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CHINA SCE PROPERTY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1966.HK

2016
Annual Report

Contents

CORPORATE PROFILE

China SCE Property Holdings Limited ("China SCE" or the "Company"), together with its subsidiaries (collectively, the "Group"), were established in 1996 and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") in February 2010 (Stock Code: 1966.HK). The Group's major businesses include investment holding, property development, property investment and property management. The Company is headquartered in Shanghai for its business operations, while implementing regional focused development strategy targeting the first- and second-tier cities in the Yangtze River Delta Economic Zone, the Bohai Rim Economic Zone, the Pearl River Delta Economic Zone and the West Taiwan Strait Economic Zone.

The Group's property projects are distributed in 15 cities, including Beijing, Shanghai, Shenzhen, Tianjin, Nanjing, Hangzhou, Suzhou, Xiamen and Nanchang. Its products cover a wide range of properties including high-rise residential, low-rise residential, villas, commercial buildings and offices. The Company upholds "We Build to Inspire" (專築您的感動) as its corporate mission, strives to satisfy customers' needs and diligently pursues excellence in product quality. The Company was awarded the "2016 Best 50 of China Real Estate Developers" (2016中國房地產開發企業50強) and "Fortune China 500" (財富中國500強) during the year.

As of 31 December 2016, the Group and its joint ventures owned a land bank with an aggregate planned gross floor area ("GFA") of approximately 9.10 million square metres ("sq.m."), which is believed to suffice the development by the Group in the next three to four years. In the future, China SCE will continue to deepen the strategic plan of "Regional Focused, Nationwide Development" and secure the regional leading position by implementing more proactive and prudent development strategies. In addition, the Company will strive to become a more competitive developer in the People's Republic of China ("PRC").

Shanghai • SCE Plaza

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Chiu Yeung *(Chairman)*
Mr. Chen Yuanlai
Mr. Cheng Hiu Lok
Mr. Li Wei (resigned with effect from 1 January 2017)
Mr. Huang Youquan

Independent Non-executive Directors

Mr. Ting Leung Huel Stephen
Mr. Lu Hong Te
Mr. Dai Yiyi

COMPANY SECRETARY

Mr. Li Siu Po

AUTHORISED REPRESENTATIVES

Mr. Wong Chiu Yeung
Mr. Li Siu Po

AUDIT COMMITTEE

Mr. Ting Leung Huel Stephen *(Chairman)*
Mr. Lu Hong Te
Mr. Dai Yiyi

REMUNERATION COMMITTEE

Mr. Dai Yiyi *(Chairman)*
Mr. Wong Chiu Yeung
Mr. Ting Leung Huel Stephen

NOMINATION COMMITTEE

Mr. Wong Chiu Yeung *(Chairman)*
Mr. Lu Hong Te
Mr. Dai Yiyi

CORPORATE GOVERNANCE COMMITTEE

Mr. Huang Yonquan
(appointed as Chairman with effect from 1 January 2017)
Mr. Li Wei (resigned as Chairman with effect from 1 January 2017)
Mr. Ting Leung Huel Stephen
Mr. Lu Hong Te

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISORS AS TO HONG KONG LAWS

Chiu & Partners

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

SCE Plaza, No. 26
Lane 1588, Shengchang Road
Minhang District, Shanghai
China

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1606, Nanyang Plaza
No. 57 Hung To Road
Kwun Tong, Kowloon
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Agricultural Bank of China
Bank of China
China Construction Bank
Ping An Bank Co., Ltd
Shanghai Pudong Development Bank Co. Ltd
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

INVESTOR RELATIONS

Email: ir@sce-re.com
Fax: (86) 21 3327 5332

STOCK CODE

The Stock Exchange of Hong Kong Limited: 1966.HK

COMPANY WEBSITE

www.sce-re.com

FINANCIAL HIGHLIGHTS

SUMMARY OF STATEMENT OF PROFIT OR LOSS

	For the year ended 31 December		
	2016	2015	Change
	RMB'000	RMB'000	(%)
Revenue	**12,480,683**	10,690,080	16.8
Gross profit	**3,125,693**	3,010,582	3.8
Profit for the year	**2,440,451**	1,568,544	55.6
Profit attributable to owners of the parent	**2,072,284**	918,660	125.6
Core profit attributable to owners of the parent	**1,380,107**	767,030	80.0
Dividend per share	**HK14 cents**	HK10 cents	40.0

SUMMARY OF STATEMENT OF FINANCIAL POSITION

	31 December	31 December	
	2016	2015	Change
	RMB'000	RMB'000	(%)
Total assets	**50,834,872**	40,276,238	26.2
Cash and bank balances	**8,602,758**	6,247,028	37.7
Total debts	**(18,278,355)**	(14,452,285)	26.5
Total liabilities	**(38,763,041)**	(28,677,637)	35.2
Total equity	**12,071,831**	11,598,601	4.1

REVIEW OF SIGNIFICANT EVENTS

JAN

Quanzhou • SCE Mall

Secured a US$400 Million Syndicated Loan

On 4 January 2016, the Company entered into a facility agreement with a syndicate of banks, pursuant to which, the banks have agreed to grant to the Company a term loan facility in the principal amount of US$400 million to finance repayment of certain existing indebtedness of the Group, including the redemption of US$350 million 11.5% senior notes due 2017. The facility carries an annual interest rate of LIBOR plus 4.2% for a term of three years and six months commencing from the date on which the first utilisation is made under the facility agreement, and is guaranteed by certain subsidiaries of the Company.

FEB

Successful Bid for Premium Commercial and Residential Land Parcels in Beijing

On 26 February 2016, the Company made a successful bid for four parcels of premium commercial and residential land in Beijing through its wholly-owned subsidiary at a total consideration of RMB3.948 billion. The project is located in the core area of Mentougou District and benefited from sophisticated ancillary facilities, convenient transportation network and beautiful scenery. The project occupies a site area of approximately 83,000 sq.m. with an above-ground buildable area of approximately 263,000 sq.m.. Named "The Paramount", which will be developed into a high-end commercial and residential community comprising residential, commercial and fundamental educational facilities.

MAR

Shanghai • The Prestige

Awarded as One of the "2016 Best 50 of China Real Estate Developers"

Jointly organised by China Real Estate Association (中國房地產業協會) and China Real Estate Appraisal Centre (中國房地產測評中心), the "Appraisal Results Conference of 2016 Best 500 of China Real Estate and Best 500 Summit" (2016中國房地產500強測評成果發佈會暨500強峰會) was held in Beijing on 22 March 2016. During the event, China SCE ranked 44th in the "2016 Best 50 of China Real Estate Developers" (2016中國房地產開發企業50強) and ranked second in the "Best 10 of Regional Operations" (區域運營10強).

REVIEW OF SIGNIFICANT EVENTS

APR

Acquisition of Residential Land Parcels in Shanghai

On 25 April 2016, Fujian Zhongjun Industrial Co., Ltd. (福建中駿置業有限公司), a wholly-owned subsidiary of the Company, acquired the entire equity interests in Shanghai Yi Jing Property Co., Ltd. (上海逸景置業有限公司) ("Yi Jing Property") and Zhao He (Shanghai) Investment Co., Ltd. (兆赫(上海)投資有限公司) from an independent third party. These two companies hold an aggregate equity interest of 95% in Shanghai Heng Zhi Property Company Limited (上海衡智房地產有限公司) ("Shanghai Hengzhi") while Shanghai Hengzhi owns four parcels of land located in Zhu Jia Jiao, Qingpu District, Shanghai. The consideration for the acquisition was RMB50 million and the repayment of shareholder's loans and a loan to an independent third party in the aggregate amount of approximately RMB567 million on behalf of Yi Jing Property and Shanghai Hengzhi.

Located in Zhu Jia Jiao, Qingpu District, the project occupies a site area of approximately 88,000 sq.m. with an above-ground buildable area of approximately 62,000 sq.m.. Named "The Royal Bay", the project will be developed into a high-end community of townhouses and launched for sale in December 2016.

MAY

Ranked 44th among the "2016 Best 50 China Real Estate Listed Companies with Strongest Comprehensive Strengths"

On 26 May 2016, the "2016 China Real Estate Listed Companies Evaluation and Research Report" (《2016中國房地產上市公司測評研究報告》) and the "Ranking List of 2016 China Real Estate Listed Companies" (2016中國房地產上市公司排行榜) were released by China Real Estate Association and China Real Estate Appraisal Centre. China SCE ranked 44th among the "2016 Best 50 China Real Estate Listed Companies with Strongest Comprehensive Strengths" (2016中國房地產上市公司綜合實力50強) and also ranked third in the "2016 Best 5 China Real Estate Listed Companies in Risk Management" (2016中國房地產上市公司風險控制5強).

Shenzhen • Sunshine City

JUL

Debuted among the "Fortune China 500"

On 13 July 2016, Fortune China released the 2016 "Fortune China 500" list. China SCE has been included for the first time on the list of "Fortune China 500", demonstrating its strong brand strength.

REVIEW OF SIGNIFICANT EVENTS

Successful Bid for a Residential Land Parcel in Tianjin

On 6 July 2016, the Group made a successful bid for a parcel of quality residential land in Xiqing District, Tianjin at a total consideration of RMB1.69 billion. It occupies a site area of approximately 121,000 sq.m. with an above-ground buildable area of approximately 133,000 sq.m., and will be developed into a low-density quality residential community comprised of low-rise residential apartments and townhouses. The land parcel is located in Zhangjiawo Town, Xiqing District, Tianjin and benefited from convenient transportation network. The project is just 2.7 kilometres away from Tianjin South Railway Station and takes only 25 minutes to travel from Tianjin South Railway Station to Beijing South Railway Station.

AUG

Successful Bid for a Premium Residential Land Parcel in Shanghai

On 17 August 2016, the Group made a successful bid for a parcel of quality residential land in Xujing Town, Qingpu District, Shanghai at a total consideration of RMB600 million. The project occupies a site area of approximately 8,300 sq.m. with an above-ground buildable area of approximately 13,300 sq.m.. Named "The Glamour", the project will be developed into a low-density residential community.

SEP

Successful Bid for Another Quality Commercial and Residential Land Parcel in Shanghai

On 7 September 2016, the Group made a successful bid for a parcel of commercial and residential land in Xujing Town, Qingpu District, Shanghai at a total consideration of RMB2.106 billion. The project occupies a site area of approximately 25,000 sq.m. with an above-ground buildable area of approximately 50,000 sq.m.. The project is named "The Paramount".

Secured a Residential Land Parcel in Tianjin

On 8 September 2016, the Group made a successful bid for a quality parcel of residential land in Tianjin at a total consideration of RMB485 million. The project occupies a site area of approximately 156,000 sq.m. with an above-ground buildable area of approximately 234,000 sq.m.. Located in Tuanbo New City, Jinghai District, Tianjin, the project enjoys convenient transportation access. Named "Garden Terrace", the project will be developed into a low-density residential community.

REVIEW OF SIGNIFICANT EVENTS

NOV

Acquisition of Premium Commercial and Residential Land Parcels in Suzhou

On 11 November 2016, the Group acquired 85% of equity interest in Taiwan Commodity Trading Center (Kunshan) Co., Ltd. ("Taiwan Commodity") from independent third parties at a total consideration of approximately RMB1.36 billion and the repayment of shareholder's loans and a loan to an independent third party in aggregate amount of approximately RMB220 million on behalf of Taiwan Commodity. Taiwan Commodity owns four parcels of land located in Kunshan, Suzhou, Jiangsu Province.

Quanzhou • Gold Coast

Located at Huaqiao Town in Kunshan, Suzhou, Jiangsu Province which offers a locational advantage, the project is close to the Huaqiao Station of Line 11 of the Shanghai Metro and is just about a 30 minutes drive from the Shanghai Hongqiao International Airport. The project occupies a site area of approximately 236,000 sq.m. with an above-ground buildable area of approximately 583,000 sq.m.. The project will be developed into a large commercial and residential community in Kunshan.

Acquisition of Commercial Land Parcels in Nanjing

On 18 November 2016, the Group successfully acquired 64.25% of equity interest in Nanjing Guanyu Building Materials Industry Development Co., Ltd. ("Guanyu Building Materials") and Nanjing Guanyu Property Development Co., Ltd. ("Guanyu Property") at a total consideration of approximately RMB266 million and the repayment of shareholder's loans in aggregate amount of approximately RMB83 million on behalf of Guanyu Building Materials. Guanyu Building Materials and Guanyu Property hold five parcels of commercial land in Jiangning District, Nanjing.

The project is located close to Xincheng Avenue, Jiangning District, Nanjing, near Xiangyu Road North Station of Line S1 of the Metro. The project occupies a site area of approximately 240,000 sq.m. with an above-ground buildable area of approximately 360,000 sq.m..

Tianjin • Marina Bay

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the results of the Group for the year ended 31 December 2016.

Wong Chiu Yeung
Chairman

RESULTS AND DIVIDENDS

For the year ended 31 December 2016, the Group recorded a revenue of approximately RMB12.481 billion, representing an increase of approximately 16.8% over last year. Profit for the year and profit attributable to owners of the parent amounted to approximately RMB2.440 billion and RMB2.072 billion, respectively, representing a growth of approximately 55.6% and 125.6% as compared with last year. Earnings per share was approximately RMB60.5 cents, representing an increase of approximately 125.6% over last year. In 2016, the gross profit margin and the net profit margin of the Group were 25.0% and 19.6%, respectively, representing a decrease of 3.2 percentage points and an increase of 4.9 percentage points over last year, respectively.

In appreciation of the tremendous support of our shareholders, the Board resolved to declare the payment of a final dividend of HK14 cents per ordinary share for the year ended 31 December 2016 to shareholders, totalling approximately HK$479 million, subject to the approval by shareholders of the Company in the forthcoming annual general meeting of the Company. The full-year dividend payout ratio amounted to 31.1% of the core profit attributable to owners of the parent.

CONTRACTED SALES

In 2016, the overall property market in China stayed at a high level. In the first half of the year, with the loose fiscal policies in the banking sector and the introduction of reform of the housing system by the Central Government, rigid demand and upgrader demand in housing were encouraged. The favourable policies lured tremendous demand from people who have rigid needs, upgraders and speculators, resulting in a substantial rise in the transaction volumes in the property market with a constant upsurge in sales prices. Since the third quarter of the year, in order to alleviate the pressure of surging commodity housing prices, various restrictions on property purchase and mortgage loans have been once again implemented in certain popular first- and second-tier cities, leading to a slight downward trend in the transaction volumes of the commodity housing while the prices remained at a high level. Meanwhile, destocking pressure remained high in most of the third- and fourth-tier cities, which intensified city differentiation. Throughout 2016, the overall property market in China showed increases in both the transaction volumes and prices with a record high in absolute terms.

CHAIRMAN'S STATEMENT

During the year of 2016, the Group (together with its joint ventures and associates) outperformed approximately 51.8% of the annual sales target of RMB15.5 billion with the contracted sales amount over RMB20 billion and achieved record-high contracted sales amount reaching approximately RMB23.524 billion and contracted sales area of approximately 1.66 million sq.m. for the year, representing an increase of approximately 62.1% and 33.1% over last year, respectively. In terms of cash collection, the Group has also achieved satisfactory results with the cash collection rate of property sales for the year reaching 93.0%.

During the year, the Group (together with its joint ventures and associates) had more than 50 projects on sales in 13 cities, among which 11 projects were newly launched for sale, namely Polaris and Sunshine Mansion in Beijing, SCE Plaza Phase 2 and The Royal Bay in Shanghai, Sunshine City Phase 2 in Shenzhen, Marina Bay and City Twilight in Tianjin, The Royal Green in Hangzhou, Uptown in Nanchang and SCE Plaza and Sunshine Park Phase 2 in Quanzhou. In terms of contracted sales amount in 2016, the contribution from the first- and second-tier cities accounted for approximately 65.8%. This marked the success of the Group's strategy of "Focusing on First-tier Cities and Quality Second-tier Cities".

Apart from the sales boom in the first- and second-tier cities, the transaction volumes in the third- and fourth-tier cities also rose progressively driven by popular cities, with a significant expansion in the increase in prices. During the year, the Group recorded good sales performance in Quanzhou, Zhangzhou and Yanjiao. The contracted sales amounts of these three cities accounted for approximately 29.6% of the contracted sales amount of the Group (together with its joint ventures and associates).

LAND BANK STRATEGY

The vigorous land markets were driven by the prosperous momentum of the real estate market, leading to the frequent emergence of "Prime Land". The Group adhered to the principle of prudent land expansion, and never demonstrates reckless aggression. Under the intense competition in the bidding of land, the Land Development Department of the Group strengthened its close co-operation with the Sales and Marketing Department and the Design Department of the Group, putting emphasis on innovation, and the enhancement of product positioning and the ability of exploring value so as to be prepared for land bidding. On the other hand, the Group is proactively seeking opportunities for land acquisition to increase its land bank with a more reasonable cost. In 2016, the Group acquired nine projects in the first-tier cities and quality second-tier cities located in Beijing, Shanghai, Tianjin, Nanjing, Hangzhou and Suzhou, respectively, through bidding and acquisition, with an above-ground buildable area of approximately 1.68 million sq.m., at a land consideration of approximately RMB11.6 billion. The average land cost was approximately RMB7,166 per sq.m. Among which, the land acquired through acquisition had an above-ground buildable area of approximately 1.14 million sq.m., with huge potential for earnings growth.

MARKETING STRATEGY

We are always in awe of the market. Our top priority is to pay close attention to market changes, and design and sell suitable products according to the market demand. Currently, China's urbanisation process is still underway. A large amount of young population flocks to first- and second-tier cities to seek jobs. All these factors determine that rigid demand in housing will inevitably last for a much longer period. As a result, regarding the design of rigid demand projects, we provided more units with two rooms of GFA ranging from 60-70 sq.m. and units with three rooms of GFA ranging from 89-100 sq.m. These small units are relatively low in price with more suitable design, which can satisfy the rigid demand of the said young aged group and are welcomed by the market. With the improvement of people's living standards as well as the introduction of policies such as the two-child policy, upgrader demand is also increasingly prominent, which gradually transformed into another sense of "Rigid Demand". Regarding such a trend, the Company designed and launched units such as villas with smaller area and larger three-room units to accommodate the demand from upgraders.

CHAIRMAN'S STATEMENT

In addition, we are well prepared in grasping the opportunity in unit launch. In the second half of 2016, restrictions on property purchase and mortgage loans were implemented again in certain popular cities. We proactively respond to the market changes by identifying the direction of the demand and selling products, such as SOHO apartments, with no restriction on purchase and mortgage loan in an orderly manner so as to boost up our sales. Proactive adjustment and flexible sales strategies devoted outstanding contribution towards the Company's achievement of a higher level of contracted sales results throughout the year.

FINANCIAL STRATEGY

Sound and healthy financial system lays the foundation for the continuous operation of the real estate developers. During the year, the Group proactively launched new projects in first- and second-tier cities and increased its efforts in destocking in third- and fourth-tier cities. With a more favourable cash collection, the Group had a strong cash flow base.

Regarding financing, the Group proactively makes use of the financing platform while strictly controls its gearing ratio. In the beginning of 2016, the Company obtained financing by way of a term loan in the principal amount of US$400 million with a term of three years and six months at an annual interest rate of LIBOR plus 4.2%. The Company applied the said capital for the redemption of the senior notes at a coupon rate of 11.5% due 2017 to optimise its debt structure. In 2016, the weighted average financing costs of the Group decreased from approximately 9.1% last year to approximately 6.8%. Meanwhile, in order to mitigate the foreign exchange risks resulting from the expected depreciation of Renminbi, the Group has entered into certain capped forward cross currency swap contracts for the indebtedness of US$750 million.

OUTLOOK

Since the third quarter of 2016, with the split of levels of the real estate market, the Central Government implemented policies according to cities. On one hand, it implemented the policy of restrictions on property purchase and mortgage loans in popular cities. On the other hand, it implemented policies encouraging destocking of the third- and fourth-tier cities with a high level of stocks. At the Central Economic Work Conference in December 2016, the Central Government discussed the development orientation of the industry, monetary and credit policies, and destocking regarding the real estate market, with a clear emphasis on the residential nature of housing, in support of reasonable demand for credit lines, as well as the enhancement of the effective supply of land. A series of measures initiated by the Central Government aims to restrain the unreasonable housing demand and further cool down the overheated real estate market in popular cities, so as to resume a rational real estate market.

Under the guidance of the policies implemented by the Central Government and local governments, the Group anticipates that the magnitude of the increase in transaction volumes of the real estate market in popular cities may be narrowed in 2017, while the transaction prices are likely to remain at a high level. Third- and fourth-tier cities will be benefited from the encouraging policies and spillover effects of the popular cities, for which the pressure on integration is expected to be relieved. In the long run, the Group is still full of confidence in the prospects of the real estate market as our country is gradually promoting the new-type urbanisation development and the construction of the long-term mechanism of the real estate market.

CHAIRMAN'S STATEMENT

From the strategic point of view, the Group is still in favour of the development of the real estate market in the first- and second-tier cities. We will adhere to the strategy of "Focusing on First-tier Cities and Quality Second-tier Cities" by exploring the development opportunities in these cities on an on-going basis. The Group is going to enter into two to three core cities each year in order to enhance the reputation of the Company in first-tier cities and quality second-tier cities. Meanwhile, the Group will continue to cooperate with other real estate developers to develop synergies and diversify investment risks.

Apart from engaging in property development, the Group also proactively participated in primary land development project for the purpose of storage of land parcels for industrial parks, and treated it as a strategic business. Going forward to 2017, the Group will accelerate the development pace of its primary land development project located in Quanzhou. The project occupies a site area of approximately 3.11 million sq.m., which is intended to be planned to be a livable coastal eco-town with industrial parks. The Group has successfully developed and acquired an area of approximately 670,000 sq.m. for the land parcel of the industrial parks. The Group believes that the project will become another profitable growth point for the Group.

