,854**	(12,006,181)
Cash generated from operating activities of continuing operations	**6,776,316**	419,989

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

45. CONTINGENCIES

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Guarantee in respect of mortgage facilities for certain purchaser (a)	**–**	4,099,437
Financial guarantee of guarantee business (b)	**3,750,843**	4,530,170
Other guarantee (c)		
– Related parties (Note 52(e))	**2,021,580**	2,239,759
– Unrelated parties	**6,506,500**	1,500,000
	12,278,923	12,369,366

(a) Guarantee in respect of mortgage facilities for certain purchaser

The property segment of the Group provides guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantee, upon the default in mortgage payments by this purchaser, the Group is responsible to repay the outstanding mortgage principles together with the accrued interest and penalty owed by the purchaser to the banks and the Group is entitled to take over the legal title and possession of the related property. The Group's guarantee period starts the grant of the relevant mortgage loan and ends when the property purchaser obtains the "property title certificate" which is then pledged with the banks. There are no guarantee in respect of mortgage facilities for certain purchaser as the Real Estate Development Business has been disposed in 2016.

(b) Financial guarantee of guarantee business

Subsidiaries in financial service segment of the Group provide financial guarantees to small and medium-sized entities for their borrowings from certain banks and charge them guarantee fees accordingly. As at December 31, 2016 and December 31, 2015, the outstanding guarantee balance was RMB3,751 million and RMB4,530 million respectively. The Directors evaluate the financial position of the guaranteed entities and make provision accordingly. As at December 31, 2016 and December 31, 2015, the provision made by the Group was RMB108 million and RMB135 million respectively, which were included in "provision" in the consolidated balance sheet.

(c) Other guarantee

As at December 31, 2016 and 2015, of the total guarantee balances provided to related parties and unrelated parties, approximately RMB8,528 million and RMB3,740 million had been withdrawn. For the discontinued operations, the group provided guarantees to the Target Companies before Transfer Dates, which will be terminated within 12 months after the Transfer Dates according to the Framework Agreement between the Company, Raycom Real Estate and Sunac Real Estate. As at December 31, 2016, the total guarantee balances provided to the Target Companies were approximately RMB6,307 million. Sunac Real Estate would pay to the Company without delay if the Company assumed guarantee responsibility to the Target Companies' financial liabilities after Transfer of Management Rights. The Board reviews the financial conditions of the guaranteed companies periodically and records provision when necessary. As at 31 December 2016 and 2015, no provision was recorded in relevant to the preceding guarantee.

46. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Property, plant and equipment	**48,590**	27,453
Intangible assets	**2,031**	1,842
Investments in subsidiaries	**14,768,690**	6,825,927
Associates using equity accounting	**5,458,277**	5,080,521
Associates measured at fair value through profit or loss	**866,831**	2,600,455
Available-for-sale financial assets	**1,045,563**	1,186,772
Financial assets at fair value through profit or loss	**–**	275,000
Other non-current assets	**148,035**	184,095
	22,338,017	16,182,065
Current assets		
Amounts due from subsidiaries	**15,396,304**	15,233,783
Amounts due from related parties	**288,470**	212,963
Prepayment, other receivables and current assets	**1,448,807**	471,429
Financial assets at fair value through profit or loss	**269,518**	246,075
Bank deposit	**5,705,995**	–
Cash and cash equivalents	**6,663,458**	11,293,529
	29,772,552	27,457,779
Total assets	**52,110,569**	43,639,844
Share capital	**2,356,231**	2,356,231
Other reserves (Note 46(b))	**15,508,826**	15,156,079
Total equity	**17,865,057**	17,512,310

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

46. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Balance sheet of the Company (CONTINUED)