In 2017, the Group will continue to promote the development progress of the projects steadily, so as to provide the Group with sufficient area available for sale. In 2017, the Group and its joint ventures expect to launch 11 projects for pre-sales. Most of them are located in first- and second-tier cities, including The Paramount and Jade Plaza in Beijing, Sky Horizon, The Glamour and The Paramount in Shanghai, Royal Palace and Garden Terrace in Tianjin, International Finance Centre Phase 2, Gold Coast Phase 3, Nan'an World City and SCE Mall (Shishi) Phase 2 in Quanzhou.

2017 marks the milestone of the Group's development. This year, the Group has relocated its headquarters to Shanghai for its business operations in response to the in-depth arrangement of the Yangtze River Delta strategic approach. The Company will continue to strengthen the control model of its headquarters and constantly deepen the organisational management reform so as to achieve significant breakthroughs in terms of strategies, processes and the establishment of human resources, while further optimise the operational management. The Group believes that with Shanghai as the base, the Group will achieve a greater leap in its development of the Group by gathering the advantages of the resources and talents in the first-tier city, focusing on fine operations and intensive regional development. The coming year is bound to be a year full of opportunities and challenges. The Group looks forward to working with all our employees together under the new environment so as to achieve outstanding results!

APPRECIATION

Last but not least, on behalf of the Board, I would like to express our sincere appreciation to all staff of the Company, our shareholders, clients and business partners!

Wong Chiu Yeung
Chairman

Hong Kong, China
27 February 2017

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2016, both the domestic and international situations were complicated. The global economy was still in the process of slow recovery, while the macroeconomic environment in China has been experiencing a cyclical slowdown. In the first half of the year, the People's Bank of China had extended the monetary easing policies, reduced the required reserve ratio and relaxed the loan policies. Regarding the real estate market, the Central Government adopted policies such as interest rate reduction, tax reduction and down payment reduction, which facilitated the strong growth of the real estate market in the first- and second-tier cities. However, the problem of high stocking in the third- and fourth-tier cities remained difficult to solve. In the second half of the year, in order to suppress the upsurge of the housing prices in the popular first- and second-tier cities and to rectify the chaotic situation in the market, the local governments had to implement the control policy of restrictions on property purchase and mortgage loans again, while preferential policies remained effective in the third- and fourth-tier cities to encourage destocking. In general, throughout 2016, the real estate market in China recorded active trading in the first- and second-tier popular cities, and structural imbalance with high level of stock in the third- and fourth-tier cities. Timely adjustments were needed in both situations.

From the perspective of the economic data of the real estate market, according to the "National Real Estate Development and Sales in 2016" (《2016年全國房地產開發投資和銷售情況》) issued by the National Bureau of Statistics of the PRC, the sales area of national commodity housing amounted to approximately 1.573 billion sq.m. in 2016, representing an increase of 22.5% as compared with that of last year, of which the sales area of residential housing increased by 22.4% year-on-year. The sales amount of national commodity housing amounted to approximately RMB11,762.7 billion, representing a year-on-year increase of 34.8%, of which the sales amount of residential housing increased by 36.1% as compared with that of last year.

BUSINESS REVIEW

Contracted Sales

During the year, under the strategic guidance of "Focusing on first-tier cities and quality second-tier cities", the Group launched the project sales in the first- and second-tier cities comprehensively to achieve a leapfrog development in the business results. During the year of 2016, the Group (together with its joint ventures and associates) outperformed 51.8% of the annual sales target of RMB15.5 billion and achieved record-high contracted sales amount reaching approximately RMB23.524 billion (including a contracted sales of approximately RMB7.744 billion from joint ventures and associates) and contracted sales area of approximately 1.66 million sq.m. (including a contracted sales area of approximately 328,000 sq.m. from joint ventures and associates) for the year, representing an increase of approximately 62.1% and 33.1% as compared with that of last year, respectively. The average selling price of properties was approximately RMB14,172 per sq.m. in the year, representing an increase of approximately 21.8% as compared with that of last year.

Quanzhou • Sunshine Town

MANAGEMENT DISCUSSION AND ANALYSIS

In 2016, the Group and its joint ventures had launched 11 new projects in the market, namely Polaris and Sunshine Mansion in Beijing, SCE Plaza Phase 2 and The Royal Bay in Shanghai, Sunshine City Phase 2 in Shenzhen, Marina Bay and City Twilight in Tianjin, The Royal Green in Hangzhou, Uptown in Nanchang and SCE Plaza and Sunshine Park Phase 2 in Quanzhou. With the support of the Group's strategic ideas, the contracted sales of Shanghai located in Yangtze River Delta Economic Zone had a substantial increase in its contribution, reaching 32.4%.

The contracted sales realised by the Group (together with its joint ventures and associates) during the year are set out below:

By City

City	Contracted Sales Area (sq.m.)	Contracted Sales Amount (RMB Million)	Percentage of Contracted Sales Amount (%)
Beijing	43,554	604	2.6
Shanghai	220,373	7,629	32.4
Shenzhen	50,642	1,667	7.2
Tianjin	114,025	2,068	8.8
Hangzhou	95,465	806	3.4
Xiamen	81,958	1,841	7.8
Nanchang	108,488	857	3.6
Quanzhou	475,491	3,560	15.1
Zhangzhou	218,480	2,047	8.7
Yanjiao	78,793	1,373	5.8
Linfen	90,418	581	2.5
Others	82,242	491	2.1
Total	1,659,929	23,524	100.0

From the perspective of distribution of contracted sales by city, the performance of Shanghai was remarkable among the first-tier cities with satisfactory sales performance in its on-sale projects. According to the "Ranking of Attributable Sales Amount of Real Estate Enterprises in Shanghai in 2016" (2016年度上海房企銷售權益金額排行榜) published by the research centre of China Real Estate Information Corporation, China SCE ranked 12th. The Group also achieved outstanding performance in Tianjin, with contracted sales amounts of approximately RMB2.068 billion. In addition, benefited from spillover effects of the popular cities, the projects of the Group launched in the third- and fourth-tier cities achieved satisfactory results in terms of sales, in which, the contracted sales amount in Quanzhou, Zhangzhou and Yanjiao accounted for approximately 15.1%, 8.7% and 5.8%, respectively, of the contracted sales amount of the Group (together with its joint ventures and associates) during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

By Region

Region	Contracted Sales Area (sq.m.)	Contracted Sales Amount (RMB Million)	Percentage of Contracted Sales Amount (%)
Yangtze River Delta Economic Zone	315,838	8,435	35.8
West Taiwan Strait Economic Zone	922,580	8,525	36.2
Bohai Rim Economic Zone	370,869	4,897	20.8
Pearl River Delta Economic Zone	50,642	1,667	7.2
Total	1,659,929	23,524	100.0

From the perspective of distribution of contracted sales by region, Yangtze River Delta Economic Zone was almost at the same level with West Taiwan Strait Economic Zone and became a huge potential growth contributor of the Group (together with its joint ventures and associates) accounting for approximately 35.8% of the contracted sales. Bohai Rim Economic Zone achieved satisfactory results and contributed approximately 20.8% to contracted sales. The contracted sales amount of West Taiwan Strait Economic Zone increased by approximately 24.9% to over RMB8.5 billion as compared with that in 2015. Benefited from spillover effects of the market in Xiamen and flexible sales strategies, Quanzhou and Zhangzhou achieved remarkable contracted sales of approximately RMB3.560 billion and RMB2.047 billion respectively, representing a year-on-year increase of approximately 9.1% and 105.8% respectively.

Zhangzhou • Sapphire Boomtown

MANAGEMENT DISCUSSION AND ANALYSIS

By City Tier

City Tier	**Contracted Sales Area** (sq.m.)	**Contracted Sales Amount** (RMB Million)	**Percentage of Contracted Sales Amount** (%)
First-tier cities	314,569	9,900	42.2
Second-tier cities	399,936	5,572	23.6
Third- and fourth-tier cities	945,424	8,052	34.2
Total	1,659,929	23,524	100.0

From the perspective of contracted sales amount, it can be seen that the contracted sales amount from the first-tier cities recorded a significant increase as compared with that of last year and ranked first among different city tiers. It is expected that there will be further growth in the future. The aggregated contracted sales amount from the first- and second-tier cities amounted to approximately 65.8%. With new projects in the first- and second-tier cities being launched into the market on an on-going basis, the proportion of contracted sales of the Group in the first- and second-tier cities will continue to be enlarged.

Quanzhou • SCE Mall

MANAGEMENT DISCUSSION AND ANALYSIS

Recognised Property Sales Income

In 2016, the Group recorded satisfactory results in recognising property sales income. The Group achieved the area of properties delivered of 1,392,504 sq.m. and recognised property sales income of approximately RMB11.705 billion, representing a year-on-year increase of approximately 3.4% and 11.9% respectively. The average selling price of properties was approximately RMB8,406 per sq.m. and details of the Group's recognised property sales income are as follows:

By City

City	Recognised Property Sales Area (sq.m.)	Recognised Property Sales Income (RMB Million)	Percentage of Recognised Property Sales Income (%)
Shanghai	42,207	2,312	19.8
Shenzhen	33,410	400	3.4
Nanchang	218,986	1,600	13.7
Quanzhou	427,554	2,515	21.5
Zhangzhou	291,787	1,998	17.1
Longyan	59,007	320	2.7
Yanjiao	197,719	1,792	15.3
Linfen	62,832	366	3.1
Others	59,002	402	3.4
Total	1,392,504	11,705	100.0

Quanzhou • Sunshine Town

Shenzhen • Sunshine City

By Region

Region	**Recognised Property Sales Area** (sq.m.)	**Recognised Property Sales Income** (RMB Million)	**Percentage of Recognised Property Sales Income** (%)
Yangtze River Delta Economic Zone	42,207	2,312	19.8
West Taiwan Strait Economic Zone	999,662	6,441	55.0
Bohai Rim Economic Zone	317,225	2,552	21.8
Pearl River Delta Economic Zone	33,410	400	3.4
Total	1,392,504	11,705	100.0

By City Tier

City Tier	**Recognised Property Sales Area** (sq.m.)	**Recognised Property Sales Income** (RMB Million)	**Percentage of Recognised Property Sales Income** (%)
First-tier cities	76,243	2,727	23.3
Second-tier cities	221,314	1,609	13.7
Third- and fourth-tier cities	1,094,947	7,369	63.0
Total	1,392,504	11,705	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Project Development

In 2016, 8 projects of the Group in total officially commenced construction. All of which were located in the first- and second-tier cities. These projects included Polaris and Sunshine Mansion in Beijing, SCE Plaza Phase 2, Sky Horizon and The Royal Bay in Shanghai, Marina Bay in Tianjin, The Royal Green in Hangzhou and Uptown in Nanchang. The aggregate planned GFA of the properties newly commenced exceeded 1.05 million sq.m.. Each of the projects was carried out for construction in an orderly manner to ensure sufficient supply of stocks in the future.

As at 31 December 2016, the Group and its joint ventures had a total of 19 projects under construction with an aggregate planned GFA of approximately 2.24 million sq.m. and details of which are as follows:

Project Name	City	Type of Property	Percentage of Interest Attributable to the Group (%)	Total Planned GFA (sq.m.)	Expected Year of Completion
Polaris	Beijing	High-rise residential and SOHO apartments	100	45,174	2018
Sunshine Mansion	Beijing	Low-rise residential	100	63,600	2018
SCE Plaza (Phase 2)	Shanghai	SOHO apartments	50	42,255	2018
Marina Bay	Shanghai	High-rise residential and villas	100	130,781	2017
Sky Horizon	Shanghai	High-rise residential, low-rise residential, LOFT apartments and retail shops	100	47,325	2018
The Royal Bay	Shanghai	Villas and retail shops	100	108,124	2018/2019
Sunshine City (Phase 2)	Shenzhen	High-rise residential and retail shops	82	72,754	2017
Marina Bay	Tianjin	Low-rise residential and villas	100	153,504	2018
The Royal Green	Hangzhou	High-rise residential and retail shops	100	181,525	2018
Uptown	Nanchang	High-rise residential, SOHO apartments, LOFT apartments and retail shops	100	214,680	2018
SCE Plaza	Quanzhou	SOHO apartments, office and retail shops	100	133,529	2017/2018
Gold Coast (Phase 1) (Partial)	Quanzhou	High-rise residential and retail shops	45	72,572	2019
SCE Mall (Shishi) (Phase 2)	Quanzhou	High-rise residential, SOHO apartments and retail shops	60	142,978	2019
Sunshine Park (Phase 2)	Quanzhou	High-rise residential and retail shops	51	129,613	2017
Sapphire Residences	Quanzhou	High-rise residential and retail shops	100	163,885	2017
Sapphire Boomtown (Phase 3) (Partial)	Zhangzhou	High-rise residential	100	26,038	2018
Sunshine City (Phase 3)	Zhangzhou	High-rise residential and retail shops	75	160,137	2017
Sunshine City (Phase 2)	Yanjiao	High-rise residential and retail shops	55	181,957	2017
SCE International Community (Phase 4)	Linfen	High-rise residential and retail shops	70	173,003	2018
Total				2,243,434	

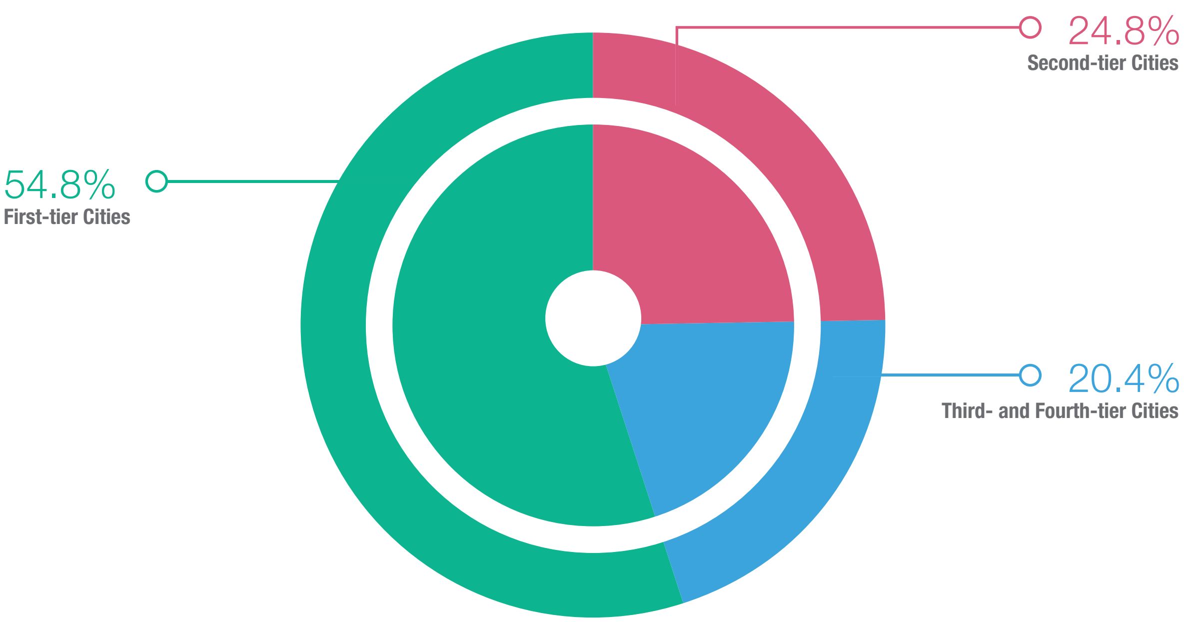
MANAGEMENT DISCUSSION AND ANALYSIS

Land Bank

Increasing land bank in a timely manner is an important and integral part of the development strategy of the Group, which is also the fundamental assurance for providing the Group with adequate stocks available for sale. In 2016, vigorous land markets were driven by the prosperous real estate market in China, leading to the frequent emergence of "Prime Land". In order to control the land cost, the Group would never acquire land with high premium without proper justification. Apart from the bidding of land in open tender, the Group will expand its land bank flexibly through acquisition. In 2016, the Group continued to acquire 9 projects in first-tier cities and quality second-tier cities located in Beijing, Shanghai, Tianjin, Nanjing, Hangzhou and Suzhou, respectively, with an aggregate above-ground GFA of approximately 1.68 million sq.m., at an aggregate land consideration of approximately RMB11.6 billion. The average land cost was approximately RMB7,166 per sq.m. Among which, Nanjing, Hangzhou and Suzhou were the cities where the Group entered into for the first time.

As at 31 December 2016, the Group and its joint ventures had a land bank with an aggregate planned GFA of approximately 9.10 million sq.m., of which, the aggregate planned GFA attributable to the Group was approximately 6.89 million sq.m.. As for geographic distribution, there was a significant change in the proportion of land banks located in different economic zones of the Group and its joint ventures, of which, the area of land bank located in the West Taiwan Strait Economic Zone, the Bohai Rim Economic Zone, the Yangtze River Delta Economic Zone and the Pearl River Delta Economic Zone accounted for approximately 41.1%, 37.1%, 20.0% and 1.8% of total land bank area of the Group and its joint ventures, respectively. In terms of land bank cost (excluding investment properties), the Group and its joint ventures increased their investment in first- and second-tier cities. The cost of land bank in first- and second-tier cities increased by approximately 49.5% as compared with that of last year. The cost of land bank located in first-tier cities, second-tier cities as well as third- and fourth-tier cities accounted for approximately 54.8%, 24.8% and 20.4% of total land bank cost of the Group and its joint ventures, respectively.

Land Bank Cost by City Tier



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The revenue of the Group mainly derives from sales of properties, rental income, property management fees, land development income and project management income.

The annual revenue increased by approximately 16.8% from approximately RMB10,690,080,000 in 2015 to approximately RMB12,480,683,000 in 2016, which was attributable to the increase in property sales income.

- **Sales of properties**

  Income from property sales increased by approximately 11.9% from approximately RMB10,460,796,000 in 2015 to approximately RMB11,705,120,000 in 2016. Delivered area increased by approximately 3.4% from 1,346,185 sq.m. in 2015 to 1,392,504 sq.m. in 2016. The average unit selling price increased from approximately RMB7,771 per sq.m. in 2015 to approximately RMB8,406 per sq.m. in 2016.

- **Rental income**

  Rental income increased by approximately 16.8% from approximately RMB116,970,000 in 2015 to approximately RMB136,636,000 in 2016, which was mainly attributable to the increase in contribution of rental income from shopping mall of World City in Beijing.

- **Property management fees**

  Property management fees increased significantly by approximately 47.2% from approximately RMB112,314,000 in 2015 to approximately RMB165,335,000 in 2016, which was mainly attributable to the increase in number and floor area of properties under management.

- **Land development income**

  During the year, the Group recognised land development income of approximately RMB397,490,000, which was attributable to pre-construction and preparation work provided for certain land parcels in Quanzhou.

- **Project management income**

  During the year, the Group recognised project management income of approximately RMB76,102,000, which was attributable to the project management service and other property related service provided to a joint venture.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit

Gross profit increased by approximately 3.8% from approximately RMB3,010,582,000 in 2015 to approximately RMB3,125,693,000 in 2016. Gross profit margin decreased from approximately 28.2% in 2015 to approximately 25.0% in 2016. The decrease in gross profit margin was attributable to higher proportion of mid-end products with relatively lower gross profit margin delivered during the year.

Other Income and Gains

Other income and gains increased significantly by approximately 3.3 times from approximately RMB80,165,000 in 2015 to approximately RMB341,472,000 in 2016. The increase in other income and gains was mainly attributable to the inclusion of gain on bargain purchase and fair value gain of derivative financial instruments — transactions not qualifying as hedges of approximately RMB43,977,000 and RMB139,821,000, respectively, in 2016, while there was no such gain in 2015.

Changes in Fair Value of Investment Properties

The fair value gains of investment properties increased significantly by approximately 37.8% from approximately RMB398,022,000 in 2015 to approximately RMB548,382,000 in 2016. The changes in the fair value of investment properties during the year was mainly attributable to the addition of the office building of Skyline Tower in Shanghai and a building of SOHO apartments of Fortune Plaza • World City in Quanzhou.

Selling and Marketing Expenses

Selling and marketing expenses increased significantly by approximately 35.3% from approximately RMB300,828,000 in 2015 to approximately RMB407,116,000 in 2016. The increase in selling and marketing expenses during the year was mainly attributable to the increase in the number of projects launched for pre-sale.

Administrative Expenses

Administrative expenses increased by approximately 18.4% from approximately RMB398,479,000 in 2015 to approximately RMB471,771,000 in 2016. The increase in administrative expenses during the year was mainly attributable to the increase in administrative staff costs to cope with the needs for business expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

Finance costs increased by approximately 17.8% from approximately RMB269,041,000 in 2015 to approximately RMB316,894,000 in 2016. Finance costs mainly represented partial borrowing costs which have not been capitalised as certain funds have not been used for project developments. Due to the increase in bank and other borrowings (including senior notes and domestic bonds), total interest expense increased by approximately 3.7% from approximately RMB1,119,351,000 in 2015 to approximately RMB1,161,231,000 in 2016. Although total interest expense increased, weighted average financing cost decreased to approximately 6.8%. Such decrease in weighted average financing cost was mainly due to the replacement of high-cost trust loans and senior notes with low-cost domestic bonds and a syndicated loan.

Share of Profits and Losses of Joint Ventures

Share of profits of joint ventures increased significantly by approximately 6.3 times from approximately RMB110,080,000 in 2015 to approximately RMB803,593,000 in 2016. The increase was mainly attributable to the delivery of a project of a joint venture and the fair value gains of its investment properties.

Income Tax Expense

Income tax expense for the year amounted to approximately RMB1,053,334,000, which was compared to that of last year of approximately RMB980,435,000. The percentage of income tax expense charged for the year as a percentage of revenue decreased from approximately 8.7% in 2015 to approximately 8.2% in 2016. The decrease was mainly due to higher proportion of mid-end products with relatively lower gross profit margin delivered during the year.

Profit for the Year

Profit for the year increased significantly by approximately 55.6% from approximately RMB1,568,544,000 in 2015 to approximately RMB2,440,451,000 in 2016. It was mainly attributable to the significant increase in the profit contribution from a joint venture.