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
LIABILITIES		
Non-current liabilities		
Borrowings	**19,356,074**	19,275,357
Deferred income tax liabilities	**219,702**	494,032
Other non-current liabilities	**22,525**	28,210
	19,598,301	19,797,599
Current liabilities		
Amounts due to subsidiaries	**1,348,201**	985,578
Amounts due to related parties	**19,364**	19,364
Other payables and accruals	**458,785**	693,724
Current income tax liabilities	**24,694**	36,957
Borrowings	**12,796,167**	4,594,312
	14,647,211	6,329,935
Total liabilities	**34,245,512**	26,127,534
Total equity and liabilities	**52,110,569**	43,639,844
Net current assets	**15,125,341**	21,127,844
Total assets less current liabilities	**37,463,358**	37,309,909

The balance sheet of the Company was approved by the Board of Directors on March 29, 2017 and was signed on its behalf.

LIU Chuanzhi
Director

ZHU Linan
Director

46. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Movement of reserves of the Company

The changes in the reserves of the Company during the year ended December 31, 2016 and 2015 are as follows:

	The Company						
	Statutory surplus reserve	Investment revaluation reserve	Share-based compensation reserve	Shares held for restricted share scheme	Other reserve	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2015	–	279,822	231,971	–	689,548	632,713	1,834,054
Profit for the year	–	–	–	–	–	2,350,908	2,350,908
Fair value changes on available-for-sale financial assets	–	37,179	–	–	–	–	37,179
Share of other comprehensive income of associates	–	13,797	–	–	–	–	13,797
Issuance of new shares	–	–	–	–	11,724,078	–	11,724,078
Share issuance cost	–	–	–	–	(442,138)	–	(442,138)
Transfer to statutory surplus reserve	191,599	–	–	–	–	(191,599)	–
Dividends paid	–	–	–	–	–	(366,025)	(366,025)
Transfer to associates using equity accounting with loss of control in subsidiaries	–	–	–	–	–	4,226	4,226
As at December 31, 2015	191,599	330,798	231,971	–	11,971,488	2,430,223	15,156,079
Profit for the year	**–**	**–**	**–**	**–**	**–**	**1,253,437**	**1,253,437**
Fair value changes on available-for-sale financial assets	**–**	**(105,907)**	**–**	**–**	**–**	**–**	**(105,907)**
Share of other comprehensive income of associates	**–**	**(20,006)**	**–**	**–**	**–**	**–**	**(20,006)**
Share of other reserve of associates	**–**	**–**	**–**	**–**	**13,400**	**–**	**13,400**
Purchase of restricted shares under share scheme (Note 31(b)(ii))	**–**	**–**	**–**	**(269,831)**	**–**	**–**	**(269,831)**
Transfer to statutory surplus reserve	**120,208**	**–**	**–**	**–**	**–**	**(120,208)**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(518,346)**	**(518,346)**
As at December 31, 2016	**311,807**	**204,885**	**231,971**	**(269,831)**	**11,984,888**	**3,045,106**	**15,508,826**

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

47. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors', supervisors' and chief executive's emoluments

The remuneration of each director, supervisor, and the chief executive for the year ended December 31, 2016 is set out below:

Name	Fees *RMB'000*	Salaries *RMB'000*	Discretionary bonuses *RMB'000*	Share option and rewards *RMB'000*	Retirement payment and employer's contribution to pension schedule *RMB'000*	Other benefits *RMB'000*	Total *RMB'000*
Executive Director							
Mr. LIU Chuanzhi (柳傳志)	–	16,000	16,000	4,613	–	1,548	38,161
Mr. ZHU Linan (朱立南) *(Chief Executive)*	617	13,800	13,800	1,259	1,159	1,421	32,056
Mr. ZHAO John Huan (趙令歡)	617	–	–	1,259	–	–	1,876
Non-executive Director							
Mr. WU Lebin (吳樂斌)	–	–	–	–	–	–	–
Mr. WANG Jin (王津)	–	–	–	–	–	–	–
Mr. LU Zhiqiang (盧志強)	–	–	–	–	–	–	–
Independent Non-executive Directors							
Mr. MA Weihua (馬蔚華)	300	–	–	–	–	–	300
Mr. ZHANG Xuebing (張學兵)	250	–	–	–	–	–	250
Ms. HAO Quan (郝荃)	300	–	–	–	–	–	300
Supervisors							
Mr. LI Qin (李勤)	–	–	–	–	–	–	–
Mr. SUO Jishuan (索繼栓)	–	–	–	–	–	–	–
Mr. QI Zixin (齊子鑫)	–	–	–	–	–	–	–
	2,084	29,800	29,800	7,131	1,159	2,969	72,943

47. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors', supervisors' and chief executive's emoluments (CONTINUED)

The remuneration of each director, supervisor, and the chief executive for the year ended December 31, 2015 is set out below:

Name	Fees	Salaries	Discretionary bonuses	Share option and rewards	Retirement payment and employer's contribution to pension schedule	Other benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director							
Mr. LIU Chuanzhi (柳傳志)	–	16,000	14,400	7,170	–	1,546	39,116
Mr. ZHU Linan (朱立南) *(Chief Executive)*	568	13,800	–	1,162	1,159	1,415	18,104
Mr. ZHAO John Huan (趙令歡)	568	–	–	1,162	–	–	1,730
Non-executive Director							
Mr. WU Lebin (吳樂斌)	–	–	–	–	–	–	–
Mr. WANG Jin (王津)	–	–	–	–	–	–	–
Mr. LU Zhiqiang (盧志強)	–	–	–	–	–	–	–
Independent Non-executive Director							
Mr. Ma Weihua (馬蔚華)	250	–	–	–	–	–	250
Mr. Zhang Xuebing (張學兵)	208	–	–	–	–	–	208
Ms. Hao Quan (郝荃)	250	–	–	–	–	–	250
Supervisors							
Mr. LI Qin (李勤)	–	–	–	–	–	–	–
Mr. SUO Jishuan (索繼栓)	–	–	–	–	–	–	–
Mr. QI Zixin (齊子鑫)	–	–	–	–	–	–	–
	1,844	29,800	14,400	9,494	1,159	2,961	59,658

联想控股

LEGEND HOLDINGS

BUILDING GREAT COMPANIES

48. COMMITMENTS (CONTINUED)

(b) Operating lease commitments

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases various plant and machinery under cancellable operating lease agreements. The lease expenditure charged to the income statement during the year is disclosed in Note 8.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
No later than 1 year	**631,830**	802,347
Later than 1 year and not later than 5 years	**2,714,675**	3,761,078
Later than 5 years	**3,897,754**	1,934,999
	7,244,259	6,498,424

49. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisition of additional interests in subsidiaries

The effect of acquisition of additional interests in subsidiaries is summarised as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Carrying amount of non-controlling interests acquired	**729,797**	640,384
Consideration paid to non-controlling interests	**(1,672,365)**	(1,402,616)
Excess of consideration paid recognised within equity	**(942,568)**	(762,232)

During the year of 2016, the Company acquired an additional 63,480,000 number of shares of Lenovo from open market through a subsidiary, with a purchase consideration of RMB340 million, which resulted in an increase interest of 0.57% in Lenovo. The carrying amount of the non-controlling interests on the date of acquisition was RMB103 million. The Group recognised a decrease in non-controlling interests of RMB103 million and a decrease in equity attributable to equity holders of the company of RMB237 million.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

49. TRANSACTIONS WITH NON-CONTROLLING INTERESTS (CONTINUED)

(b) Disposal of interest in subsidiaries without loss of control

The effect of disposal of interests in subsidiaries is summarised as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Carrying amount of non-controlling interests disposed	**(227,804)**	(76,044)
Consideration received from non-controlling interests	**228,528**	195,729
Gain on disposal within equity	**724**	119,685

Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for the year ended December 31, 2016 are as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Acquisition of additional interests in subsidiaries	**(942,568)**	(762,232)
Disposal of interests in subsidiaries without loss of control	**724**	119,685
Net effect in equity attributable to equity holders of the Company	**(941,844)**	(642,547)

50. BUSINESS COMBINATIONS

In 2016, the major business combination activities are as follows:

On March 31, 2016, the Group acquired the entire equity interests in KB Seafoods. KB Seafoods is engaged in supplying seafoods and accessory products for the retails and catering markets in Australia and New Zealand, and at the same time exporting premium seafoods.

In September and October, 2016, the Group acquired the 100% equity interests in Beijing Lakala Microcredit Co., Ltd., Guangzhou Lakala Network Microcredit Co., Ltd., Beijing Kaola Crowdfunding Investment Management Co., Ltd., Lakala Technology Development Co., Ltd., Shenzhen Zhongying Weirong Technology Co., Ltd., Guangzhou Zhongying Weirong Intelligence Technology Co., Ltd., Lakala Network Technology Co., Ltd., and the 70%, 90% and 99% equity interests in Lakala Pictures Co., Ltd., Beijing Zhongbeilian Credit Evaluation Co., Ltd. and Kunlun Tiandi Science and Technology Development Co., Ltd. ("Lakala Finance"). The abovementioned acquisitions' principal businesses are value-added financial services. The acquisition provides the Group with immediate access to all assets and personnel to accelerate the Group's entry into mature geographies for financial services.

50. BUSINESS COMBINATIONS (CONTINUED)

(a) Set forth below is the calculation of goodwill:

	For the year ended December 31, 2016		
	KB Seafoods	Lakala Finance	Total
	RMB'000	*RMB'000*	*RMB'000*
Purchase consideration			
– Cash paid less cash to be refunded	**949,926**	**1,079,040**	**2,028,966**
– Present value of deferred consideration	**57,339**	**364,970**	**422,309**
Total purchase consideration	**1,007,265**	**1,444,010**	**2,451,275**
Less: Fair value of net assets acquired	**(620,244)**	**(1,444,010)**	**(2,064,254)**
Goodwill (Note 19)	**387,021**	**–**	**387,021**

(b) The major components of assets and liabilities arising from the business combination activities are as follows:

	For the year ended December 31, 2016		
	KB Seafoods	Lakala Finance	Total
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	**56,297**	**673,995**	**730,292**
Property, plant and equipment	**123,347**	**5,289**	**128,636**
Other non-current assets	**7,882**	**5,655,865**	**5,663,747**
Intangible assets	**187,627**	**86**	**187,713**
Net working capital, except cash and cash equivalents	**276,301**	**(4,875,971)**	**(4,599,670)**
Non-current liabilities	**(31,210)**	**–**	**(31,210)**
Non-controlling interests	**–**	**(15,254)**	**(15,254)**
Fair value of net assets acquired	**620,244**	**1,444,010**	**2,064,254**

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

50. BUSINESS COMBINATIONS (CONTINUED)

(c) Net cash outflow from acquisition of subsidiaries

	Year ended December 31, 2016		
	KB Seafoods	Lakala Finance	Total
	RMB'000	*RMB'000*	*RMB'000*
Purchase consideration settled in cash	**949,926**	**1,079,040**	**2,028,966**
Less: cash and cash equivalents in subsidiaries acquired	**(56,297)**	**(673,995)**	**(730,292)**
Acquisition of subsidiaries, net of cash acquired	**893,629**	**405,045**	**1,298,674**

(d) Impact of acquisitions on the results of the Group

The aggregated revenue of newly acquired businesses mentioned above included in the consolidated income statement since their respective dates of acquisition and up to December 31, 2016 was RMB2,324 million. The newly acquired businesses mentioned above also contributed an aggregated profit after taxation of RMB94 million over the same period. Had the newly acquired businesses mentioned above been consolidated from January 1, 2016, the beginning of the financial year, the consolidated income statement would show revenue of RMB3,972 million and profit after taxation of RMB199 million.