Profit Attributable to Owners of the Parent

Profit attributable to owners of the parent increased significantly by approximately 125.6% from approximately RMB918,660,000 in 2015 to approximately RMB2,072,284,000 in 2016. Core profit attributable to owners of the parent increased significantly by approximately 80.0% to approximately RMB1,380,107,000 in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash Position

As at 31 December 2016, the Group's cash and bank balances were denominated in different currencies as set out below:

	2016 **RMB'000**	2015 RMB'000
Renminbi	**8,534,948**	5,881,050
Hong Kong dollars	**13,968**	78,199
US dollars	**53,842**	287,779
Total cash and bank balances	**8,602,758**	6,247,028

According to the relevant laws and regulations of the PRC, certain property development companies of the Group are required to place certain amounts of cash and bank deposits into designated bank accounts to provide guarantees for the development of the relevant properties. The Group also places certain deposits in banks in the PRC to secure certain bills issued from banks in the PRC. As at 31 December 2016, the amount of restricted cash and pledged deposits was approximately RMB1,128,823,000 (31 December 2015: approximately RMB989,957,000) and approximately RMB261,941,000 (31 December 2015: approximately RMB421,992,000), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowings and Pledged Assets

The maturity of the borrowings of the Group as at 31 December 2016 is as follows:

	2016 RMB'000	2015 RMB'000
Bank and other borrowings:		
Within one year or on demand	**3,427,434**	3,840,519
In the second year	**3,062,222**	1,641,515
In the third to fifth years, inclusive	**5,930,730**	980,770
	12,420,386	6,462,804
Senior notes and domestic bonds:		
In the second year	**–**	2,301,335
In the third to fifth years, inclusive	**5,857,969**	5,688,146
	5,857,969	7,989,481
Total borrowings	**18,278,355**	14,452,285

The borrowings were denominated in different currencies as set out below:

	2016 RMB'000	2015 RMB'000
Bank and other borrowings:		
Renminbi	**9,403,960**	4,336,683
Hong Kong dollars	**113,025**	706,298
US dollars	**2,903,401**	1,419,823
	12,420,386	6,462,804
Senior notes and domestic bonds:		
Renminbi	**3,470,293**	3,463,811
US dollars	**2,387,676**	4,525,670
	5,857,969	7,989,481
Total borrowings	**18,278,355**	14,452,285

As at 31 December 2016, approximately RMB9,409,925,000 (31 December 2015: approximately RMB5,930,085,000) of bank and other borrowings was secured by the Group's bank deposits, property and equipment, investment properties, prepaid land lease payments, properties under development and completed properties held for sale with a total carrying value of approximately RMB18,867,129,000 (31 December 2015: approximately RMB12,262,961,000), and capital stocks of certain subsidiaries. The senior notes of US$350 million at a coupon rate of 10.0% due 2020 issued in July 2015 (the "2015 Senior Notes") and approximately RMB2,733,292,000 (31 December 2015: approximately RMB532,719,000) of bank and other borrowings were guaranteed by certain subsidiaries of the Company and secured by pledges over their capital stocks.

As at 31 December 2016, except for certain bank and other borrowings of approximately RMB5,175,000,000 (31 December 2015: approximately RMB1,725,770,000) bearing interest at fixed interest rate, all the Group's bank and other borrowings bear interest at floating interest rate. The 2015 Senior Notes, the domestic corporate bonds of RMB2 billion at a coupon rate of 5.18% due 2020 issued in October 2015 and the domestic corporate bonds of RMB1.5 billion at a coupon rate of 5.3% due 2020 issued in December 2015 bear interest at fixed interest rates.

Gearing Ratio

The net gearing ratio was calculated by dividing the net amount of borrowings (including bank and other borrowings, senior notes and domestic bonds after deduction of cash and cash equivalents, restricted cash and pledged deposits) by total equity. As at 31 December 2016, the net gearing ratio was 80.2% (31 December 2015: 70.7%).

Exchange Rate Fluctuation Exposures

The Group's business are located in the PRC and all of the Group's revenue and substantially all of the Group's operating expenses are denominated in RMB. The majority of the Group's assets and liabilities are denominated in RMB. As at 31 December 2016, except for certain bank deposits, bank and other borrowings and the 2015 Senior Notes which were denominated in foreign currencies, exchange rate changes of RMB against foreign currencies will not have material adverse effect on the results of operations of the Group.

During 2016, the Group had entered into certain capped forward cross currency swap contracts to mitigate the currency risk exposure of foreign currency denominated indebtedness. As at 31 December 2016, the Group had entered into capped forward cross currency swap contracts with an aggregate contract amount of US$650 million. Save as disclosed above, no other foreign currency hedging arrangement was made as at 31 December 2016. The Group will closely monitor its exposure to fluctuation in foreign currency exchange rates.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2016, the Group provided financial guarantees to the banks in respect of the following items:

	2016 **RMB'000**	2015 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the Group's properties	**11,845,901**	11,363,195

In addition, the Group's share of the joint ventures' own financial guarantees, which are not included in the above, is as follows:

	2016 **RMB'000**	2015 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the joint ventures' properties	**238,418**	228,818

Furthermore, as at 31 December 2016, the Group provided guarantee to a bank in connection with a loan amount of RMB731,000,000 (31 December 2015: RMB2,080,000,000) granted to a joint venture.

CAPITAL COMMITMENTS

As at 31 December 2016, the capital commitments of the Group are as follows:

	2016 **RMB'000**	2015 RMB'000
Contracted, but not provided for:		
Capital expenditure for properties under development, prepaid land lease payments and construction of investment properties in Mainland China	**10,316,388**	7,902,863

In addition, the Group's share of the joint ventures' own capital commitments, which are not included in the above, is as follows:

	2016 **RMB'000**	2015 RMB'000
Contracted, but not provided for:		
Capital expenditure for joint ventures' properties under development and construction of investment properties in Mainland China	**213,796**	365,210

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2016, the Group had a total of 3,554 employees (31 December 2015: 2,904 employees). During the year, the total cost of employees was approximately RMB341,677,000 (2015: approximately RMB253,366,000). The Group provides employees with competitive remuneration and benefits and has adopted a share option scheme to provide incentives and rewards to, among others, the employees (please refer to the section headed "Report of the Directors — Share Option Scheme" of this annual report for further details of the share option scheme). The remuneration policy is reviewed on a regular basis based on the performance and contribution of the employees and the industry remuneration level. In addition, the Group also provides various training courses to enhance its employees' skills and capabilities in all aspects. The Group has launched its management trainee programme since 2011 for positions in selected functional areas in order to build pipeline for succession.

Shenzhen • Sunshine City

MANAGEMENT DISCUSSION AND ANALYSIS

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the senior management of the Group by band and the respective number of persons for the year ended 31 December 2016 are set out below:

Remuneration Bands	Number of Persons
RMB500,001 to RMB1,000,000	**4**
RMB1,000,001 to RMB1,500,000	**2**
RMB1,500,001 to RMB2,000,000	**6**

Further details of Directors' remuneration and the five highest paid employees are set out in note 9 and 10 to the financial statements, respectively.

ENVIRONMENTAL POLICIES AND PERFORMANCE

China SCE actively fulfils its social responsibilities of protecting the environment and plays an exemplary role by undertaking the mission of promoting social environmental protection activities. China SCE gives due consideration to environmental philosophy in various aspects of its business, including construction works, fitting-out works, landscaping and property management, and incorporates environmentally friendly practices into its daily course of business to save energy and reduce emissions, performing its commitments and obligations of protecting the environment in all aspects and contributing to creating a green and harmonious society. Such environmental initiatives include but not limited to dust control, noise control, saving water and energy conservation and handling construction waste properly as well as using environmental materials.

In accordance with Rule 13.91 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), the Company will publish an Environmental, Social and Governance ("ESG") Report within three months after the publication of this annual report in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group's business is mainly operated by its subsidiaries in the British Virgin Islands, Hong Kong and the PRC and the Company was incorporated in the Cayman Islands and is a listed company on the Main Board of the Hong Kong Stock Exchange. Therefore, the Group should comply with relevant laws and regulations of the Cayman Islands, British Virgin Islands, PRC and Hong Kong. The Group will seek for professional legal opinions from its Legal Department and legal advisors when necessary to ensure that the Group's transactions and business are in conformity with all applicable laws and regulations.

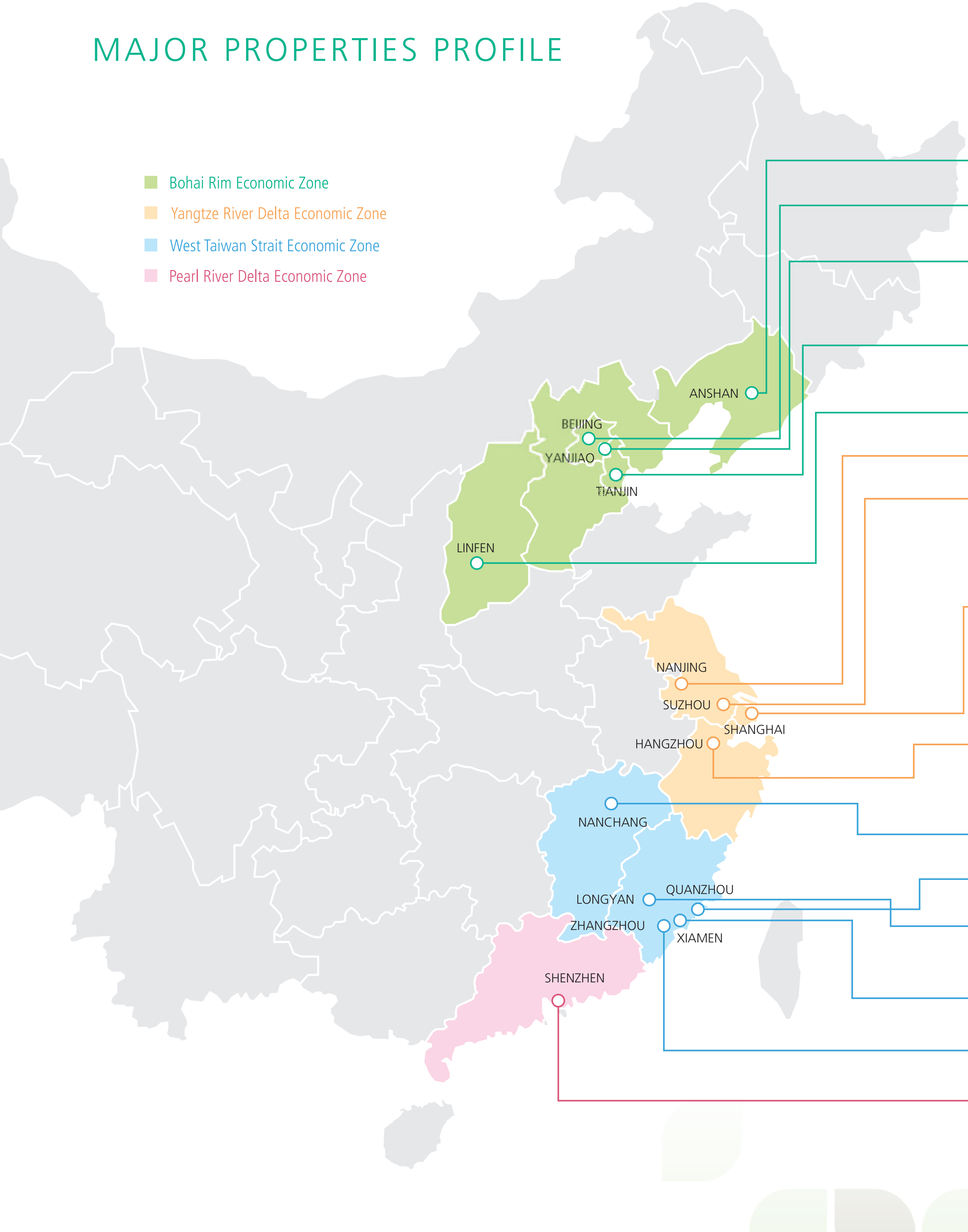
KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

China SCE always adheres to the principle that "People Are The Most Important Resources" and the policy of "Human-Based Management". China SCE recognises value of its employees, and pays much attention to their development, bringing their potentials into play and encouraging them to learn and grow, with a view to stimulating employees' personal growth through corporate development and promoting corporate progress through employee development, thus achieving win-win situation for the Group and its employees.

The Group maintains a solid relationship with its existing and prospective customers, which plays a vital role in the development and success of the Group. The Group's "SCE Club" ("中駿會") is established for such purpose. By persisting on the idea and objective of "Leading a Life Full of Love and Thoughtful Services (愛心生活，用心服務)", as well as serving the customers, SCE Club is committed to reinforcing communications and contacts between China SCE and its customers. As the Group instantly and attentively heeds its customers' advice and recommendations for China SCE, it has a solid foundation for introducing more premium properties that satisfy the community demand. In addition, China SCE builds customer trust and realises its branding strategy by providing excellent aftersales services, as well as committing to customised aftersales services of high standards.

The Group also establishes long-term collaboration with international prominent designers in architecture and landscape and famous construction contractors, while maximising its efforts to ensure its adherence to the objective of providing customers with premium properties. The Group selects qualified construction contractors through tender process in accordance with applicable laws and regulations, and conducts thorough due diligence review over such contractors. Successful tenderers are selected based on a variety of factors, including costs, construction completion schedule, quality performance of construction projects, construction planning, manpower distribution, safety measures and standards, equipment and facilities and the industrial experience of project managers.

MAJOR PROPERTIES PROFILE



Anshan:
Royal Spring City • Spring Villa
Royal Spring City (Except Phase 1)

Yanjiao:
Sunshine City Phase 2

Tianjin:
Marina Bay
Royal Palace
Garden Terrace

Nanjing:
Nanjing Project

Shanghai:
The Prestige
SCE Plaza Phase 1
SCE Plaza Phase 2
Marina Bay
Sky Horizon
The Royal Bay
The Glamour
The Paramount

Hangzhou:
The Royal Green

Nanchang:
Sapphire Boomtown
Uptown

Longyan:
Sapphire Boomtown

Xiamen:
SCE Building Phase 1
SCE Building Phase 2

Shenzhen:
Sunshine City Phase 2
Sunshine City Phase 3

Beijing:
World City
Polaris
Sunshine Mansion
Royal Terrace
The Paramount

Linfen:
SCE International Community Phase 3
SCE International Community Phase 4
SCE International Community (Except Phases 1-4)

Suzhou:
Suzhou Project

Quanzhou:
The Regent
Fortune Plaza • World City
Fortune Plaza • Marina Bay
Fortune Plaza • Imperial Terrace
SCE Mall
International Finance Centre
SCE Plaza
SCE Mall (Shishi)
Gold Coast Phase 1
Gold Coast Phase 2
Gold Coast (Except Phases 1&2)
Sunshine Park Phase 1
Sunshine Park Phase 2
Sapphire Residences
Sunshine Town Phase 2
Parkview Bay
World City (Nan'an)

Zhangzhou:
Sapphire Boomtown Phase 2
Sapphire Boomtown Phase 3
Sunshine City Phase 1
Sunshine City Phase 2
Sunshine City Phase 3

MAJOR PROPERTIES PROFILE

BEIJING

WORLD CITY

Located at Jinhui Road, Chaoyang District, Beijing

Type of property

Shopping mall

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Investment properties	31,192	N/A

POLARIS

Located at Dewai Avenue, Xicheng District, Beijing

Type of property

High-rise residential and SOHO apartments

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	45,174	2018

SUNSHINE MANSION

Located at Baishan Town in Changping District, Beijing

Type of property

Low-rise residential

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	63,600	2018

MAJOR PROPERTIES PROFILE

ROYAL TERRACE

Located at Baishan Town in Changping District, Beijing

Type of property

SOHO apartments

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties held for future development	20,340	2019

THE PARAMOUNT

Located at Longquan Town, Mentougou District, Beijing

Type of property

High-rise residential, low-rise residential and retail shops

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties held for future development	340,823	2019

SHANGHAI

THE PRESTIGE

Located at the junction of Xincun Road and Wanquan Road, Wanli Community, Putuo District, Shanghai

Type of property

High-rise residential, villas and retail shops

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Completed Properties held for sale	21,762	N/A

MAJOR PROPERTIES PROFILE

SCE PLAZA PHASES 1&2

Located at the junction of Ninghong Road and Shenchang Road, Hongqiao Central Business District, Shanghai

Type of property

Office, SOHO apartments and retail shops

Percentage of interest attributable to the Group

50%

	Planned GFA (sq.m.)	Expected Year of Completion
Investment properties	137,733	N/A
Completed properties held for sale	60,869	N/A
Properties under development	42,255	2018

MARINA BAY

Located at the southeastern intersection of Linhai Road and Shangnan Road, Pudong New District, Shanghai

Type of property

High-rise residential and villas

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	130,781	2017

SKY HORIZON

Located at the junction of Guchuan Road and Lanxi Road, Zhenru Town, Putuo District, Shanghai

Type of property

High-rise residential, low-rise residential, LOFT apartments and retail shops

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Investment properties	55,929	N/A
Properties under development	47,325	2018

THE ROYAL BAY

Located at Zhu Jia Jiao, Qingpu District, Shanghai

Type of property

Villas and retail shops

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	108,124	2018 to 2019

THE GLAMOUR

Located at Xujing Town, Qingpu District, Shanghai

Type of property

High-rise residential and low-rise residential

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties held for future development	19,797	2019

THE PARAMOUNT

Located at Xujing Town, Qingpu District, Shanghai

Type of property

High-rise residential, office and retail shops

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties held for future development	70,565	2019

MAJOR PROPERTIES PROFILE

SHENZHEN

SUNSHINE CITY PHASE 2

Located at Tongle Community, Longgang Road, Longgang District, Shenzhen

Type of property
High-rise residential and retail shops
Percentage of interest attributable to the Group
82%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	72,754	2017

TIANJIN

MARINA BAY

Located at south of Jinghua Road, Jingwu Town, Xiqing District, Tianjin

Type of property
Low-rise residential and villas
Percentage of interest attributable to the Group
100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	153,504	2018

ROYAL PALACE

Located at Zhangjiawo Town, Xiqing District, Tianjin

Type of property
High-rise residential, low-rise residential and villas
Percentage of interest attributable to the Group
100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties held for future development	187,055	2019

MAJOR PROPERTIES PROFILE

GARDEN TERRACE

Located at Tuanbo New City, Jinghai District, Tianjin

Type of property

High-rise residential

Percentage of interest attributable to the Group

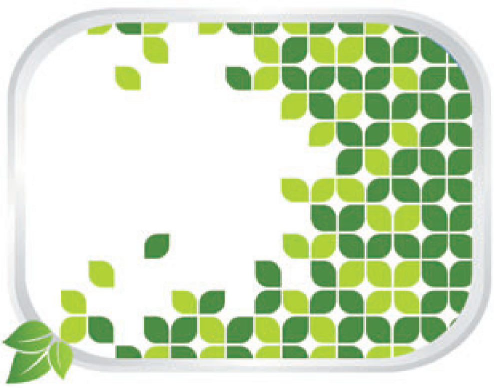
100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties held for future development	287,664	2019 to 2020

NANJING

NANJING PROJECT

Located at Xincheng Avenue, Jiangning District, Nanjing



Type of property

SOHO apartments

Percentage of interest attributable to the Group

64%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties held for future development	359,880	2019

HANGZHOU

THE ROYAL GREEN

Located at Economic and Technological Development Zone, Xiaoshan District, Hangzhou

Type of property

High-rise residential and retail shops

Percentage of interest attributable to the Group

100%

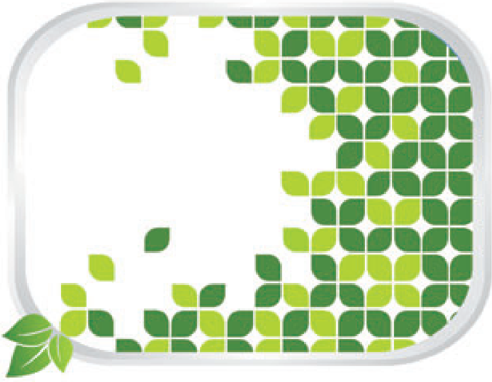
	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	181,525	2018

MAJOR PROPERTIES PROFILE

SUZHOU

SUZHOU PROJECT

Located at Huaqiao Town, Kunshan, Suzhou



Type of property

High-rise residential, SOHO apartments and retail shops

Percentage of interest attributable to the Group

85%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties held for future development	582,658	2020 to 2022

XIAMEN

SCE BUILDING PHASES 1&2

Located at Nanwu Road, Gaoqi, Xiamen

Type of property

Office and retail shops

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Investment properties	38,277	N/A

NANCHANG

UPTOWN

Located to the east of Guidian Road and the south of Laozhou Street in Chaoyang New City, Nanchang

Type of property

High-rise residential, SOHO apartments, LOFT apartments and retail shops

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	214,680	2018

MAJOR PROPERTIES PROFILE

QUANZHOU

FORTUNE PLAZA • WORLD CITY

Located at south of Straits Sports Centre, northwest of Anji Road, Fengze District, Quanzhou

Type of property

Shopping mall, SOHO apartments and retail shops

Percentage of interest attributable to the Group

58%

	Planned GFA (sq.m.)	Expected Year of Completion
Investment properties	191,522	N/A
Completed properties held for sale	15,430	N/A

FORTUNE PLAZA • IMPERIAL TERRACE

Located at south of Straits Sports Centre, west of Anji Road, Fengze District, Quanzhou

Type of property

High-rise residential, SOHO apartments, office, hotel and retail shops

Percentage of interest attributable to the Group

58%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties held for future development	267,634	2020

SCE MALL

Located at Gudian Community of Jinlong Avenue, Licheng District, Quanzhou

Type of property

High-rise residential, SOHO apartments, office, fruit wholesale market and retail shops

Percentage of interest attributable to the Group

60%

	Planned GFA (sq.m.)	Expected Year of Completion
Investment properties	58,264	N/A
Completed properties held for sale	72,840	N/A

MAJOR PROPERTIES PROFILE

INTERNATIONAL FINANCE CENTRE

Located in the southern part of Baozhou Road East section, Quanzhou

Type of property

High-rise residential, SOHO apartments, office and retail shops

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Investment properties	11,511	N/A
Completed properties held for sale	32,512	N/A
Properties held for future development	148,804	2019

SCE PLAZA

Located at east of Pingshan Road, Fengze District, Quanzhou

Type of property

SOHO apartments, office and retail shops

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	133,529	2017 to 2018

SCE MALL (SHISHI)

Located at south of Baodao West Road and west of Zhenzhong Road, Shishi, Quanzhou

Type of property

High-rise residential, SOHO apartments, office and retail shops

Percentage of interest attributable to the Group

60%

	Planned GFA (sq.m.)	Expected Year of Completion
Completed properties held for sale	54,941	N/A
Properties under development	142,978	2019

MAJOR PROPERTIES PROFILE

GOLD COAST

Located at Yongning Town, Shishi, Quanzhou

Type of property

High-rise residential, villas, low-rise residentials, SOHO apartments, retail shops, commercial and tourism related integrated development

Percentage of interest attributable to the Group

45%

	Planned GFA (sq.m.)	Expected Year of Completion
Investment properties	15,866	N/A
Completed properties held for sale	144,799	N/A
Properties under development	72,572	2019
Properties held for future development	814,647	2019 to 2021

SUNSHINE PARK PHASES 1&2

Located at Chidian Town, Jinjiang, Quanzhou; near Citong Bridge

Type of property

High-rise residential and retail shops

Percentage of interest attributable to the Group

51%

	Planned GFA (sq.m.)	Expected Year of Completion
Completed properties held for sale	38,985	N/A
Properties under development	129,613	2017

SAPPHIRE RESIDENCES

Located at southeast of Yingbin Avenue, Jinjiang, Quanzhou

Type of property

High-rise residential and retail shops

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	163,885	2017

MAJOR PROPERTIES PROFILE

WORLD CITY (NAN'AN)

Located at east of Meilin Avenue and north of Jiangbei Avenue, Nan'an, Quanzhou

Type of property

High-rise residential, SOHO apartments, shopping mall and retail shops

Percentage of interest attributable to the Group

80%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties held for future development	444,668	2019 to 2021

ZHANGZHOU

SAPPHIRE BOOMTOWN PHASES 2&3

Located at Shuixian Avenue, Longwen District, Zhangzhou

Type of property

High-rise residential, SOHO apartments and retail shops

Percentage of interest attributable to the Group

100%

	Planned GFA (sq.m.)	Expected Year of Completion
Completed properties held for sale	104,490	N/A
Properties under development	26,038	2018

SUNSHINE CITY PHASES 1&2

Located at west of Hongdai Road and south of Tianhu Road, Taiwanese Investment Zone, Zhangzhou

Type of property

High-rise residential and retail shops

Percentage of interest attributable to the Group

85%

	Planned GFA (sq.m.)	Expected Year of Completion
Completed properties held for sale	73,544	N/A

MAJOR PROPERTIES PROFILE

SUNSHINE CITY PHASE 3

Located at west of Hongdai Road and south of Huzhong Road, Taiwanese Investment Zone, Zhangzhou

Type of property

High-rise residential and retail shops

Percentage of interest attributable to the Group

75%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	160,137	2017

YANJIAO

SUNSHINE CITY PHASE 2

Located at north of North Outer Ring Road, Yanjiao Development Zone, Sanhe, Langfang

Type of property

High-rise residential and retail shops

Percentage of interest attributable to the Group

55%

	Planned GFA (sq.m.)	Expected Year of Completion
Properties under development	181,957	2017

MAJOR PROPERTIES PROFILE

ANSHAN

ROYAL SPRING CITY

Located at west of Anhai Road and north of Tanggangzi Sanatorium, Qianshan District, Anshan

Type of property

High-rise residential, villas, SOHO apartments, hotel and retail shops

Percentage of interest attributable to the Group

70%

	Planned GFA (sq.m.)	Expected Year of Completion
Completed properties held for sale	60,645	N/A
Properties held for future development	1,645,139	2020 to 2022

LINFEN

SCE INTERNATIONAL COMMUNITY (EXCEPT PHASES 1&2)

Located at the junction of Gulou North Avenue and Banxia Road, Yaodu District, Linfen

Type of property

High-rise residential and retail shops

Percentage of interest attributable to the Group

70%

	Planned GFA (sq.m.)	Expected Year of Completion
Completed properties held for sale	11,399	N/A
Properties under development	173,003	2018
Properties held for future development	174,334	2020

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Wong Chiu Yeung (黃朝陽), aged 51, is one of the founders of the Group and the chairman of the Board and President of the Company. Mr. Wong was appointed as an executive Director on 30 November 2007, as well as the chairman of the nomination committee of the Company (the "Nomination Committee") and a member of the remuneration committee of the Company (the "Remuneration Committee") and is also the director of certain subsidiaries of the Company established in the PRC, Hong Kong and the British Virgin Islands. Mr. Wong is responsible for formulating business development strategies for the Group, commercial property management and financial investment management. Since his involvement in the development of the Group's first project in 1996, Mr. Wong has been involved in all of the projects developed by the Group thereafter, and has about 21 years of experience in real estate development. Mr. Wong is a member of the National Committee of Chinese People's Political Consultative Conference (中國政治協商會議全國委員會), vice chairman of Hong Kong Association for the Promotion of Peaceful Reunification of China (中國和平統一促進會香港總會), guest professor of Nanchang University (南昌大學), vice chairman of the board of directors of Quanzhou Normal University (泉州師範學院), chairman of the board of directors of Nan'an Overseas Chinese Middle School (南安華僑中學), permanent honourable chairman of Hong Kong Federation of Fujian Association (香港福建社團聯會). Mr. Wong holds an Executive Master of Business Administration degree of Xiamen University. Mr. Wong is the father of Mr. Wong Lun, senior management of the Group.

Chen Yuanlai (陳元來), aged 50, is one of the founders of the Group and the vice chairman of the Board of the Company. Mr. Chen was appointed as an executive Director on 12 August 2009 and is also the director of certain subsidiaries of the Company established in the PRC, Hong Kong and the British Virgin Islands. Mr. Chen is responsible for formulating business development strategies for the Group. Since his involvement in the development of the Group's first project in 1996, he has been involved in all of the projects developed by the Group thereafter, and has about 21 years of experience in real estate development. Mr. Chen also has extensive experience in investment management and project management through his involvement in all projects developed by the Group. Mr. Chen was a representative of the Second Session of the People's Congress of Fengze District in Quanzhou (泉州市豐澤區第二屆人民代表大會). Mr. Chen completed the Executive Management course in Business Administration of Commercial Real Estate Development and Funding, a one-year programme offered by School of Professional and Continuing Education of Hong Kong University and Fudan University, Shanghai, in May 2008. Mr. Chen has completed an Executive Master of Business Administration programme in Xiamen University.

Cheng Hiu Lok (鄭曉樂), aged 52, is one of the founders of the Group and the vice chairman of the Board of the Company. Mr. Cheng was appointed as an executive Director on 12 August 2009 and is also the director of certain subsidiaries of the Company established in the PRC, Hong Kong and the British Virgin Islands. Mr. Cheng is responsible for formulating business development strategies for the Group. Since his involvement in the development of the Group's first project in 1996, he has been involved in all of the projects developed by the Group thereafter. Mr. Cheng has about 21 years of experience in real estate development. Mr. Cheng also has extensive experience in investment management, project management and construction management through his involvement in the projects developed by the Group. Mr. Cheng completed his college education at Fujian Normal University (福建師範大學) in 1987.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Li Wei (李維), aged 46, was an executive Director and the executive vice president of the Company, as well as the chairman of the corporate governance committee of the Company (the "Corporate Governance Committee"). Mr. Li was appointed as an executive Director on 12 August 2009 and is also the director of certain subsidiaries of the Company established in the PRC and Hong Kong. Mr. Li was responsible for the daily operational management and managing the Strategic Development Department of the Group. Since January 2016, Mr. Li had been responsible for the daily operational management and financial investment management. Before joining the Group in June 2006, Mr. Li was the general manager of the Corporate Operations Department and the Credit Department of the Xiamen Branch of China Construction Bank. Mr. Li graduated from the Department of Banking and Finance of Xiamen University with a Bachelor's degree in Economics in 1992. Mr. Li resigned as an executive Director, the executive vice president of the Company and the chairman of the Corporate Governance Committee with effect from 1 January 2017.

Huang Youquan (黃攸權), aged 48, is an executive Director and the vice president of the Company. Mr. Huang was appointed as an executive Director on 1 May 2011 and was appointed as the chairman of the Corporate Governance Committee with effect from 1 January 2017. He is also the director of certain subsidiaries of the Company established in the PRC and Hong Kong. Mr. Huang is responsible for the financial management of the Group. Before joining the Group in 2003, Mr. Huang was the audit manager and assistant to the head of the Xiamen office of Fujian Hongshen Accounting Firm (福建弘審會計師事務所有限公司廈門分公司). Mr. Huang graduated from the Department of Mathematics of Xiamen University with a Bachelor's degree in Science in 1991. Mr. Huang is a PRC Certified Public Accountant and a member of the Fujian Institute of Certified Public Accountants. Mr. Huang has completed an Executive Master of Business Administration programme in Xiamen University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ting Leung Huel Stephen (丁良輝), aged 63, MH, FCCA, FCPA (Practising), CTA (HK), ACA, FHKIoD, was appointed as an independent non-executive Director of the Company on 6 January 2010 and is also the chairman of the audit committee of the Company (the "Audit Committee"), a member of the Remuneration Committee and Corporate Governance Committee. Mr. Ting is an accountant in public practice and has more than 30 years of experience in this field. Currently, he is the managing partner of Ting Ho Kwan & Chan, Certified Public Accountants (Practising). Mr. Ting is a member of the 9th, 10th and 11th Chinese People's Political Consultative Conference, Fujian. Mr. Ting is a non-executive director of Chow Sang Sang Holdings International Limited (0116) and an independent non-executive director of six other companies listed on the Hong Kong Stock Exchange, namely Tong Ren Tang Technologies Co. Ltd. (1666), Tongda Group Holdings Limited (0698), New Silkroad Culturaltainment Limited (formerly known as JLF Investment Company Limited) (0472), Computer and Technologies Holdings Limited (0046), Texhong Textile Group Limited (2678) and Dongyue Group Limited (0189).

Lu Hong Te (呂鴻德), aged 56, was appointed as an independent non-executive Director of the Company on 6 January 2010 and is also a member of the Audit Committee, Nomination Committee and Corporate Governance Committee. Mr. Lu obtained a Bachelor's degree in Industrial and Information Management from National Cheng Kung University in 1983, and a Master's degree and a Doctoral degree in Marketing from the Graduate Institute of Business Administration of the College of Management of National Taiwan University in 1985 and 1992, respectively. Mr. Lu is a professor at the Department of Business Administration of Chung Yuan Christian University in Taiwan, specialising in marketing management and corporate competitive strategies. He also serves as a visiting professor at institutions including National University of Singapore, Nanyang Technological University's EMBA Center and Xiamen University's EMBA Center. Mr. Lu is an independent non-executive director of Capxon International Electronic Company Limited (0469), ANTA Sports Products Limited (2020) and China Lilang Limited (1234), the shares of which are listed on the Hong Kong Stock Exchange. Mr. Lu is also an independent director of three companies in Taiwan, namely Firich Enterprises Co., Ltd. (8076), Lanner Electronics Inc. (6245) and Uni-President Enterprises Corporation (1216), the shares of which are traded in the Gre Tai Securities Market in Taiwan. From May 2006 to January 2014, Mr. Lu was an independent director of Aiptek International Inc. (6225), a company which is listed on the Taiwan Stock Exchange Corporation.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Dai Yiyi (**戴亦一**), aged 49, was appointed as an independent non-executive Director of the Company on 6 January 2010 and is also the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. Dai is a full-time professor of the Executive Master of Business Administration programme of the School of Management of Xiamen University and the Chairman of the Board of the Jin Yuan Research Institute of Xiamen University. Mr. Dai also serves as an adjunct professor for real estate CEO programmes hosted by Tsinghua University and Peking University. Mr. Dai has been a consultant with the Fujian Real Estate Association since 2005. Mr. Dai is the vice dean of the School of Management of Xiamen University between January 2008 and December 2015. Mr. Dai is an independent non-executive director of two companies listed on the Hong Kong Stock Exchange, namely Mingfa Group (International) Company Limited (0846) and Cosmo Lady (China) Holdings Company Limited (2298), and is an independent director of New Hua Du Supercenter Co., Ltd. (002264) and Xiamen C&D Inc. (600153), which are listed on the Shenzhen Stock Exchange and the Shanghai Stock Exchange, respectively. From July 2007 to July 2013, Mr. Dai was an independent director of Fujian Septwolves Industry Co., Ltd. (002029), a company which is listed on the Shenzhen Stock Exchange. From May 2008 to May 2014, Mr. Dai was an independent director of Xiamen International Trade Group Corp., Ltd. (600755), which is listed on the Shanghai Stock Exchange. Mr. Dai graduated from Xiamen University with a Bachelor's degree in Economics in 1989, and received a Doctoral degree in Economics from Xiamen University in 1999. He also completed training at the 6th Ford Program of the Sino-American Economics Training Centre of Renmin University of China. Mr. Dai was awarded a certificate as a PRC certified property valuer in 1997.

SENIOR MANAGEMENT

Liu Zhijie (**劉志傑**), aged 60, was the vice president of the Company. He was also the director of certain subsidiaries of the Company established in the PRC. He was responsible for the construction management of the Group. Mr. Liu joined the Group in 1998. Mr. Liu completed his college education in Civil Engineering at Fujian College of Architecture and Civil Engineering (福建省建築高等專科學校) in 1981. Mr. Liu possesses extensive experience in construction and cost management. Mr. Liu was an executive Director of the Company from May 2011 to May 2012. Mr. Liu retired on 1 January 2017.

Zheng Quanlou (**鄭全樓**), aged 45, is the vice president of the Company. He is responsible for land development, operation plan and design management of the Group. Before joining the Group in November 1998, Mr. Zheng was the on-site manager of Quanzhou Dong Hai Development Company Limited (泉州市東海開發有限公司). Mr. Zheng completed his college education in construction engineering at College of Architecture and Civil Engineering of Fujian (福建省建築高等專科學校) in 1992 and obtained his Bachelor's degree from the Department of Civil Engineering of Fujian Agriculture and Forestry University in 2009. Mr. Zheng is a PRC Registered Cost Engineer, and serves as an expert of bid evaluation of construction project in Quanzhou since 2006. Mr. Zheng has completed an Executive Master of Business Administration programme in Xiamen University.

Wang Meng (**王勐**), aged 31, is the general manager of Beijing regional company. He is responsible for the daily management of Beijing regional company. Since January 2017, Mr. Wang was promoted as the vice president of the Company and is responsible for land development and marketing management of the Group. Before joining the Group in March 2015, Mr. Wang was the marketing director of Longfor Properties Co. Ltd.. Mr. Wang graduated from North China University of Technology with a Bachelor's degree in Arts in 2009.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Tang Xiaojuan (**湯筱娟**), aged 44, is the assistant president of the Company. She is responsible for asset management and property management of the Group. Prior to joining the Group in August 2002, Ms. Tang served as the office manager of Xiamen Yong Hong Ji Real Estate Development Company Limited (廈門永宏基房地產開發有限公司). Ms. Tang graduated from the Department of International Trade and Economics in Jiangxi University of Finance and Economics (江西財經學院) with a Bachelor's degree in Economics in 1994. Ms. Tang has completed an Executive Master of Business Administration programme in Xiamen University.

Ku Weihong (**庫衛紅**), aged 48, is the assistant president of the Company. She is responsible for managing daily operation of the office of President of the Group, including legal affairs as well as administrative and human resources management of the Group. Prior to joining the Group in November 2010, Ms. Ku served as the chief legal officer of Powerlong Real Estate Holdings Limited. Ms. Ku graduated from the Department of Law of Peking University with a Bachelor's degree in Law in 1990. Ms. Ku holds the lawyer qualification certificate of the PRC and has extensive experience in legal affairs. Ms. Ku has completed an Executive Master of Business Administration programme in Beijing University.

Wong Lun (**黃倫**), aged 30, is the general manager of the Commercial Real Estate Department. He is responsible for the commercial real estate management of the Group. Since 20 February 2017, Mr. Wong was promoted to the assistant president of the Company and is responsible for the share of management of financial investment, and will be appointed as an executive Director of the Company with effect from 1 March 2017. Mr. Wong joined the Group in September 2010. Mr. Wong graduated from the School of Engineering of University of Warwick with a Bachelor's degree of Science in Engineering and Business Studies in 2010. Mr. Wong Lun is the son of Mr. Wong Chiu Yeung, an executive Director and chairman of the Board.

Li Siu Po (**李少波**), aged 48, is the financial controller and company secretary of the Company. He is responsible for the financial reporting, equity and debt financing, investor relations and company secretarial work of the Group. Before joining the Group in January 2008, Mr. Li was a manager of one of the international CPA firms. Mr. Li graduated from the Department of Accounting in The Hong Kong Polytechnic University with a Bachelor's degree in Accountancy in 1994. Mr. Li is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Li has extensive experience in financial management and auditing.

Zhang Haitao (**張海濤**), aged 48, is the general manager of the Audit and Supervision Department of the Company. She is responsible for the internal audit of the Group. Before joining the Group in January 2007, Ms. Zhang was the senior manager of Xiamen Tianjian Huatian Accounting Firm (廈門天健華天會計師事務所). Ms. Zhang graduated from the Department of Accounting of Xiamen University with a Bachelor's degree in Economics in 1990. Ms. Zhang is a PRC Certified Public Accountant and a senior accountant with extensive auditing experience. Ms. Zhang has completed an Executive Master of Business Administration programme in Xiamen University.

Liu Chao (**劉超**), aged 41, is the general manager of the Construction Department of the Company. He is responsible for construction management and landscape management of the Group. Prior to joining the Group in August 1999, Mr. Liu served as an engineer of China Railway Engineering Corporation. Mr. Liu graduated from the Department of Civil Engineering of Shanghai Tiedao University (上海鐵道大學) with a Bachelor's degree in Engineering in 1996. Mr. Liu is currently attending an Executive Master of Business Administration programme in Xiamen University.

Wang Yue (**王躍**), aged 41, is the general manager of the Design Department of the Company. Before joining the Group in May 2002, Mr. Wang was a project manager in China Construction Second Engineering Bureau Ltd. (中國建築第二工程局有限公司). Mr. Wang completed his college education in construction engineering at College of Architecture and Civil Engineering of Chongqing (重慶建築高等專科學校) in 1998. Mr. Wang has completed an Executive Master of Business Administration programme in Xiamen University.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Chen Peichen (陳培琛), aged 41, is the general manager of the Finance Department of the Company. He is responsible for the financial management of the Group. Before joining the Group in February 2016, Mr. Chen was the deputy general manager of the excavator business segment of Lonking Holdings Limited, the assistant to the chairman and the vice president of Fujian Changfu Group Corporation. Mr. Chen graduated from the School of Management of Fuzhou University with a Bachelor's degree in Economics majoring in Accounting and Auditing in 2000. Mr. Chen is also a member of The Institute of Financial Accountants with extensive experience in financial management.

Lu Zhenxing (呂振星), aged 35, is the general manager of the Sales and Marketing Department of the Company. He is responsible for the marketing management of the Group. Before joining the Group in August 2016, Mr. Lu was the marketing director of Greenland Holding Group Co., Ltd.. Mr. Lu graduated from Peking University with a Bachelor's degree in Economics in 2005. Mr. Lu is currently attending an Executive Master of Business Administration programme in Peking University.

COMPANY SECRETARY

Li Siu Po (李少波), a member of senior management of the Group, is the financial controller and company secretary of the Company. The biography of Mr. Li is set forth above.

CORPORATE GOVERNANCE REPORT

The Board of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2016.

The Company has been committed to maintain a high standard of corporate governance so as to enhance the operational efficiency of the Company. The Company believes that such commitment is beneficial to safeguard the interests of the Company and its shareholders.

During the year ended 31 December 2016, the Company and the Board had been in compliance with the code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Listing Rules, save as disclosed in the paragraphs headed "Chairman and Chief Executive Officer" below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions of Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct for securities transactions by directors.

The Company has made specific enquiries of all the Directors and all the Directors confirmed that they have strictly complied with the required standards set out in the Model Code during the year under review.

THE BOARD OF DIRECTORS

Board Composition

The members of the Board of the Company during the year ended 31 December 2016 are set out below:

Executive Directors
Mr. Wong Chiu Yeung *(Chairman)*
Mr. Chen Yuanlai
Mr. Cheng Hiu Lok
Mr. Li Wei (resigned with effect from 1 January 2017)
Mr. Huang Youquan

Independent non-executive Directors
Mr. Ting Leung Huel Stephen
Mr. Lu Hong Te
Mr. Dai Yiyi

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Biography of Directors and Senior Management" in this annual report. There is no financial, business, family or other material/relevant relationships between Board members.

Mr. Ting Leung Huel Stephen, one of the independent non-executive Directors, has considerable experience in accounting and financial management, which is in line with the requirement of Rule 3.10(2) of the Listing Rules which states that "at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise".

In accordance with the provision A.1.8 of the CG Code, the Company has arranged appropriate insurance cover for the Directors in respect of any possible legal action against them.

In accordance with the provision A.5.6 of the CG Code, the board of issuers shall adopt diversified measurable targets for the purposes of the diversity of the board. The Company has created the measurable targets in the following areas, including expertise, experience, knowledge, professional skills, education background, independence, age, etc. In doing so, the Company will ensure its Directors will reach the eligible level in terms of their expertise, industrial experience, education background, independence, age and other factors, which enables them to make corresponding contributions to the Board whenever necessary and practicable. Please refer to the paragraph headed "Nomination Committee" of this corporate governance report regarding details of the board diversity policy (the "Board Diversity Policy") adopted by the Board and status of progress on achieving the measurable objectives to implement the Board Diversity Policy.