The operation results of other newly acquired business does not have significant impact on the consolidated financial information for the year ended December 31, 2016.

51. DISPOSAL OF SUBSIDIARIES

Loss of control in Jining Zhongyin electrochemical Co., Ltd.

In September 2016, the Group disposed of its entire equity interests in Jining Zhongyin Electrochemical Co., Ltd. ("Zhongyin Electrochemical"), to third parties for a consideration of RMB25 million and exemption of receivables to Zhongyin Electrochemical of RMB482 million. The related information on the disposal date is as follows:

	Amounts
	RMB'000
Consideration received	
– Cash and cash equivalents received	**25,000**
Less: cash and cash equivalents held by Zhongyin Electrochemical	**20,420**
Net cash received	**4,580**

51. DISPOSAL OF SUBSIDIARIES (CONTINUED)

Loss of control in Jining Zhongyin electrochemical Co., Ltd (CONTINUED)

The assets and liabilities of Zhongyin Electrochemical on the disposal date are as follows:

	Carrying Value *RMB'000*
Current assets	404,624
Non-current assets	695,269
Less: current liabilities	(779,772)
Non-current liabilities	(314,043)
Total	6,078

The revenue, expenses and net loss of Zhongyin Electrochemical for the period from January 1, 2016 to the disposal date are as follows:

	Amounts *RMB'000*
Revenue	446,633
Cost, expenses and gains	(468,918)
Total loss	(22,285)
Less: income tax expense	–
Net loss	(22,285)

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

52. RELATED PARTY TRANSACTIONS

The Company does not have any ultimate controlling party. The general information and other related information of the subsidiaries is set out in Note 12.

(a) For the year ended December 31, 2016 and 2015, the principal related parties that had transactions with the Group are listed below:

	Relationship with the Group
Legend Shenzhen Science and Technology Park Limited (深圳市聯想科技園有限公司) ("Shenzhen Science and Technology Park")	Associate of the Group
Lakala Payment	Associate of the Group
Xinneng Fenghuang (Tengzhou) Energy Co., Ltd. (新能鳳凰(滕州)能源有限公司)	Associate of the Group
Hony Capital Investment Management (Tianjin) L.P. (弘毅投資管理(天津)(有限合夥))	Associate of the Group
IGRS Engineering Lab Limited (閃聯信息技術工程中心有限公司)	Associate of the Group
China Auto Rental (Beijing) Limited (北京神州汽車租賃有限公司, "China Auto Rental") (i)	Associate of the Group
Legend Capital Co., Ltd. (君聯資本管理股份有限公司)	Associate of the Group
Shanghai Shiyun Network Technology Limited (上海視雲網絡科技有限公司)	Associate of the Group
Legend Capital Management Limited	Associate of the Group
Hankou Bank	Associate of the Group
Well Faith	Associate of the Group
Hony Capital Management Limited	Associate of the Group
Union Insurance	Associate of the Group
Golden Wing Mau (鑫榮懋)	Associate of the Group
Minsheng Securities Co., Ltd. (民生證券股份有限公司)	Associate of the Group
Social Touch (Beijing) Technology Development Co., Ltd. (時趣互動(北京)科技有限公司)	Associate of the Group
City Magic Investments Limited	Associate of the Group
Swift Success Ventures Limited	Associate of the Group
Hony Shenzhen 2015 (弘毅貳零壹伍(深圳)地產投資中心(有限合夥))	Associate of the Group

(i) China Auto Rental is a subsidiary of CAR.

52. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party transactions

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties for the year ended December 31, 2016 and 2015:

	Year ended December 31,	
	2016 **RMB'000**	2015 (As restated) RMB'000
Purchase of goods from		
– Associates	**1,056,381**	982,071
Sale of goods to		
– Associates	**2,412**	–
Services received from		
– Associates	**38,883**	19,882
Rendering of services to		
– Associates	**46,709**	32,722
Loan provided by		
– Associates	**80,405**	749,673
Loan provided to (ii)		
– Associates	**1,286,267**	3,960,606
Interest income from		
– Associates	**94,074**	65,641
Interest expenses to		
– Associates	**23,386**	136,144
Purchase of equity investment from (Note 50)		
– Associates	**1,444,010**	–

(ii) For the year ended December 31, 2015, the Group made a six-month-term loan to Swift Success Ventures Limited with an amount of RMB2,349 million, and annum interest rate is 8%. The six-month-term loan has been returned in 2016.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

52. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year-end balances due from/to related party

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Trade and notes receivables		
– Associates	**–**	15
Prepayment, other receivables and current assets (iii)		
– Associates	**1,160,217**	3,445,025
Borrowings		
– Associates	**173,692**	1,059,171
Current portion of non-current liabilities		
– Associates	**99,275**	16,700
Trade and notes payables		
– Associates	**–**	45
Advance from client		
– Associates	**960**	1,959
Other payables and accruals		
– Associates	**552,461**	423,828
Other non-current liabilities		
– Associates	**–**	400,000

(iii) Prepayment, other receivables and current assets includes amounts receivables from the following parties:

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
Hony Shenzhen 2015	**262,631**	–
City Magic Investments Limited	**244,584**	–
Shenzhen Science and Technology Park	**156,247**	–
Union Insurance	**131,135**	–
Swift Success Ventures Limited	**–**	2,433,073
Yantai Rongan Real Estate Development Co.,Ltd. (iv)	**–**	478,551
Others	**365,620**	533,401
Total	**1,160,217**	3,445,025

(iv) Yantai Rongan Real Estate Development Co., Ltd. is not a related party of the Company for the year ended December 31, 2016.

52. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management compensation

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Fees	**2,084**	1,844
Salaries	**53,300**	52,927
Discretionary bonuses	**53,050**	37,821
Share option and rewards	**7,131**	9,494
Employer's contribution to pension schedule	**3,207**	3,110
Other benefits	**5,668**	5,590
	124,440	110,786

(e) Guarantee provided to related parties

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Guarantee provided to related parties		
– Golden Wing Mau	**739,500**	–
– Union Insurance	**345,000**	470,000
– Social Touch	**220,000**	–
– CAR	**–**	570,800
– Others	**717,080**	1,198,959
	2,021,580	2,239,759

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

53. SUBSEQUENT EVENTS

On December 28, 2016, Zhengqi Financial introduced two strategic investors, namely Xiamen ITG Group Corp., Ltd (廈門國貿集團股份有限公司) and Cindafund Investment Management Co., Ltd (信達風投資管理有限公司), and obtained strategic investments amounting to RMB801 million. Relevant equity settlement procedures were officially completed in February, 2017.

On March 1, 2017, Lenovo (Beijing) Co., Ltd. (聯想(北京)有限公司), a wholly-owned subsidiary of Lenovo, entered into an equity transfer agreement in relation to the disposal of 49% equity interest in Chengdu Lianchuang Rongjin Investment Limited* (成都聯創融錦投資有限責任公司) ("Lianchuang Rongjin") at a consideration of approximately RMB1,617 million. Upon the disposal, the Group does not hold any equity interests in Lianchuang Rongjin. The gain before tax on disposal amounted to approximately RMB1,503 million.

On March 3, 2017, Lakala Payment, an associate of the Company, submitted the application to the China Securities Regulatory Commission in relation to the initial issue of RMB ordinary A shares on the ChiNext board of Shenzhen Stock Exchange.