In accordance with Rule 3.29 of the Listing Rules, for each financial year, the company secretary of an issuer must take no less than fifteen hours of relevant professional training. During the year, the Company confirmed that the company secretary of the Company, Mr. Li Siu Po, had participated in proper training programmes for not less than fifteen hours to ensure his expertise is in line with all the requirements as applicable to him.

In accordance with the provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. During the year, all the Directors have complied with the requirement of provision A.6.5 of the CG Code through attending trainings and/or reading materials relevant to the Company's business or to director's duties and responsibilities.

Directors' Responsibilities

The Board is responsible to all shareholders for supervising and overseeing all major matters of the Company, including the formulation and approval of overall management and operation strategies, reviewing the internal control and risk management systems, reviewing financial performance, considering dividend policy and monitoring the performance of the senior management, so as to achieve high efficiency in relevant business of the Company. The senior management is responsible for the daily management and specific operation of the Group.

CORPORATE GOVERNANCE REPORT

Directors' Attendance Record at Meetings

Pursuant to the provision A.1.1 of the CG Code, the board of issuers should meet regularly and board meetings should be held at least four times a year. For the year ended 31 December 2016, the Company has held five board meetings, and passed five written resolutions. It is considered that the Directors were well acknowledged to the operation of the Group for the year under review. The attendance of each Director for the board meetings and general meeting of the Company is contained in the following table:

	Number of Attendances/ Number of Board Meetings	Written Resolutions	Number of Attendance/ Total Number of General Meeting
Executive Directors:			
Mr. Wong Chiu Yeung	5/5	5/5	0/1
Mr. Chen Yuanlai	4/4[1]	5/5	0/1
Mr. Cheng Hiu Lok	4/4[1]	5/5	0/1
Mr. Li Wei (resigned with effect from 1 January 2017)	3/4[1]	5/5	0/1
Mr. Huang Youquan	4/4[1]	5/5	1/1
Independent non-executive Directors:			
Mr. Ting Leung Huel Stephen	5/5	5/5	1/1
Mr. Lu Hong Te	5/5	5/5	0/1
Mr. Dai Yiyi	5/5	5/5	0/1

1 Except for chairman of the Company, Mr. Wong Chiu Yeung, all executive Directors absented themselves from the board meeting held on 9 August 2016 in which the composition, duties and responsibilities of the executive Directors were discussed.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. During the year under review, Mr. Wong Chiu Yeung performed his duties as both the chairman and the chief executive officer of the Company. The Board believes that serving by the same individual as chairman and chief executive officer during the rapid development of the business is beneficial to the consistency of business plans and decision-making of the Company.

COMPLIANCE OF NON-COMPETITION DEED

The Company entered into a non-competition deed (the "Non-competition Deed") with Mr. Wong Chiu Yeung on 6 January 2010 pursuant to which Mr. Wong Chiu Yeung has undertaken to the Company not to compete with any business of the Group and shall use his best endeavors to procure his affiliates not to engage in, assist or support a third party in the operation of, or participate or be interested in any property development business in the PRC. Furthermore, Mr. Wong Chiu Yeung has undertaken to the Company (for itself and for the benefit of the Group) that during the term of the Non-competition Deed to procure any investment or commercial opportunity relating to property development business in the PRC that he or any of his affiliates identifies or proposes or that is offered or presented to them by a third party to first refer such opportunity to the Company in accordance with terms of the Non-competition Deed.

The Company has received a confirmation from Mr. Wong Chiu Yeung for his compliance with the terms of the Non-competition Deed during the year ended 31 December 2016 and up to the date of this report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received the written confirmation from each of the independent non-executive Directors, confirming that he has met the independence requirements set out in Rule 3.13 of the Listing Rules. The Board considers that all the independent non-executive Directors are independent under these independence requirements.

The independent non-executive Directors play an important role in applying their independent analysis and professional judgments to provide a professional and fair view to the decisions of the Board. This is not only beneficial to the warranty of the scientific element of the decision, but also enhancing the protection of interests of the Company and its shareholders.

Please refer to the paragraph headed "Directors' Service Contracts" in the "Report of the Directors" of this annual report for the term of appointment of non-executive Directors.

REMUNERATION COMMITTEE

According to the provisions of the CG Code, the Company established its Remuneration Committee on 6 January 2010. Under Rule 3.25 of the Listing Rules, the remuneration committee of issuers must appoint an independent non-executive director as the chairman, and the majority of the members shall be independent non-executive directors. With effect from 1 April 2012, the Remuneration Committee, comprising of Mr. Wong Chiu Yeung (an executive Director) and Mr. Ting Leung Huel Stephen (an independent non-executive Director), is chaired by Mr. Dai Yiyi, an independent non-executive Director.

The prime duties of the Remuneration Committee are:

- to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

- to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management; and

- to make recommendations to the Board on the remuneration of non-executive Directors.

CORPORATE GOVERNANCE REPORT

During the year under review, the Remuneration Committee held one meeting to discuss the 2015 management bonus and 2016 salary under the service contracts for executive Directors. Details of the attendance by members of the Remuneration Committee are set out as below:

	Number of Attendance/ Total Number of Meeting
Mr. Dai Yiyi	1/1
Mr. Wong Chiu Yeung	1/1
Mr. Ting Leung Huel Stephen	1/1

NOMINATION COMMITTEE

According to the provisions of the CG Code, the Company established the Nomination Committee on 6 January 2010. Under the provision A.5.1 of the CG Code, the majority of the nomination committee of issuers must be independent non-executive directors, and the chairman of the board or an independent non-executive director must be appointed as the chairman of this committee. With effect from 1 April 2012, the Nomination Committee, comprising of independent non-executive Directors Mr. Lu Hong Te and Mr. Dai Yiyi, is chaired by Mr. Wong Chiu Yeung, chairman of the Board.

The prime duties of the Nomination Committee are:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- to assess the independence of the independent non-executive Directors; and

- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors, succession planning for Directors in particular the chairman and chief executive officer and the policy concerning the diversity of Board members.

During the year under review, the Nomination Committee held one meeting to discuss the composition of the Board and the terms of reference, the diversity policies for the Board, and other issues. Details of the attendance by members of the Nomination Committee are set out as below:

	Number of Attendance/ Total Number of Meeting
Mr. Wong Chiu Yeung	1/1
Mr. Lu Hong Te	1/1
Mr. Dai Yiyi	1/1

The Company and the Nomination Committee periodically review the Board Diversity Policy, and monitor the progress on achieving the following measurable objectives (the "Measurable Objectives") which are set for implementing diversity on the Board. For the year ended 31 December 2016, the Board has adopted and the Company has achieved the following Measurable Objectives:

(a) To ensure at least two members of the Board shall have obtained accounting or other professional qualification;

(b) To ensure at least 35% of the members of the Board have more than 10 years of experience of real estate development;

(c) To ensure the appropriate proportion of the independent non-executive Directors to the executive Directors in order to maintain the independence of the Board. In particular, at least 35% of the members of the Board shall be independent non-executive Directors;

(d) To ensure at least 60% of the members of the Board shall have attained Bachelor's degree or higher level of education; and

(e) To ensure the age distribution of the members of the Board comprised of people from at least three decades.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

According to the provisions of the CG Code, the Company established the Audit Committee on 6 January 2010. Under Rule 3.21 of the Listing Rules, the audit committee of issuers must comprise of all non-executive directors. The Audit Committee comprises three independent non-executive Directors, with Mr. Ting Leung Huel Stephen as the chairman, Mr. Lu Hong Te and Mr. Dai Yiyi as members.

The prime duties of the Audit Committee are:

- responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and other terms of engagement of the external auditor, and any questions of its resignation or dismissal;

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

- to monitor the integrity of the Company's financial statements and annual report and accounts, interim report and to review significant financial reporting judgments contained in them; and

- oversight of the Company's financial reporting system, risk management and internal control systems.

During the year under review, the Audit Committee held two meetings to review the 2015 annual report and the 2016 interim report of the Company. Details of the attendance by members of the Audit Committee are set out as below:

	Number of Attendances/ Total Number of Meetings
Mr. Ting Leung Huel Stephen	2/2
Mr. Lu Hong Te	2/2
Mr. Dai Yiyi	2/2

CORPORATE GOVERNANCE COMMITTEE

Pursuant to the provision D.3.1 of the CG Code, the Company established the Corporate Governance Committee on 1 April 2012 to better implement and review the policies and practices on corporate governance. Mr. Huang Youquan, an executive Director, was appointed as chairman of the Corporate Governance Committee with effect from 1 January 2017 and Mr. Ting Leung Huel Stephen and Mr. Lu Hong Te, both independent non-executive Directors, were appointed as members of the Corporate Governance Committee.

The prime duties of the Corporate Governance Committee are:

- to develop and review the Company's policies and practices on corporate governance and to make recommendations to the Board;
- to review and approve the annual corporate governance report and related disclosures in the annual and interim reports of the Company and monitor and ensure compliance with relevant requirements under the Listing Rules or the rules of any other stock exchange in respect of which the securities of the Company are listed or quoted, or other laws, regulations, rules and codes as may be applicable to the Company;
- to make sure that appropriate monitoring systems are in place to ensure compliance against the relevant internal controls systems, processes and policies, and in particular to monitor the implementation of the Company's plans to maintain high compliance with its own risk management standards;
- to review and monitor the training and continuous professional development of directors and senior management; and
- to review the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual reports.

During the year under review, the Corporate Governance Committee met once to discuss the adoption of the CG Code. Details of the attendance by members of the Corporate Governance Committee are set out as below:

	Number of Attendance/ Total Number of Meeting
Mr. Li Wei (resigned as Chairman with effect from 1 January 2017)	1/1
Mr. Ting Leung Huel Stephen	1/1
Mr. Lu Hong Te	1/1

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

For the year under review, the fees paid to the auditors of the Company, Ernst & Young, in respect of the audit services and non-audit services provided to the Company amounted to approximately RMB4,035,000 and approximately RMB1,242,000, respectively.

The Audit Committee is responsible to recommend to the Board on matters related to the appointment, re-appointment and removal of the auditors. The Audit Committee recommended the re-appointment of Ernst & Young as the external auditors of the Group for the year ending 31 December 2017, subject to the approval of the shareholders at the annual general meeting of the Company.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2016, and confirm that the financial statements give a true view of the financial positions and results of the Group as at the date and for the year of the date ended, and are prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The statement of the external auditors of the Company, Ernst & Young, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 74 to 79 of this annual report.

INTERNAL CONTROLS

The Board is fully responsible for maintaining proper and effective internal controls and for regularly reviewing the operational efficiency of the financial, operational, compliance, risk controls, human resources and other aspects of the system in order to safeguard the independence of the respective duties and powers of the Group which in turn can protect the investment of shareholders and the assets of the Company.

The Audit and Supervision Department of the Company is responsible for regular review and audit of the finance and operation of the Company and its subsidiaries for the purpose of ensuring the internal controls are in place and functioning properly as intended. For weaknesses of internal controls and accounting procedures of the Group which the external auditors have identified and reported to the Company, the Company would pay full attention to the recommendations made by the external auditors and make appropriate improvements.

Besides, the Company has also appointed Ernst & Young (China) Advisory Limited to examine and evaluate the internal control system of the Group for the year. The 2016 internal control assessment report revealed that no material control weakness was identified.

During the year under review, the Board has conducted a review of the risk management and internal control systems of the Group and their effectiveness and concluded that the risk management and internal control systems of the Group were adequate and effective during the year.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

Establishing a good relationship with investors plays a vital role in enhancing the operational efficiency of the Company and in protecting interests of the shareholders. The Company insists a transparent, honest and timely disclosure of related information on the business development of the Company through various channels to ensure that the shareholders and investors have an adequate understanding of the operations of the Company.

The Company's website at http://www.sce-re.com provides information such as e-mail address, correspondence address, telephone numbers, etc. for making inquiries to the Company in order to maintain effective communication with its shareholders and investors. In addition, interim and annual reports, circulars and notices of the Company will be despatched to shareholders in compliance with the Listing Rules and the same will also be published on the website of the Company and that of the Hong Kong Stock Exchange.

During the year, the Company has received numerous visits from investors and arranged investors and analysts to visit the Group's property sites at various locations. The Company has also presented to them the development strategies and business operation status of the Company. The Company also participated in various investor conferences and non-deal roadshows to enhance the industry awareness of the Company. The management believes actively seeking face-to-face communication with shareholders and investors is the best way to enhance their confidence in the Company. Particulars of the investors' meetings during the year are set out in the following table:

Date	Description	Place
18 March 2016	Final Results Announcement Investor Presentation	Hong Kong
21 March 2016	Post-results Non-deal Roadshows	Singapore
22 March 2016	Post-results Non-deal Roadshows	Hong Kong
21-22 April 2016	HSBC 6th Annual Greater China Property Conference	Hong Kong
7-8 June 2016	Nomura Investment Forum Asia 2016	Singapore
10 August 2016	Interim Results Announcement Investor Presentation	Hong Kong
11-12 August 2016	Post-results Non-deal Roadshows	Hong Kong
13 August 2016	Post-results Non-deal Roadshows	Singapore
27-28 September 2016	Non-deal Roadshows	Hong Kong
5-6 October 2016	Non-deal Roadshows	Hong Kong
19 October 2016	Non-deal Roadshows	Shanghai
20 October 2016	Non-deal Roadshows	Shenzhen
11 November 2016	Nomura Asian High Yield Corporate Day	Hong Kong

The Company's annual general meeting of shareholders is a good opportunity for communication between the Board and shareholders of the Company. Notice of annual general meeting and related documents will be sent to the shareholders pursuant to the requirements of the Listing Rules, and will be published on the website of the Hong Kong Stock Exchange and that of the Company.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

1. Procedures for shareholders to convene an extraordinary general meeting

1.1 The following procedures for shareholders (the "Shareholders", each a "Shareholder") of the Company to convene an extraordinary general meeting (the "EGM") of the Company are prepared in accordance with Article 58 of the articles of association of the Company:

(1) One or more Shareholders (the "Requisitionist(s)") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition (the "Requisition"), to require an EGM to be called by the Directors for the transaction of any business specified therein.

(2) Such Requisition shall be made in writing to the Board or the company secretary of the Company via email at the email address of the Company at ir@sce-re.com.

(3) The EGM shall be held within two months after the deposit of such Requisition.

(4) If the Board fail to proceed to convene such meeting within twenty-one (21) days of the deposit of such Requisition, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

2. Procedures for raising enquiries

2.1 Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar, details of which are set out in the section headed "Corporate Information" of this annual report.

2.2 Shareholders may at any time raise any enquiry in respect of the Company via email at the email address of the Company at ir@sce-re.com.

2.3 Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

3. Procedures and contact details for putting forward proposals at shareholders' meetings

3.1 To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her/its proposal (the "Proposal") with his/her/its detailed contact information via email at the email address of the Company at ir@sce-re.com.

3.2 The identity of the Shareholder and his/her/its request will be verified with the Company's Hong Kong share registrar and upon confirmation by the branch share registrar that the request is made by a Shareholder and such request is proper and in order, the Board will determine in its sole discretion whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

3.3 The notice period to be given to all the Shareholders for consideration of the Proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires approval in an annual general meeting;

(2) Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution in an EGM;

(3) Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval in an EGM other than by way of a special resolution of the Company.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in property development, property investment and property management in the PRC during the year. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

Please refer to the subsections headed "Business Review", "Environmental Policies and Performance", "Compliance with Relevant Laws and Regulations" and "Key Relationships with Employees, Customers and Suppliers" in the section headed "Management Discussion and Analysis" of this annual report for a business review of the Group for the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the Group's financial position at that date are set out in the financial statements on pages 80 to 178.

The Directors recommend the payment of a final dividend of HK14 cents per ordinary share in respect of the year to shareholders whose names appear on the register of members on 20 June 2017 subject to approval by shareholders of the Company in the forthcoming annual general meeting of the Company.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities, perpetual capital instruments and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on pages 179 to 180. This summary does not form part of the audited financial statements.

PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property and equipment and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

PROPERTIES UNDER DEVELOPMENT

Details of the properties under development of the Group during the year are set out in note 18 to the financial statements.

COMPLETED PROPERTIES HELD FOR SALE

Details of the completed properties held for sale of the Group during the year are set out in note 24 to the financial statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 36 to the financial statements.

PRE-EMPTIVE RIGHTS

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

The Company is not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserves available for distribution calculated in accordance with the provisions of the Companies Law of the Cayman Islands amounted to approximately RMB1,195,848,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately RMB1,365,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, sales to the Group's five largest customers accounted for less than 30% of the Group's total revenue for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the Directors or any of their close associates or any shareholders (which, to the knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:
Mr. Wong Chiu Yeung
Mr. Chen Yuanlai
Mr. Cheng Hiu Lok
Mr. Li Wei (resigned with effect from 1 January 2017)
Mr. Huang Youquan

Independent non-executive Directors:
Mr. Ting Leung Huel Stephen
Mr. Lu Hong Te
Mr. Dai Yiyi

In accordance with article 84 of the Company's articles of association, at each annual general meeting, one third of the directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every director shall be subject to retirement at an annual general meeting at least once every three years. The directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of directors upon reaching any age limit.

Accordingly, Mr. Cheng Hiu Lok, Mr. Lu Hong Te and Mr. Dai Yiyi will retire as Directors at the forthcoming annual general meeting of the Company and being eligible, will offer themselves for re-election at the meeting.

In accordance with article 83(3) of the Company's articles of association, any person appointed by the Directors to fill a casual vacancy or as additional Director shall hold office until the next following general meeting of the Company and shall then be eligible for re-election at the meeting. Accordingly, Mr. Wong Lun, who will be appointed by the Board as an executive Director with effect from 1 March 2017, will retire as Director at the forthcoming annual general meeting of the Company and being eligible, will offer himself for re-election at the meeting.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from all the three independent non-executive Directors and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 47 to 51 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Wong Chiu Yeung, Mr. Chen Yuanlai, Mr. Cheng Hiu Lok and Mr. Li Wei, being executive Directors, has entered into a service contract with the Company for a term of three years commencing from 5 February 2010. Mr. Huang Youquan, being an executive Director, has entered into a service contract with the Company for a term from 1 May 2011 to 4 February 2013. Each of their service contracts is renewable automatically upon the expiry of the then current term of appointment, subject to termination by either party giving not less than three months' written notice.

The Company has issued a letter of appointment to each of Mr. Ting Leung Huel Stephen, Mr. Lu Hong Te and Mr. Dai Yiyi, being independent non-executive Directors for an initial term of three years commencing from 6 January 2010. Upon expiry of the initial term, the Company has issued a letter of appointment to each of Mr. Ting Leung Huel Stephen, Mr. Lu Hong Te and Mr. Dai Yiyi, for their appointment as independent non-executive Directors for a term of three years commencing from 6 January 2013 to 5 January 2016, which is renewable automatically thereafter for successive term of one year each commencing from the next day after the expiry of the then current term of appointment, subject to termination by either party giving not less than two months' written notice and the retirement by rotation requirement in accordance with the articles of association of the Company and the Listing Rules.

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

REMUNERATION POLICIES AND DIRECTORS' REMUNERATION

The Remuneration Committee oversees the overall remuneration policy and structure of the Group. The Group provides employees with competitive remuneration and benefits. The remuneration policy is reviewed on a regular basis based on the performance and contribution of the employees and the industry remuneration level.

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as the transactions set out in note 47 to the financial statements and the transaction specified in the paragraph headed "Connected Transaction" in this section, no Director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 December 2016 and up to the date of this report, there was or is permitted indemnity provision (within the meaning in Section 469 of the Hong Kong Companies Ordinance) in accordance with the articles of association of the Company being in force.

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES, AND DEBENTURES

At 31 December 2016, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, were as follows:

Long positions in ordinary shares (the "Shares") of the Company:

	Interest in Shares			
Name of Director	**Beneficial Owner**	**Interest of Controlled Corporation**	**Total Number of Shares Held or Interested**	**Percentage of the Company's Issued Share Capital**
Mr. Wong Chiu Yeung ("Mr. Wong")	3,600,000	1,968,000,000 (Note 1)	1,971,600,000	57.58%
Mr. Chen Yuanlai ("Mr. Chen")	20,000,000	144,000,000 (Note 2)	164,000,000	4.79%
Mr. Cheng Hiu Lok ("Mr. Cheng")	–	144,000,000 (Note 3)	144,000,000	4.21%

Long positions in share options of the Company:

Name of director	Number of share options directly beneficially owned	Percentage of the Company's Issued Share Capital
Mr. Huang Youquan	34,000,000	0.99%

REPORT OF THE DIRECTORS

Note 1: These 1,968,000,000 Shares were registered in the name of Newup Holdings Limited ("Newup"). Mr. Wong held 100% of the entire issued share capital of Newup and was deemed to be interested in the 1,968,000,000 Shares held by Newup pursuant to the SFO.

Note 2: These 144,000,000 Shares were registered in the name of Rising Trade Holdings Limited. Mr. Chen held 100% of the entire issued share capital of Rising Trade Holdings Limited and was deemed to be interested in the 144,000,000 Shares held by Rising Trade Holdings Limited pursuant to the SFO.

Note 3: These 144,000,000 Shares were registered in the name of Wealthy Gate Holdings Limited. Mr. Cheng held 100% of the entire issued share capital of Wealthy Gate Holdings Limited and was deemed to be interested in the 144,000,000 Shares held by Wealthy Gate Holdings Limited pursuant to the SFO.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The participants of the Scheme include any directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any member of the Group and any advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of the Group.

The Scheme became effective on 6 January 2010 and unless otherwise cancelled or amended, will remain in force for a period of 10 years to 5 January 2020.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance at a general meeting.

REPORT OF THE DIRECTORS

The offer of a grant of share options may be accepted within 5 business days from the date of delivery of the offer letter, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than 10 years from the date of the grant of the share options.

At the time of grant of the share options, the Company may specify any minimum period(s) for which an option must be held before it can be exercised.

During the year, details of movements in the share options under the Scheme are as follows:

Category and name of grantee	Outstanding at 1 January 2016	Granted during the year	Outstanding at 31 December 2016	Exercise price per share	Date of grant	Exercise period
Director						
Mr. Huang Youquan	–	24,000,000	24,000,000	HK$2.4	23 December 2016	23 June 2017 to 5 January 2020
	–	10,000,000	10,000,000	HK$2.4	23 December 2016	23 December 2018 to 5 January 2020
Sub-total	–	34,000,000	34,000,000			
Employees of the Group	–	190,000,000	190,000,000	HK$2.4	23 December 2016	23 June 2017 to 5 January 2020
	–	60,000,000	60,000,000	HK$2.4	23 December 2016	23 December 2018 to 5 January 2020
Sub-total	–	250,000,000	250,000,000			
Total	–	284,000,000	284,000,000			

The exercise price of the share options is determinable by the Board, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Hong Kong Stock Exchange's daily quotation sheets on the date of the offer of the share options; (ii) the average closing price of the Company's shares as quoted on the Hong Kong Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Further details of the Scheme as to the value of the share options granted are disclosed in note 37 to the financial statements. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

During 2016, the Company granted 284,000,000 share option (2015: Nil) under the Scheme to the Group's employees (including director). As at 31 December 2016, the Company had 284,000,000 outstanding share options under the Scheme (2015: Nil).

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business between the Company, or any of its subsidiaries and a controlling shareholder or any of its subsidiaries nor contract of significance in relation to the Group's business whether or not for provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries subsisted during or at the end of the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company, which were not contract of service with any Director or any person engaged in full time employment of the Company, were entered into or existed during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2016, the interests or short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Long positions:

Name	Capacity and Nature of Interest	Number of Shares Held or Interested	Percentage of the Company's Issued Share Capital
Newup (Note)	Beneficial owner	1,968,000,000	57.48%

Note: Newup was wholly-owned and controlled by Mr. Wong; accordingly, Mr. Wong was deemed to be interested in the Shares held by Newup. Mr. Wong was the sole director of Newup.

Save as disclosed above, as at 31 December 2016, no person, other than a Director or chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares, and Debentures" above, had registered an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTION

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the connected transactions or continuing connected transactions disclosed in note 47 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued shares were held by the public as at the latest practicable date prior to the issue of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DISCLOSURE PURSUANT TO RULES 13.18 OF THE LISTING RULES

As disclosed in the announcement of the Company dated 3 January 2014, pursuant to an agreement (the "2014 Facility Agreement") dated 3 January 2014 entered into by and among, inter alia, the Company as borrower, certain of its subsidiaries as original guarantors, and a syndicate of banks, the banks have agreed to grant to the Company an US$27,000,000 and HK$500,000,000 dual tranche term loan facility (the "2014 Facility") to finance repayment of certain existing indebtedness (unless earlier repaid from other resources), land acquisitions and general corporate funding of the Group.

The 2014 Facility is for a term of three years commencing from the date of the 2014 Facility Agreement, and is guaranteed by certain subsidiaries of the Company and secured by pledges over their capital stocks.

The 2014 Facility Agreement contains a requirement that Mr. Wong, a controlling shareholder of the Company and an executive Director, must (a) remain the single largest shareholder in the Company; (b) hold legally and beneficially and directly or indirectly 40% or more of all classes of the Company's voting share capital; and (c) continue to control (as defined in the Code on Takeovers and Mergers) the Company. A breach of such requirement will constitute an event of default under the 2014 Facility Agreement, and as a result, the 2014 Facility is liable to be declared immediately due and payable.

As at 31 December 2016, all outstanding balance under 2014 Facility has been fully repaid.

As disclosed in the announcement of the Company dated 4 January 2016, pursuant to an agreement (the "2016 Facility Agreement") dated 4 January 2016 entered into by and among, inter alia, the Company as borrower, certain of its subsidiaries as original guarantors, and a syndicate of banks, the banks have agreed to grant to the Company an US$400,000,000 term loan facility (the "2016 Facility") to finance repayment of certain existing indebtedness of the Group.

The 2016 Facility is for a term of three years and six months commencing from the date on which the first utilisation of the 2016 Facility is made under the 2016 Facility Agreement, and is guaranteed by certain subsidiaries of the Company and secured by pledges over their capital stocks.

The 2016 Facility Agreement contains a requirement that Mr. Wong, a controlling shareholder of the Company and an executive Director, and his family members (together with Mr. Wong, the "Wong Family"), (a) must remain the single largest shareholder in the Company; (b) must hold legally and beneficially and directly or indirectly 40% or more of all classes of the Company's voting share capital and/or must directly or indirectly control (as defined in the Code on Takeovers and Mergers) the Company; and (c) Mr. Wong or a member of the Wong Family must remain to be the chairman of the Board of the Company. A breach of such requirement will constitute an event of default under the 2016 Facility Agreement, and as a result, the Facility is liable to be declared immediately due and payable.

As at the date of this annual report, Mr. Wong and his associates jointly own approximately 57.58% of the voting share capital of the Company.

FUTURE DEVELOPMENT OF THE GROUP'S BUSINESS

Please refer to the section headed "Chairman's Statement — Outlook" for an indication of the likely future development in the Group's business.

AUDITORS

Ernst & Young will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Wong Chiu Yeung
Chairman

Hong Kong
27 February 2017

INDEPENDENT AUDITOR'S REPORT

EY 安永

To the shareholders of China SCE Property Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China SCE Property Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 80 to 178, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of China SCE Property Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of properties under development and completed properties held for sale As at 31 December 2016, the Group had properties under development and completed properties held for sale (the "Properties Portfolio") amounting to RMB16,021 million and RMB4,573 million, respectively, which in total represented approximately 41% of the total assets of the Group. The Properties Portfolio is carried at the lower of cost and net realisable value. Significant management judgement is required in determining the estimated net realisable values of the Properties Portfolio with reference to the latest selling prices of the properties and costs to be incurred until completion and sale. The accounting policies and disclosures for the impairment of properties under development and completed properties held for sale are included in notes 3, 4, 18 and 24 to the consolidated financial statements.	We have understood and evaluated management's procedures on identifying properties for which the net realisable values may be lower than their carrying amounts, including the methodologies and inputs used in the estimation of the net realisable values. Our procedures included: (i) comparing to the latest selling prices of the properties; (ii) testing the calculation for the impairment assessment performed by management; (iii) comparing to the latest land auction price of comparable land or valuation of land, for the properties under development that is at the early stage of development; and (iv) assessing the construction costs to be incurred.
Estimation of fair value of investment properties The Group has various investment properties in Mainland China. Such investment properties are measured at fair value and the aggregate carrying amount of these investment properties was RMB7.4 billion as at 31 December 2016. Significant estimation and judgement are required by management to determine the fair value of the investment properties. To support management's determination of the fair value, the Group engaged an external valuer to perform valuations on the investment properties at the end of the reporting period. The accounting policies and disclosures for the estimation of fair value of investment properties are included in notes 3, 4 and 15 to the consolidated financial statements.	We evaluated the objectivity, independence and competency of the valuer. We also involved our internal valuation specialists to assist us to assess the methodologies and assumptions adopted in the valuation for estimating the fair value of the investment properties and performed benchmarking of the market value of investment properties held by the Group to other comparable properties.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of China SCE Property Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Mainland China's tax provision The Group is subject to various taxes, including land appreciation tax and corporate income tax, in respect of its property development business in Mainland China. The Group has not finalised its tax returns for some of its completed property development projects with the relevant tax authorities. Significant management judgement is required in determining the appropriate amount to provide in respect of such potential tax exposures. Changes in assumptions about the decisions that might be taken by the relevant tax authorities can materially impact the level of provisions recorded in the financial statements and there are significant judgements in estimating the amount of the provision for taxes required. The accounting policies and disclosures for the provision for tax in Mainland China are included in notes 3, 4 and 11 to the consolidated financial statements.	We have understood and evaluated the estimations made by management in arriving at the provision for tax exposures. We also involved our internal tax specialists to assist with the evaluation of the adequacy and completeness of the provisions.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of China SCE Property Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of China SCE Property Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

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. Our report is made 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement 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.

- 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.

To the shareholders of China SCE Property Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

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

- 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 Anthony S.T. Leung.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

27 February 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	6	**12,480,683**	10,690,080
Cost of sales		**(9,354,990)**	(7,679,498)
Gross profit		**3,125,693**	3,010,582
Other income and gains	6	**341,472**	80,165
Changes in fair value of investment properties	15	**548,382**	398,022
Selling and marketing expenses		**(407,116)**	(300,828)
Administrative expenses		**(471,771)**	(398,479)
Other expenses		**(129,454)**	(53,107)
Finance costs	7	**(316,894)**	(269,041)
Exchange differences arising from retranslation of senior notes, net	8	**–**	(27,918)
Share of profits and losses of:			
Joint ventures		**803,593**	110,080
Associates		**(120)**	(497)
PROFIT BEFORE TAX	8	**3,493,785**	2,548,979
Income tax expense	11	**(1,053,334)**	(980,435)
PROFIT FOR THE YEAR		**2,440,451**	1,568,544
OTHER COMPREHENSIVE LOSS:			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive loss of joint ventures		**(38,837)**	(25,192)
Share of other comprehensive loss of associates		**(95)**	(61)
Exchange differences on translation of foreign operations		**(428,055)**	(232,790)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(466,987)**	(258,043)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,973,464**	1,310,501

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	**2016** **RMB'000**	2015 RMB'000
Profit attributable to:			
Owners of the parent		**2,072,284**	918,660
Holders of perpetual capital instruments		**49,967**	248,756
Non-controlling interests		**318,200**	401,128
		2,440,451	1,568,544
Total comprehensive income attributable to:			
Owners of the parent		**1,666,544**	699,676
Holders of perpetual capital instruments		**49,967**	248,756
Non-controlling interests		**256,953**	362,069
		1,973,464	1,310,501
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic and diluted		**RMB60.5 cents**	RMB26.8 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property and equipment	14	**109,030**	116,389
Investment properties	15	**7,429,400**	5,634,500
Prepaid land lease payments	16	**7,328,897**	3,047,462
Intangible asset	17	**3,653**	3,819
Properties under development	18	**1,222,958**	1,263,935
Contract in progress	19	**366,824**	643,194
Investments in joint ventures	20	**1,290,028**	581,583
Investments in associates	21	**114,195**	34,950
Available-for-sale investment	22	**141,739**	–
Derivative financial instruments	23	**139,821**	–
Prepayments and deposits	26	**1,519,782**	1,041,394
Deferred tax assets	34	**247,971**	188,539
Total non-current assets		**19,914,298**	12,555,765
CURRENT ASSETS			
Properties under development	18	**14,798,538**	12,239,872
Completed properties held for sale	24	**4,572,534**	5,779,254
Trade receivables	25	**185,034**	177,404
Prepayments, deposits and other receivables	26	**1,596,669**	2,204,120
Due from related parties	27	**534,162**	576,350
Prepaid income tax		**630,879**	496,445
Restricted cash	28	**1,128,823**	989,957
Pledged deposits	28	**261,941**	421,992
Cash and cash equivalents	28	**7,211,994**	4,835,079
Total current assets		**30,920,574**	27,720,473
CURRENT LIABILITIES			
Trade and bills payables	29	**2,595,347**	2,505,810
Receipts in advance	30	**12,394,513**	8,145,371
Other payables and accruals	31	**2,046,080**	1,355,099
Interest-bearing bank and other borrowings	32	**3,427,434**	3,840,519
Due to related parties	27	**1,567,671**	478,509
Tax payable		**854,664**	916,258
Total current liabilities		**22,885,709**	17,241,566
NET CURRENT ASSETS		**8,034,865**	10,478,907
TOTAL ASSETS LESS CURRENT LIABILITIES		**27,949,163**	23,034,672

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**27,949,163**	23,034,672
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	32	**8,992,952**	2,622,285
Senior notes and domestic bonds	33	**5,857,969**	7,989,481
Deferred tax liabilities	34	**993,847**	796,990
Provision for major overhauls	35	**32,564**	27,315
Total non-current liabilities		**15,877,332**	11,436,071
Net assets		**12,071,831**	11,598,601
EQUITY			
Equity attributable to owners of the parent			
Issued capital	36	**295,732**	295,732
Reserves	38	**8,112,085**	6,631,698
		8,407,817	6,927,430
Perpetual capital instruments	39	**900,000**	1,200,000
Non-controlling interests		**2,764,014**	3,471,171
Total equity		**12,071,831**	11,598,601

Wong Chiu Yeung
Director

Huang Youquan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent												
	Issued capital RMB'000 (note 36)	Share premium account RMB'000	Capital reserve RMB'000 (note 38(b))	Statutory surplus reserve RMB'000 (note 38(c))	Merger reserve RMB'000 (note 38(d))	Other reserves RMB'000	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000 (note 39)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	295,732	1,476,373	69,960	491,350	30	(6,491)	(44,811)	108,069	4,154,876	6,545,088	1,173,000	3,295,670	11,013,758
Profit for the year	–	–	–	–	–	–	–	–	918,660	918,660	248,756	401,128	1,568,544
Other comprehensive loss for the year:													
Share of other comprehensive loss of joint ventures	–	–	–	–	–	(25,192)	–	–	–	(25,192)	–	–	(25,192)
Share of other comprehensive loss of associates	–	–	–	–	–	(61)	–	–	–	(61)	–	–	(61)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(193,731)	–	(193,731)	–	(39,059)	(232,790)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(25,253)	–	(193,731)	918,660	699,676	248,756	362,069	1,310,501
Capital reduction of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(101,850)	(101,850)
Acquisition of non-controlling interests	–	–	(180,282)	–	–	–	–	–	–	(180,282)	–	(84,718)	(265,000)
Issuance of perpetual capital instruments	–	–	–	–	–	–	–	–	–	–	1,200,000	–	1,200,000
Distribution to holders of perpetual capital instruments	–	–	–	–	–	–	–	–	–	–	(248,756)	–	(248,756)
Redemption of perpetual capital instruments	–	–	–	–	–	–	–	–	–	–	(1,173,000)	–	(1,173,000)
2015 interim dividend	–	(137,052)	–	–	–	–	–	–	–	(137,052)	–	–	(137,052)
Transfer to statutory surplus reserve	–	–	–	153,894	–	–	–	–	(153,894)	–	–	–	–
At 31 December 2015	295,732	1,339,321*	(110,322)*	645,244*	30*	(31,744)*	(44,811)*	(85,662)*	4,919,642*	6,927,430	1,200,000	3,471,171	11,598,601

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent													
	Issued capital RMB'000 (note 36)	Share premium account RMB'000	Capital reserve RMB'000 (note 38(b))	Statutory surplus reserve RMB'000 (note 38(c))	Merger reserve RMB'000 (note 38(d))	Other reserves RMB'000	Share option reserve RMB'000 (note 38(e))	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000 (note 39)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	295,732	1,339,321*	(110,322)*	645,244*	30*	(31,744)*	–	(44,811)*	(85,662)*	4,919,642*	6,927,430	1,200,000	3,471,171	11,598,601
Profit for the year	–	–	–	–	–	–	–	–	–	2,072,284	2,072,284	49,967	318,200	2,440,451
Other comprehensive loss for the year:														
Share of other comprehensive loss of joint ventures	–	–	–	–	–	(38,837)	–	–	–	–	(38,837)	–	–	(38,837)
Share of other comprehensive loss of associates	–	–	–	–	–	(95)	–	–	–	–	(95)	–	–	(95)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(366,808)	–	(366,808)	–	(61,247)	(428,055)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(38,932)	–	–	(366,808)	2,072,284	1,666,544	49,967	256,953	1,973,464
Capital reduction of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(95,600)	(95,600)
Acquisition of non-controlling interests	–	–	(45,517)	–	–	–	–	–	–	–	(45,517)	–	(604,544)	(650,061)
Acquisition of subsidiaries that are not a business (note 42)	–	–	–	–	–	–	–	–	–	–	–	–	28,811	28,811
Issuance of perpetual capital instruments	–	–	–	–	–	–	–	–	–	–	–	900,000	–	900,000
Redemption of perpetual capital instruments	–	–	–	–	–	–	–	–	–	–	–	(1,200,000)	–	(1,200,000)
Distribution paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(292,777)	(292,777)
Distribution to holders of perpetual capital instruments	–	–	–	–	–	–	–	–	–	–	–	(49,967)	–	(49,967)
2015 final dividend	–	(143,473)	–	–	–	–	–	–	–	–	(143,473)	–	–	(143,473)
Transfer to statutory surplus reserve	–	–	–	110,612	–	–	–	–	–	(110,612)	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	–	–	2,833	–	–	–	2,833	–	–	2,833
At 31 December 2016	295,732	1,195,848*	(155,839)*	755,856*	30*	(70,676)*	2,833*	(44,811)*	(452,470)*	6,881,314*	8,407,817	900,000	2,764,014	12,071,831

* These reserve accounts comprise the consolidated reserves of RMB8,112,085,000 (2015: RMB6,631,698,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,493,785**	2,548,979
Adjustments for:			
Finance costs		**316,894**	269,041
Share of profits and losses of:			
Joint ventures		**(803,593)**	(110,080)
Associates	21	**120**	497
Bank interest income	6	**(38,821)**	(39,666)
Gain on disposal of items of property and equipment, net	6,8	**(8,785)**	(495)
Loss on disposal of investment properties	8	**55**	300
Fair value gain on derivative financial instruments — transactions not qualifying as hedges	6	**(139,821)**	–
Premium paid on early redemption of senior notes	8	**129,454**	53,107
Depreciation	14	**24,678**	25,171
Amortisation of prepaid land lease payments	16	**21,595**	24,551
Changes in fair value of investment properties	15	**(548,382)**	(398,022)
Amortisation of an intangible asset	17	**166**	167
Gain on bargain purchase	6,41	**(43,977)**	–
Write down to net realisable value of completed properties held for sale	8	**34,306**	–
Equity-settled share option expense	37	**2,833**	–
		2,440,507	2,373,550
Additions to prepaid land lease payments	16	**(8,155,260)**	(2,853,313)
Increase in properties under development		**(4,134,225)**	(5,825,844)
Decrease/(increase) in contract in progress		**276,370**	(76,908)
Decrease in completed properties held for sale		**8,912,734**	7,573,263
Increase in trade receivables		**(7,630)**	(76,354)
Increase in prepayments, deposits and other receivables		**(1,066,483)**	(1,687,810)
Increase in trade and bills payables		**75,885**	992,987
Increase in receipts in advance		**4,249,142**	1,572,541
Decrease in other payables and accruals		**(589,492)**	(55,632)
Increase in provision for major overhauls	35	**3,789**	1,273
Cash generated from operations		**2,005,337**	1,937,753
Interest received		**38,821**	39,666
Interest paid		**(1,186,928)**	(1,090,629)
PRC corporate income tax paid		**(761,470)**	(441,513)
PRC land appreciation tax paid		**(375,537)**	(582,262)
Net cash flows used in operating activities		**(279,777)**	(136,985)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment	14	**(20,111)**	(9,482)
Additions to investment properties	15	**(183,086)**	(120,501)
Proceeds from disposal of investment properties		**14,045**	7,400
Proceeds from disposal of items of property and equipment		**11,942**	1,880
Acquisition of subsidiaries	41	**(42,962)**	–
Acquisition of subsidiaries that are not a business	42	**(266,598)**	–
Investment in joint ventures		**(24,050)**	(3,300)
Investment in an associate		**(80,000)**	(15,000)
Dividend from a joint venture		**80,361**	12,970
Dividends from associates		**540**	33,640
Increase in due from non-controlling shareholders of certain subsidiaries		**–**	(230,631)
Decrease in advances of loans to joint ventures and associates		**42,188**	275,472
Purchase of an available-for-sale investment		**(141,739)**	–
Increase in restricted cash		**(138,866)**	(118,488)
Decrease/(increase) in pledged deposits		**160,051**	(94,984)
Decrease in time deposits with original maturity over three months		**–**	148,449
Net cash flows used in investing activities		**(588,285)**	(112,575)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior notes and domestic bonds		**–**	5,698,730
Issuance costs of senior notes and domestic bonds		**–**	(87,666)
Redemption of senior notes		**(2,380,831)**	(2,150,578)
New bank and other borrowings		**13,161,860**	3,309,140
Repayment of bank and other borrowings		**(7,710,954)**	(4,950,610)
Capital reduction of a subsidiary		**(95,600)**	–
Increase in advances from non-controlling shareholders of certain subsidiaries		**–**	203,459
Acquisition of non-controlling interests		**(56,061)**	(115,000)
Increase in amounts due to related parties, net		**1,089,162**	125,972
Distribution to holders of perpetual capital instruments		**(49,967)**	(248,756)
Net proceeds from issuance of perpetual capital instruments		**900,000**	1,200,000
Redemption of perpetual capital instruments		**(1,200,000)**	(1,173,000)
Dividends paid	51	**(143,473)**	(137,052)
Dividends paid to non-controlling shareholders of subsidiaries		**(292,777)**	–
Net cash flows from financing activities		**3,221,359**	1,674,639

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,353,297**	1,425,079
Cash and cash equivalents at beginning of year		**4,835,079**	3,385,232
Effect of foreign exchange rate changes, net		**23,618**	24,768
CASH AND CASH EQUIVALENTS AT END OF YEAR		**7,211,994**	4,835,079
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**7,211,994**	4,835,079

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION

China SCE Property Holdings Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in property development, property investment and property management in the People's Republic of China (the "PRC") during the year.