Lenovo established the USD3,000 million medium term note programme ("Medium Term Note Programme") on November 30, 2016. Approval has been obtained from The Stock Exchange of Hong Kong Limited for the listing of, and permission to deal in, the aforesaid medium term notes by way of debt issue to professional investors only. On March 9, 2017, Lenovo entered into the agreement to carry out a drawdown under the Medium Term Note Programme to propose the offering and issue of drawdown notes in an aggregate nominal amount of USD500 million, and the listing of such notes was also effected. On March 9, 2017, a subsidiary of Lenovo (as the issuer) entered into agreement to issue USD850 million 5.375% perpetual securities in the form of cumulative preferred shares. The net proceeds from the issue of the securities will be on-lent by the issuer to the Company through the subscription by the issuer for the intra-group notes.

As of March 29, 2017, RMB14,333 million out of the Company's cash consideration receivable from the disposal of Real Estate Development Business was recovered. Under Framework Agreement entered into with Sunac Real Estate, the Group undertook the provision of joint responsibility guarantee for the future financing of Sunac Real Estate amounting to approximately RMB7,497 million, of which the guarantee period of RMB5,500 million is within 1 year and the guarantee period of RMB1,997 million is within 3 years. As of December 31, 2016, the Company did not provide the guarantee; as of March 29, 2017, the Company provided a guarantee of RMB7,497 million. Meanwhile, Sunac Real Estate provided a counter-guarantee for the guarantee of RMB7,497 million.

FIVE-YEAR FINANCIAL SUMMARY

CONDENSED CONSOLIDATED INCOME STATEMENT

	Year ended December 31,				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Continuing operations					
Revenue	**294,745,710**	299,541,862	278,227,878	235,064,597	219,085,961
Profit before income tax	**8,138,759**	3,633,326	8,812,426	7,683,046	5,037,550
Income tax expense	**(476,255)**	(455,234)	(1,636,566)	(1,181,110)	(1,760,867)
Profit from continuing operations for the year	**7,662,504**	3,178,092	7,175,860	6,501,936	3,276,683
Discontinued operations					
Profit from discontinued operations for the year	**322,506**	597,514	646,311	1,211,538	1,188,023
Profit for the year	**7,985,010**	3,775,606	7,822,171	7,713,474	4,464,706
Profit attributable to:					
– Equity holders of the Company	**4,858,924**	4,659,083	4,160,389	4,837,590	2,287,897
– Non-controlling interests	**3,126,086**	(883,477)	3,661,782	2,875,884	2,176,809
	7,985,010	3,775,606	7,822,171	7,713,474	4,464,706
Earnings per share for the profit attributable to the equity holders of the Company (expressed in RMB per share)					
Basic earnings per share					
– Continuing operations	**2.06**	2.02	1.75	1.97	0.71
– Discontinued operations	**–**	0.12	0.33	0.46	0.45
	2.06	2.14	2.08	2.43	1.16
Diluted earnings per share					
– Continuing operations	**2.06**	2.02	1.74	1.96	0.70
– Discontinued operations	**–**	0.12	0.33	0.46	0.45
	2.06	2.14	2.07	2.42	1.15

FIVE-YEAR FINANCIAL SUMMARY

CONDENSED CONSOLIDATED BALANCE SHEET

	As at December 31,				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	**148,792,346**	131,234,508	116,857,811	66,459,336	60,745,257
Current assets	**173,466,482**	175,008,384	175,964,775	150,992,415	137,165,750
Total assets	**322,258,828**	306,242,892	292,822,586	217,451,751	197,911,007
Non-current liabilities	**73,957,619**	85,372,680	84,947,038	48,212,551	42,548,447
Current liabilities	**179,308,997**	155,803,129	155,020,669	125,262,036	115,920,682
Total liabilities	**253,266,616**	241,175,809	239,967,707	173,474,587	158,469,129
Net assets	**68,992,212**	65,067,083	52,854,879	43,977,164	39,441,878

Should there be any discrepancies between the Chinese and English versions of this annual report, the Chinese version shall prevail.

联想控股

LEGEND HOLDINGS

BUILDING GREAT COMPANIES