In the opinion of the directors, the ultimate holding company of the Company is Newup Holdings Limited, which is incorporated in the British Virgin Islands (the "BVI").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Affluent Way International Limited ø^	BVI	US$1	100	–	Investment holding
South China Group (H.K.) Limited ø^	Hong Kong	HK$100	–	100	Investment holding
Xiamen Zhongjun Industrial Co., Ltd.** (廈門中駿集團有限公司#)	China	HK$1,670,000,000	–	100	Investment holding and trading of construction materials
Beijing Dushishengjing Real Estate Development Co., Ltd.* (北京都市聖景房地產開發有限公司#)	China	RMB10,000,000	–	100	Property development
Zhangzhou Long Wen Hua Gang Real Estate Development Co., Ltd.* (漳州龍文華港房地產發展有限公司#)	China	RMB100,000,000	–	100	Property development
Beijing Jinhui Real Estate Development Co., Ltd.** (北京京匯房地產開發有限公司#)	China	RMB100,000,000	–	100	Property development and property investment
Fujian Zhongjun Industrial Co., Ltd.* (福建中駿置業有限公司#)	China	RMB1,000,000,000	–	100	Investment holding and property development

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhongjun (Quanzhou) Real Estate Development Co., Ltd.* (中駿（泉州）房地產開發有限公司#)	China	RMB315,000,000	–	100	Property development and property investment
Shanxi Yuanhong Real Estate Development Co., Ltd.* (山西源宏房地產開發有限公司#)	China	RMB100,000,000	–	70	Property development
Fujian Straits West-Coast Investment Co., Ltd.* ("West-Coast Investment") (福建省海峽西岸投資有限公司#)	China	RMB700,000,000	–	58	Property development and property investment
Quanzhou Puxi Third Property Co., Ltd.*** (泉州市浦西三號置業有限公司#)	China	RMB900,000,000	–	100	Property development and property investment
South Fujian Gold Coast Resort Co., Ltd. Shishi** ("Shishi Gold Coast") (石獅市閩南黃金海岸渡假村有限公司#)	China	RMB800,000,000	–	45	Property development and property investment
Quanzhou Junxiang Real Estate Development Co., Ltd.* (泉州駿祥房地產開發有限公司#)	China	RMB100,000,000	–	51	Property development
Nanchang Zhongjun Real Estate Development Co., Ltd.* (南昌中駿房地產開發有限公司#)	China	RMB100,000,000	–	100	Property development
Shishi Junde Real Estate Development Co., Ltd.* (石獅駿德房地產開發有限公司#)	China	RMB600,000,000	–	60	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhangzhou Junmei Real Estate Development Co., Ltd.*** (漳州駿美房地產開發有限公司#)	China	RMB300,000,000	–	85	Property development
Shanghai Juntai Real Estate Development Co., Ltd.* (上海駿泰房地產開發有限公司#)	China	RMB750,000,000	–	100	Property development
Shenzhen Pacific Prestige Real Estate Development Limited** (深圳泛亞房地產開發有限公司#)	China	HK$160,000,000	–	82	Property development
Sanhe Hengmei Real Estate Co., Ltd.* (三河市恒美房地產有限公司#)	China	RMB100,000,000	–	55	Property development
Zhangzhou Junjing Real Estate Development Co., Ltd.* (漳州駿景房地產開發有限公司#)	China	RMB100,000,000	–	75	Property development
Quanzhou Junhui Real Estate Development Co., Ltd.*** (泉州駿輝房地產開發有限公司#)	China	RMB250,000,000	–	60	Property development and property investment
Tianjin Junrun Real Estate Development Co., Ltd.*^ (天津駿潤房地產開發有限公司#)	China	RMB100,000,000	–	100	Property development
Shanghai Junfu Real Estate Development Co., Ltd.* (上海駿富房地產開發有限公司#)	China	RMB960,000,000	–	100	Property development
Beijing Junyu Real Estate Development Co., Ltd.* (北京駿宇房地產開發有限公司#)	China	RMB400,000,000	–	100	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Junda Real Estate Development Co., Ltd.* (北京駿達房地產開發有限公司#)	China	RMB30,000,000	–	100	Property development
Tianjin Junrui Real Estate Development Co., Ltd.* (天津駿瑞房地產開發有限公司#)	China	RMB100,000,000	–	100	Property development
Tianjin Junkun Real Estate Development Co., Ltd.* (天津駿坤房地產開發有限公司#)	China	RMB100,000,000	–	100	Property development
Nanchang Junda Real Estate Development Co., Ltd.* (南昌駿達房地產開發有限公司#)	China	RMB100,000,000	–	100	Property development
Shanghai Junwo Real Estate Development Co., Ltd.* (上海駿沃房地產開發有限公司#)	China	RMB600,000,000	–	100	Property development and property investment
Shanghai Heng Zhi Property Co., Ltd.* ("Shanghai Heng Zhi") (上海衡智房地產有限公司#)	China	RMB100,000,000	–	100	Property development
Shanghai Junbo Real Estate Development Co., Ltd.*** (上海駿博房地產開發有限公司#)	China	RMB220,000,000	–	100	Property development
Shanghai Junming Real Estate Development Co., Ltd.*** (上海駿鳴房地產開發有限公司#)	China	RMB750,000,000	–	100	Property development
Hangzhou Bailu Real Estate Development Co., Ltd.* ("Hangzhou Bailu") (杭州白鷺房地產開發有限公司#)	China	RMB8,000,000	–	100	Property development

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

* Registered as limited liability companies under the PRC law

** Registered as wholly-foreign-owned entities under the PRC law

*** Registered as Sino-foreign joint ventures under the PRC law

The English names of these companies represent the best effort made by management of the Company to directly translate their Chinese names as no official English names have been registered.

^ At 31 December 2016, the equity interests of these companies were pledged to secure certain bank and other borrowings of RMB3,833,292,000 (2015: RMB682,719,000) granted to the Group (note 32).

ø As at 31 December 2016, the equity interests of these companies were pledged under share mortgage to the holders of the senior notes of US$350,000,000 at a coupon rate of 10.0% due 2020 issued in July 2015 (the "2015 Senior Notes") (note 33).
At 31 December 2015, the equity interests of these companies were pledged under share mortgage to the holders of the senior notes to secure the senior notes of US$350,000,000 at a coupon rate of 11.5% due 2017 issued in November 2012 and January 2013 (the "2012 Senior Notes") and the 2015 Senior Notes (note 33).

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, available-for-sales investment and derivative financial instruments which have been measured at fair value.

These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has fully assessed and adopted, to the extent that is relevant to the Group, the following new and revised HKFRSs for the first time for the current year's financial statements.

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

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, and amendments to HKAS 27 (2011), which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit and loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the assets. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(c) The *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

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

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date is determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, completed properties held for sale, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person;

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

    (ii) has significant influence over the Group; or

    (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

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

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

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

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

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

Property and equipment and depreciation

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property and equipment and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land under finance leases	Over the lease terms
Buildings	Over the lease terms
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and office equipment	19% to 25%
Transportation equipment	10% to 25%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Revenue is only recognised upon completion of the development. Sales deposits/instalments received and receivable from purchasers in respect of pre-sales of properties under development prior to completion of the development are included in current liabilities.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of total land and construction costs attributable to the unsold properties. Net realisable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangement

The Group has entered into a service concession arrangement with a government body in Quanzhou, the PRC, for the operation and management of certain sports and recreation facilities. The transactions related to such service concession arrangement are accounted for by the Group as follows:

Consideration paid by the Group

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public services. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible asset (other than goodwill)" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below.

Contractual obligations to restore the sports and recreation facilities to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence. The obligations are (a) to maintain the sports and recreation facilities it operates to a specified level of serviceability and (b) to restore the sports and recreation facilities to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sports and recreation facilities, except for the upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible asset (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement of an intangible asset recognised in profit or loss in the period is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible asset (other than goodwill) *(Continued)*

Operating concession

Operating concession represents the right to operate certain sports and recreation facilities and is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the period of the operating concession granted to the Group of 30 years.

Investment properties

Investment properties include both completed investment properties and investment properties under construction.

Completed investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Investment properties under construction or development for future use as investment properties are classified as investment properties under construction. Such properties under construction are measured initially at cost, including transaction costs, and stated at fair value, subsequent to initial recognition, at the end of the reporting period when the fair value can be determined reliably.

Gains or losses arising from changes in the fair values of completed investment properties and investment properties under construction are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of a completed investment property or an investment property under construction are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investment as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below. Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor 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 reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments *(Continued)*

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, accruals, amounts due to related parties, interest-bearing bank and other borrowings and senior notes and domestic bonds.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing bank and other borrowings and domestic bonds are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Loans and borrowings *(Continued)*

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Senior notes

Senior notes issued by the Company that contain both liability and early redemption option (which is not closely related to the host contract) are classified separately into respective items on initial recognition. At the date of issue, both the liability and early redemption option components are recognised at fair value.

In subsequent periods, the liability component of the senior notes is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the senior notes are allocated to the liability and early redemption components in proportion to their relative fair values. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the senior notes using the effective interest method.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Perpetual capital instruments

Perpetual capital instruments with no contracted obligation to repay its principal or to pay any distribution are classified as part of equity.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sales of completed properties, when the significant risks and rewards of ownership of the properties are transferred to the purchasers, that is when the construction of the relevant properties have been completed and the properties have been delivered to the purchasers pursuant to the sales agreement, and the collectability of related receivables is reasonably assured;

(b) from the rendering of services, when the services have been rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) facilities rental income, on a time proportion basis over the lease terms; and

(f) from the Land Development Contract and the Supplemental Contract (as defined in note 19), upon the transfer of risks and rewards in connection with the land parcel developed and when the amount of revenue can be measured reliably.

Land development contract

The Group has entered into a land development contract (the "Land Development Contract") with the local government of Nan'an City (the "Nan'an Government"), the PRC, to carry out the construction and preparation works in respect of land infrastructure and ancillary public facilities on certain land parcels in Nan'an City.

Pursuant to the Supplemental Contract (as defined in note 19), upon completion of the necessary construction and preparation works of each land parcel, the Nan'an Government will pay the Group the construction and other related costs plus a margin. Such amount will be paid by the Nan'an Government upon the related land parcels to be sold by the Nan'an Government through public auction.

Revenue from the Land Development Contract is recognised upon the transfer of risks and rewards in connection with the land parcel developed and when the amount of revenue can be measured reliably, which occurs upon the completion of related construction and preparation works as well as the sales of the relevant land parcel. The timing of sales of each land parcel by the Nan'an Government is uncertain and out of the control of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Land development contract *(Continued)*

Costs incurred by the Group in connection with the Land Development Contract comprise the aggregate costs of construction, materials and supplies, capitalised borrowing costs on related borrowing funds during the period of development and other costs directly attributable to such Land Development Contract and are classified as "Contract in progress" before the relevant land parcels are sold.

Contract in progress is stated at the lower of cost and net realisable value. Net realisable value takes into account the Group's revenue derived from the construction and preparation work carry out less costs to completion and the costs to be incurred in realising the revenue based on prevailing market conditions.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("Equity-Settled Transactions").

The cost of Equity-Settled Transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 37 to the financial statements.

The cost of Equity-Settled Transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions cannot be used to reduce the contributions payable by the Group.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme (the "Pension Scheme") operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the Pension Scheme. The only obligation of the Group with respect to the Pension Scheme is to pay the ongoing contributions under the Pension Scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Pension Scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends are recognised as a liability when they have been approved by the shareholders.

Foreign currencies

These financial statements are presented in RMB, which is the Group's presentation currency. The functional currency of the Company is Hong Kong dollars ("HK$") while RMB is used as the presentation currency of the financial statements of the Company for the purpose of aligning with the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on these monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain subsidiaries, joint ventures and associates operating outside the PRC are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of non-PRC entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for these portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.
Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as investment properties under construction included in investment properties if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are subject to revaluation at the end of each reporting period.

Valuation of properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. The cost of each unit in each phase of development is determined using the weighted average method. The estimated net realisable value is the estimated selling price less selling expenses and the estimated cost of completion (if any), which are estimated based on the best available information.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in a provision for properties under development and completed properties held for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Allocation of construction cost on properties under development

When developing properties, the Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to each phase are allocated to each phase based on the saleable floor area of each phase as a percentage of the total saleable floor area of the entire project. The cost of the unit sold is determined by the floor area in square metres sold during the year multiplied by the average cost per square metre of that particular phase of the project.

Whether the presumption that investment properties stated at fair value are recovered through sale is rebutted in determining deferred tax

The Group has investment properties located in the PRC which are measured at fair value. Investment property is property held to earn rentals or for capital appreciation or both. In considering whether the presumption in HKAS 12 *Income Taxes* that an investment property measured at fair value will be recovered through sale is rebutted in determining deferred tax, the Group has developed certain criteria in making that judgement, such as whether an investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time or through sale. The presumption is rebutted only in the circumstance that there is sufficient evidence such as historical transaction, future development plan and management's intention to demonstrate that the investment property is held with the objective to consume substantially all of the economic benefits over time, rather than through sale. Continuous assessments on the presumption will be made by management at each reporting date.

Consolidation of entities in which the Group holds less than majority of voting rights

The Group considers that it controls Grand Richy Investments Limited ("Grand Richy") and its subsidiaries including Shishi Gold Coast, even though it owns less than 50% of the voting rights. This is because the Group had reached an agreement with one of the shareholders of Grand Richy in the prior year for the entrustment of that shareholder's power in the board of directors of Grand Richy to the Group. Accordingly, the Group is able to control and direct the financing and operating activities of Grand Richy.

Estimation uncertainty

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Estimation of fair value of investment properties

Investment properties, including completed investment properties and investment properties under construction, were revalued at each reporting date during the year based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each reporting date.

PRC corporate income tax ("CIT")

The Group is subject to income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the tax authorities, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

PRC land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculation and payments with the tax authorities for certain of its property development projects. The final outcome could be different from the amounts that were initially recorded.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Allowance on trade and other receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and aged analysis of the outstanding receivables and on management's estimation. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Provision for major overhauls

The Group has contractual obligations which it must fulfil as a condition of the operating concession granted by the grantor, which are (a) to maintain the sports and recreation facilities it operates to a specified level of serviceability and (b) to restore the sports and recreation facilities to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sports and recreation facilities, except for the upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Group to estimate the expected future cash outlays on major overhauls of the facilities over the service concession period and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

5. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the businesses of property development, property investment, property management, land development and project management. For management purposes, the property development and property investment businesses are monitored as one operating segment on a project basis to allocate resources and assess performance. For financial reporting purposes, the property management segment, land development segment and project management segment are combined with the property development and investment segment as its reported revenue, reported results and assets are less than 10% of the consolidated revenue, consolidated profit and consolidated assets of the Group.

The Group's revenue from external customers from each product or service is set out in note 6 to the financial statements.

The Group's revenue from external customers is derived solely from its operations in the PRC, and the non-current assets of the Group are substantially located in the PRC.

During the years ended 31 December 2016 and 2015, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, represents the gross proceeds, net of business tax, value-added tax and other sales related taxes from the sales of properties; gross rental income received and receivable from investment properties, income from property management segment, land development income received and income from project management segment, net of business tax and value-added tax, received and receivable during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	2016 RMB'000	2015 RMB'000
Revenue		
Sales of properties	**11,705,120**	10,460,796
Gross rental income	**136,636**	116,970
Property management fees	**165,335**	112,314
Land development income	**397,490**	–
Project management income	**76,102**	–
	12,480,683	10,690,080
Other income and gains		
Bank interest income	**38,821**	39,666
Foreign exchange gain, net	**75,382**	–
Forfeiture income on deposits received	**5,673**	13,145
Gain on disposal of items of property and equipment, net	**8,785**	495
Fair value gain of derivative financial instruments		
— transactions not qualifying as hedges	**139,821**	–
Gain on bargain purchase (note 41)	**43,977**	–
Others	**29,013**	26,859
	341,472	80,165

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on bank and other borrowings, senior notes and domestic bonds	**1,159,771**	1,118,151
Increase in a discounted amount of provision for major overhauls arising from the passage of time (note 35)	**1,460**	1,200
Total interest expense on financial liabilities not at fair value through profit or loss	**1,161,231**	1,119,351
Less: Interest capitalised	**(844,337)**	(850,310)
	316,894	269,041

NOTES TO FINANCIAL STATEMENTS

31 December 2016

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2016 RMB'000**	2015 RMB'000
Cost of properties sold		**8,912,734**	7,573,263
Cost of services provided		**442,090**	106,068
Depreciation	14	**24,678**	25,171
Amortisation of land lease payments	16	**21,595**	24,551
Amortisation of an intangible asset*	17	**166**	167
Provision for major overhauls	35	**4,787**	4,582
Minimum lease payments under operating leases for land and buildings		**12,512**	5,497
Direct operating expenses (including repairs and maintenance) arising from rental-generating investment properties		**298**	265
Auditor's remuneration		**3,435**	3,245
Employee benefit expenses (including directors' remuneration (note 9)):			
Salaries and other staff costs		**308,595**	229,814
Equity-settled share option expense		**2,833**	–
Pension scheme contributions		**30,249**	23,552
Less: Amount capitalised		**(35,259)**	(48,687)
		306,418	204,679
Premium paid on early redemption of senior notes**		**129,454**	53,107
Write down to net realisable value of completed properties held for sale		**34,306**	–
Loss on disposal of investment properties		**55**	300
Gain on disposal of items of property and equipment, net		**(8,785)**	(495)
Exchange differences arising from retranslation of senior notes, net		**–**	27,918
Other foreign exchange (gains)/losses, net		**(75,382)**	53,756
Exchange (gains)/losses, net		**(75,382)**	81,674

* The amortisation of an intangible asset for the year is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

** This item is included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income of the Group.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 **RMB'000**	2015 RMB'000
Fees	**708**	672
Other emoluments:		
Salaries, allowances and benefits in kind	**6,682**	6,082
Discretionary performance related bonuses	**7,908**	7,187
Equity-settled share option expense	**323**	–
Pension scheme contributions	**117**	115
	15,030	13,384
	15,738	14,056

NOTES TO FINANCIAL STATEMENTS

31 December 2016

9. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2016						
Independent non-executive directors:						
Mr. Ting Leung Huel Stephen	**236**	**–**	**–**	**–**	**–**	**236**
Mr. Lu Hong Te	**236**	**–**	**–**	**–**	**–**	**236**
Mr. Dai Yiyi	**236**	**–**	**–**	**–**	**–**	**236**
	708	**–**	**–**	**–**	**–**	**708**

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2015						
Independent non-executive directors:						
Mr. Ting Leung Huel Stephen	224	–	–	–	–	224
Mr. Lu Hong Te	224	–	–	–	–	224
Mr. Dai Yiyi	224	–	–	–	–	224
	672	–	–	–	–	672

9. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2016						
Executive directors:						
Mr. Wong Chiu Yeung ("Mr. Wong")	–	1,592	2,388	–	15	3,995
Mr. Chen Yuanlai	–	1,294	1,510	–	15	2,819
Mr. Cheng Hiu Lok	–	1,294	1,510	–	15	2,819
Mr. Li Wei ("Mr. Li")*	–	1,251	1,250	–	36	2,537
Mr. Huang Youquan	–	1,251	1,250	323	36	2,860
	–	6,682	7,908	323	117	15,030

* Mr. Li has resigned as an executive director of the Company with effect from 1 January 2017.

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2015						
Executive directors:						
Mr. Wong	–	1,430	2,145	–	15	3,590
Mr. Chen Yuanlai	–	1,167	1,362	–	15	2,544
Mr. Cheng Hiu Lok	–	1,167	1,362	–	15	2,544
Mr. Li*	–	1,159	1,159	–	35	2,353
Mr. Huang Youquan	–	1,159	1,159	–	35	2,353
	–	6,082	7,187	–	115	13,384

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2015: five) directors, details of whose remuneration are set out in note 9 above.

11. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2015: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the cities in which the Group's subsidiaries operate.

	2016 RMB'000	2015 RMB'000
Current charge for the year:		
PRC CIT	**577,927**	589,551
PRC LAT	**447,462**	345,668
Overprovision in prior years, net:		
Mainland China	**(84,410)**	(79,855)
	940,979	855,364
Deferred (note 34)	**112,355**	125,071
Total tax charge for the year	**1,053,334**	980,435

11. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory/applicable rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2016 **RMB'000**	2015 RMB'000
Profit before tax	**3,493,785**	2,548,979
At the statutory/applicable rates of different jurisdictions	**888,760**	696,742
Lower tax rates for specific cities	**(63,498)**	(29,719)
Adjustments in respect of current tax of previous periods	**(84,410)**	(79,855)
Profits and losses attributable to joint ventures and associates	**(200,869)**	(29,052)
Income not subject to tax	**(12,781)**	(3,683)
Expenses not deductible for tax	**178,138**	148,570
Tax losses not recognised	**2,180**	–
Tax effect on unrealised profits arising from transactions within the Group	**1,700**	(1,806)
LAT	**447,462**	345,668
Tax effect of LAT deductible for PRC CIT	**(103,348)**	(66,430)
Tax charge at the Group's effective rate	**1,053,334**	980,435

The share of tax charge for the year ended 31 December 2016 attributable to joint ventures amounting to RMB273,126,000 (2015: RMB81,602,000). The share of tax charge for the year ended 31 December 2016 attributable to associates amounting to RMB529,000 (2015: tax credit of RMB2,644,000). Both are included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss and other comprehensive income.

12. DIVIDENDS

	2016 **RMB'000**	2015 RMB'000
Interim — Nil (2015: HK5 cents per ordinary share)	**–**	137,052
Proposed final — HK14 cents (2015: HK5 cents) per ordinary share	**429,439**	143,473
	429,439	280,525

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares of 3,423,840,000 (2015: 3,423,840,000) in issue during the year (note 36).

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2016 in respect of a dilution as the impact of share options ontstanding had an anti-dilutive effect on the basic earnings per share amount presented.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2015.

14. PROPERTY AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Transportation equipment RMB'000	Total RMB'000
31 December 2016					
At 1 January 2016:					
Cost	100,178	35,852	36,654	94,584	267,268
Accumulated depreciation	(20,524)	(29,014)	(28,109)	(73,232)	(150,879)
Net carrying value	79,654	6,838	8,545	21,352	116,389
At 1 January 2016, net of accumulated depreciation	79,654	6,838	8,545	21,352	116,389
Additions	–	4,404	9,545	6,162	20,111
Acquisition of subsidiaries (note 41)	–	–	307	–	307
Acquisition of subsidiaries that are not a business (note 42)	–	–	45	13	58
Depreciation	(2,901)	(3,369)	(4,290)	(14,118)	(24,678)
Disposals	(2,592)	–	(274)	(291)	(3,157)
At 31 December 2016, net of accumulated depreciation	74,161	7,873	13,878	13,118	109,030
At 31 December 2016:					
Cost	92,722	40,256	44,571	97,872	275,421
Accumulated depreciation	(18,561)	(32,383)	(30,693)	(84,754)	(166,391)
Net carrying value	74,161	7,873	13,878	13,118	109,030

NOTES TO FINANCIAL STATEMENTS

31 December 2016

14. PROPERTY AND EQUIPMENT *(Continued)*

	Land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Transportation equipment RMB'000	Total RMB'000
31 December 2015					
At 1 January 2015:					
Cost	99,585	34,598	33,671	92,308	260,162
Accumulated depreciation	(17,243)	(26,090)	(24,053)	(59,313)	(126,699)
Net carrying value	82,342	8,508	9,618	32,995	133,463
At 1 January 2015, net of accumulated depreciation	82,342	8,508	9,618	32,995	133,463
Additions	593	2,592	3,479	2,818	9,482
Depreciation	(3,281)	(2,924)	(4,508)	(14,458)	(25,171)
Disposals	–	(1,338)	(44)	(3)	(1,385)
At 31 December 2015, net of accumulated depreciation	79,654	6,838	8,545	21,352	116,389
At 31 December 2015:					
Cost	100,178	35,852	36,654	94,584	267,268
Accumulated depreciation	(20,524)	(29,014)	(28,109)	(73,232)	(150,879)
Net carrying value	79,654	6,838	8,545	21,352	116,389

At 31 December 2016, certain of the Group's buildings with an aggregate carrying amount of RMB71,821,000 (2015: RMB71,985,000) were pledged to banks to secure certain bank and other borrowings granted to the Group (note 44).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

15. INVESTMENT PROPERTIES

	Completed RMB'000	Under construction RMB'000	Total RMB'000
Carrying amount at 1 January 2015	4,668,200	133,000	4,801,200
Additions	66,942	53,559	120,501
Disposals	(7,700)	–	(7,700)
Transfer from properties under development	–	129,668	129,668
Transfer from completed properties held for sale	192,809	–	192,809
Net gain from a fair value adjustment	377,690	20,332	398,022
Transfer	186,559	(186,559)	–
Carrying amount at 31 December 2015 and 1 January 2016	**5,484,500**	**150,000**	**5,634,500**
Additions	**4,353**	**178,733**	**183,086**
Disposals	**(14,100)**	**–**	**(14,100)**
Transfer from properties under development	**–**	**914,613**	**914,613**
Transfer from completed properties held for sale	**162,919**	**–**	**162,919**
Net gain from a fair value adjustment	**243,348**	**305,034**	**548,382**
Transfer	**242,380**	**(242,380)**	**–**
Carrying amount at 31 December 2016	**6,123,400**	**1,306,000**	**7,429,400**

All of the Group's investment properties are situated in Mainland China.

The Group's investment properties were revalued on 31 December 2016 based on valuations performed by DTZ Cushman & Wakefield, independent professionally qualified valuers, at RMB7,429,400,000 (2015: RMB5,634,500,000).

At 31 December 2016, the Group's investment properties with an aggregate carrying amount of RMB2,708,900,000 (2015: RMB2,728,900,000) were pledged to secure certain bank and other borrowings granted to the Group (note 44).

The Group's completed investment properties are leased to third parties and companies controlled by Mr. Wong and his family members (together with Mr. Wong, the "Wong Family") under operating leases, further summary details of which are included in note 45(a).

15. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy

For the years ended 31 December 2016 and 2015, the fair value measurements of all investment properties of the Group were categorised within Level 3 of the fair value hierarchy and details of their movements are disclosed above.

In the opinion of the directors, for all investment properties that are measured at fair value, the properties have been used their highest and best use.

The following table illustrates the fair value measurement of the Group's investment properties:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2016	2015
	RMB'000	RMB'000
Recurring fair value measurement for:		
Office properties	**1,966,900**	724,900
Retail properties	**5,174,500**	4,761,300
Residential properties	**–**	14,100
Car parking spaces	**288,000**	134,200
	7,429,400	5,634,500

During the year, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

15. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(Continued)*

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range (weighted average) 2016	2015
Office properties	Investment method and direct comparison method (refer below)	Estimated rental value per square metre and per month (RMB)	**42 to 180**	42 to 121
		Capitalisation rate	**4% to 6%**	5.5% to 6%
		Price per square metre (RMB)	**12,500 to 38,000**	10,400 to 27,200
Retail properties	Investment method and direct comparison method (refer below)	Estimated rental value per square metre and per month (RMB)	**36 to 710**	48 to 637
		Capitalisation rate	**5% to 6.5%**	5% to 6.5%
		Price per square metre (RMB)	**20,000 to 94,000**	17,600 to 90,000
Residential properties	Investment method and direct comparison method (refer below)	Estimated rental value per square metre and per month (RMB)	**N/A**	115 to 150
		Capitalisation rate	**N/A**	2.5%
		Price per square metre (RMB)	**N/A**	55,600 to 68,600
Car parking spaces	Investment method and direct comparison method (refer below)	Estimated rental value per car parking space and per month (RMB)	**800 to 1,800**	850 to 1,300
		Capitalisation rate	**4% to 5%**	5%
		Price per car parking space (RMB)	**170,000 to 270,000**	170,000 to 379,000

The valuations of completed investment properties and investment properties under construction were based on either the investment method by capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary rental income potential of the properties or the direct comparison method by reference to comparable market transactions.

15. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(Continued)*

Significant increases (decreases) in estimated rental value per square metre or per car parking space or price per square metre in isolation would result in a significantly higher (lower) fair value of the investment properties. Significant increases (decreases) in the capitalisation rate in isolation would result in a significantly lower (higher) fair value of the investment properties.

Generally, a change in the assumption made for the estimated rental value per square metre and the price per square metre is accompanied by a directionally similar change in the development profit and an opposite change in the capitalisation rate.

16. PREPAID LAND LEASE PAYMENTS

	2016 **RMB'000**	2015 RMB'000
Carrying amount at 1 January	**3,069,407**	2,375,726
Additions	**8,155,260**	2,853,313
Acquisition of subsidiaries that are not a business (note 42)	**685,594**	–
Transfer to properties under development	**(5,187,065)**	(3,284,290)
Transfer from prepayments and deposits	**648,719**	1,149,209
Recognised during the year	**(21,595)**	(24,551)
Carrying amount at 31 December	**7,350,320**	3,069,407
Current portion included in prepayments, deposits and other receivables	**(21,423)**	(21,945)
Non-current portion	**7,328,897**	3,047,462

At 31 December 2016, certain of the Group's leasehold land with an aggregate carrying amount of RMB5,942,152,000 (2015: RMB948,374,000) were pledged to secure certain bank and other borrowings granted to the Group (note 44).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

17. INTANGIBLE ASSET

Operating concession

	2016	2015
	RMB'000	RMB'000
Cost at 1 January, net of accumulated amortisation	**3,819**	3,986
Amortisation provided during the year	**(166)**	(167)
At 31 December	**3,653**	3,819
At 31 December:		
Cost	**4,861**	4,861
Accumulated amortisation	**(1,208)**	(1,042)
Net carrying amount	**3,653**	3,819

On 28 March 2006, Quanzhou Straits Sports Centre Co., Ltd. ("Straits Sports Centre"), a subsidiary of the Group, entered into an operating right concession agreement (the "Operating Right Agreement") with the Quanzhou Sports Bureau (the "Sports Bureau"), a local government body in Quanzhou, the PRC, at a cash consideration of RMB5,000,000. Pursuant to the Operating Right Agreement, Straits Sports Centre is granted an operating concession (the "Operating Concession") to operate and manage certain sports and recreation facilities (the "Facilities") in Quanzhou for a period of 30 years (the "Operating Period").

This service concession arrangement involves the Group as operator (i) paying a specific amount as consideration to obtain the Operating Concession of the Facilities; (ii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the Sports Bureau for the Operating Period; and (iii) receiving a right to charge users using the Facilities. The Group is entitled to operate and manage the Facilities, and is entitled to all the income associated with the operation of the Facilities. However, the relevant government bodies as grantors will control and regulate the scope of services provided and the prices charged by the Group during the Operating Period, retain ownership, and be entitled to any residual interest in the Facilities at the end of the Operating Period.

The cost of the Operating Concession is being amortised over the Operating Period.

18. PROPERTIES UNDER DEVELOPMENT

	2016 **RMB'000**	2015 RMB'000
Properties under development expected to be completed:		
Within normal operating cycle included under current assets	**14,798,538**	12,239,872
Beyond normal operating cycle included under non-current assets	**1,222,958**	1,263,935
	16,021,496	13,503,807
Properties under development expected to be completed within normal operating cycle and recovered:		
Within one year	**7,020,941**	10,200,881
After one year	**7,777,597**	2,038,991
	14,798,538	12,239,872

At 31 December 2016, certain of the Group's properties under development, including the relevant land use rights, with an aggregate carrying amount of RMB9,545,183,000 (2015: RMB5,834,024,000) were pledged to secure certain bank and other borrowings granted to the Group (note 44).

19. CONTRACT IN PROGRESS

	2016 **RMB'000**	2015 RMB'000
At 1 January	**643,194**	566,286
Additions	**28,327**	76,908
Disposal	**(304,697)**	–
At 31 December	**366,824**	643,194

On 18 August 2009, the Group entered into the Land Development Contract with the Nan'an Government to carry out the construction and preparation works in respect of land infrastructure and ancillary public facilities over certain land parcels in Nan'an City. Pursuant to the Land Development Contract, although the Group does not have the ownership title or land use right to such land parcels, when the land parcels are sold by the Nan'an Government through public auctions, the Group is entitled to the sales proceeds arising from such land sales.

Contract in progress represents costs incurred by the Group in connection with the construction and preparation works of the relevant land parcels under the Land Development Contract and comprises relocation and demolition work, costs of construction, materials and supplies, capitalised borrowing costs on related borrowed funds during the period of development and other costs directly attributable to the Land Development Contract.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

19. CONTRACT IN PROGRESS *(Continued)*

On 22 February 2016, the Group entered into a supplemental Land Development Contract (the "Supplemental Contract") with the Nan'an Government, pursuant to which certain terms and conditions of the Land Development Contract were revised. In accordance with the Supplemental Contract, the Group continues to carry out the construction and preparation works in respect of land infrastructure and ancillary public facilities over certain land parcels in Nan'an City and the Nan'an Government will pay the Group the construction and other related costs plus a margin. Such amount will be paid by the Nan'an Government upon the related land parcels to be sold by the Nan'an Government through public auction.

20. INVESTMENTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Share of net assets	**1,301,941**	593,496
Due to joint ventures	**(11,913)**	(11,913)
	1,290,028	581,583

The amounts due to joint ventures are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Group's material joint ventures are as follows:

Name	**Nominal value of registered/ paid-up capital**	**Place of incorporation/ registration and business**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Shanghai Zhongjun Chuangfu Real Estate Co., Ltd. * ("Shanghai Zhongjun Chuangfu") (上海中駿創富房地產有限公司#)	Registered capital of RMB1,800,000,000	China	50[(1)]	Property development and property investment

* Registered as Sino-foreign joint venture under the PRC law

\# The English name of this company represents the best effort made by management of the Company to directly translate its Chinese name as no official English name is registered.

(1) Pursuant to the relevant shareholders' agreements, the Group is entitled to a 40% voting right in the board of directors of this entity.

The above investment is held indirectly by subsidiaries of the Company.

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes:

(a) The following tables illustrate the summarised financial information in respect of Shanghai Zhongjun Chuangfu and Xiamen Vanke Maluanwan Property Co., Ltd. ("Vanke Maluanwan") adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

(i) SUMMARISED FINANCIAL INFORMATION IN RESPECT OF SHANGHAI ZHONGJUN CHUANGFU

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents	**29,967**	2,772
Other current assets	**3,631,915**	2,951,285
Current assets	**3,661,882**	2,954,057
Non-current assets	**1,956,302**	1,893,925
Other current liabilities	**(1,631,052)**	(979,607)
Current liabilities	**(1,631,052)**	(979,607)
Non-current financial liabilities	**(930,871)**	(2,080,000)
Non-current liabilities	**(930,871)**	(2,080,000)
Net assets	**3,056,261**	1,788,375
Reconciliation to the Group's directly held interest in the joint venture (note):		
Proportion of the Group's ownership	**20%**	20%
Carrying amount of the investment	**611,252**	357,675
Revenue	**4,508,748**	–
Bank interest income	**15,892**	1,649
Depreciation	**(720)**	(696)
Tax credit/(expense)	**(894,623)**	1,362
Profit/(loss) and total comprehensive income/(loss) for the year	**1,267,888**	(13,170)

Note: In addition to the directly held 20% interest, the Group also indirectly holds an additional 30% interest.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

(ii) SUMMARISED FINANCIAL INFORMATION IN RESPECT OF VANKE MALUANWAN

	2015 RMB'000
Cash and cash equivalents	272,681
Other current assets	3,800,150
Current assets	4,072,831
Non-current assets	392
Other current liabilities	(3,615,268)
Current liabilities	(3,615,268)
Net assets	457,955
Reconciliation to the Group's directly held interest in the joint venture (note):	
Proportion of the Group's ownership	20%
Carrying amount of the investment	91,591
Revenue	1,662,410
Bank interest income	4,312
Depreciation	(119)
Tax	(192,184)
Profit and total comprehensive income for the year	409,599

Note: Interest is held through a 60% owned subsidiary of the Group.

In the opinion of the directors, Vanke Maluanwan is no longer considered as a material joint venture of the Group for the year ended 31 December 2016 and therefore, summarised financial information for Vanke Maluanwan for the year ended 31 December 2016 is not presented in the financial statements.

(b) The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2016 RMB'000	2015 RMB'000
Share of joint ventures' profit for the year, net	**550,016**	30,794
Share of the joint ventures' other comprehensive loss	**(38,837)**	(25,192)
Share of the joint ventures' total comprehensive income	**511,179**	5,602
Aggregate carrying amount of the Group's investments in the joint ventures	**690,689**	144,230

21. INVESTMENTS IN ASSOCIATES

	2016 **RMB'000**	2015 RMB'000
Share of net assets	**114,195**	34,950

All associates have been accounted for using the equity method in these financial statements and their financial year end date is coterminous with that of the Group.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2016 **RMB'000**	2015 RMB'000
Share of the associates' loss for the year	**(120)**	(497)
Share of the associates' other comprehensive loss	**(95)**	(61)
Share of the associates' total comprehensive loss	**(215)**	(558)
Aggregate carrying amount of the Group's investments in the associates	**114,195**	34,950

22. AVAILABLE-FOR-SALE INVESTMENT

	2016 **RMB'000**	2015 RMB'000
Unlisted equity investment, at fair value	**141,739**	–

The above investment consist of investment in equity security which was designated as available-for-sale financial asset and has no fixed maturity date or coupon rate.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 **RMB'000**	2015 RMB'000
Capped forward cross currency swap contracts classified as non-current asset	**139,821**	–

The Group has entered into various capped forward cross currency swap contracts with a bank to manage its exchange rate exposures.

These capped forward cross currency swap contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging derivatives amounting to RMB139,821,000 were credited to profit or loss during the year (2015: Nil).

24. COMPLETED PROPERTIES HELD FOR SALE

All the completed properties held for sale are stated at the lower of cost and net realisable value.

At 31 December 2016, certain of the Group's completed properties held for sale with an aggregate carrying amount of RMB337,132,000 (2015: RMB2,257,686,000) were pledged to secure certain bank and other borrowings granted to the Group (note 44).

25. TRADE RECEIVABLES

The Group's trade receivables arise from the sales of properties, leasing of investment properties and provision of property management services.

Consideration in respect of properties is payable by the purchasers in accordance with the terms of the related sale and purchase agreements. The Group normally requires its customers to make payment of monthly/quarterly charges in advance in relation to the leasing of investment properties and provision of property management services. The Group generally grants a rent-free period of three months to the lessees of the Group's investment properties, extending up to six months for major customers.

Since the Group's trade receivables are related to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. All trade receivables are non-interest-bearing.

25. TRADE RECEIVABLES *(Continued)*

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**176,520**	172,406
1 to 6 months past due	**3,305**	2,408
7 to 12 months past due	**946**	895
Over 1 year past due	**4,263**	1,695
	185,034	177,404

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of diversified customers with no recent history of default and have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments (note (a))	**1,839,839**	1,396,323
Deposits	**430,681**	461,625
Other receivables (note (b))	**845,931**	1,387,566
	3,116,451	3,245,514
Non-current portion	**(1,519,782)**	(1,041,394)
Current portion	**1,596,669**	2,204,120

Notes:

(a) The balances included prepayments for the acquisition of land use rights in Mainland China amounting to RMB814,291,000 as at 31 December 2016 (2015: RMB838,394,000).

(b) During the year ended 31 December 2016, the consideration for acquisition of non-controlling interests amounting to RMB594,000,000 was settled by way of offsetting against the amount due from the related non-controlling shareholders.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

27. BALANCES WITH RELATED PARTIES

An analysis of the balances with related parties is as follows:

	2016 RMB'000	2015 RMB'000
Due from related parties:		
Joint ventures	**532,125**	574,409
Associates	**2,037**	1,941
	534,162	576,350
Due to related parties:		
Companies controlled by Mr. Wong	**2,343**	987
Joint ventures	**1,529,450**	461,109
Associates	**35,878**	16,413
	1,567,671	478,509

The balances are non-trade in nature, unsecured, interest-free and are repayable on demand.

None of the amounts due from related parties is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

28. CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND PLEDGED DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**8,602,758**	6,247,028
Less: Restricted cash (notes)	**(1,128,823)**	(989,957)
Pledged deposits (note (e))	**(261,941)**	(421,992)
Cash and cash equivalents	**7,211,994**	4,835,079

Notes:

(a) Pursuant to the relevant regulations in the PRC, certain property development companies of the Group are required to place at designated bank accounts certain amounts of pre-sales proceeds of properties as guarantee deposits for the construction of the related properties. The deposits can only be used for purchases of construction materials and payments of construction fees for the relevant property projects. As at 31 December 2016, such guarantee deposits amounted to RMB790,511,000 (2015: RMB706,596,000).

(b) According to the relevant mortgage facility agreements signed by certain subsidiaries of the Group with their banks, the subsidiaries are required to place at designated bank accounts certain amounts as deposits for potential default of mortgage loans advanced to property purchasers. Such guarantee deposits will be released after the property ownership certificates of the relevant properties are passed to the banks. As at 31 December 2016, such deposits amounted to RMB38,620,000 (2015: RMB27,784,000).

(c) Pursuant to a management agreement entered into between the Sports Bureau and Straits Sports Centre, the fund advanced by the Sports Bureau that is deposited in a designated bank account can only be used for payments of construction costs and expenditures incurred for the construction of the Facilities. As at 31 December 2016, such advance amounted to RMB6,000,000 (2015: RMB6,000,000).

(d) In addition to the restrictions as detailed in notes (a), (b) and (c) above, certain subsidiaries of the Group are also required to place certain of their bank deposit amounts as guarantee deposits for the public maintenance fund, or there are restrictions as to the use of certain unutilised bank loan proceeds and proceeds from the perpetual capital instruments (note 39) deposited in the subsidiaries' bank accounts. As at 31 December 2016, the aggregate amount of such deposits amounted to RMB293,692,000 (2015: RMB249,577,000).

(e) The bank deposits were pledged to secure general banking facilities and bills payable granted to the Group (note 44).

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB8,534,948,000 (2015: RMB5,881,050,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. All the bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

29. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	2,540,470	2,133,911
Over 1 year	54,877	371,899
	2,595,347	2,505,810

The trade and bills payables are non-interest-bearing and repayable within the normal operating cycle or on demand.

As at 31 December 2016, certain bills payable of the Group with an aggregate amount of RMB325,417,000 (2015: RMB82,054,000) were secured by certain bank deposits of the Group (note 28).

30. RECEIPTS IN ADVANCE

Receipts in advance represent sales proceeds received from buyers in connection with the Group's pre-sales of properties.

31. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Deposits received	206,921	122,386
Accruals	112,157	130,970
Advances from non-controlling shareholders	874,528	945,128
Other payables	852,474	156,615
	2,046,080	1,355,099

Advances from non-controlling shareholders are unsecured, interest-free and repayable on demand.

Other payables are non-interest-bearing and are expected to be settled within one year.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Contractual interest rate (%) per annum	**Maturity**	**RMB'000**	Contractual interest rate (%) per annum	Maturity	RMB'000
Current						
Bank loans — secured	**2.50–6.00**	**2017**	**1,520,305**	2.01–6.00	2016	1,677,129
Bank loans — unsecured	**2.29–2.35**	**2017**	**277,169**	–	–	–
Current portion of long term bank loans — secured	**4.80–5.46**	**2017**	**1,165,960**	4.99–6.08	2016	1,553,390
Other loans — secured	**5.83–8.50**	**2017**	**464,000**	8.50–11.00	2016	610,000
			3,427,434			3,840,519
Non-current						
Bank loans — secured	**4.80–5.94**	**2018–2019**	**4,766,952**	1.93–8.00	2017–2019	1,722,285
Other loans — secured	**4.75–8.50**	**2018–2019**	**4,226,000**	7.00–10.50	2017–2018	900,000
			8,992,952			2,622,285
			12,420,386			6,462,804

NOTES TO FINANCIAL STATEMENTS

31 December 2016

32. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	2016 **RMB'000**	2015 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**2,963,434**	3,230,519
In the second year	**1,836,222**	1,141,515
In the third to fifth years, inclusive	**2,930,730**	580,770
	7,730,386	4,952,804
Other borrowings repayable:		
Within one year	**464,000**	610,000
In the second year	**1,226,000**	500,000
In the third to fifth years, inclusive	**3,000,000**	400,000
	4,690,000	1,510,000
	12,420,386	6,462,804

Notes:

(a) Certain of the Group's bank and other borrowings are secured by the Group's bank deposits, property and equipment, investment properties, prepaid land lease payments, properties under development and completed properties held for sale, details of which are disclosed in note 44 to the financial statements.

(b) As at 31 December 2016, certain of the Group's bank and other borrowings with an aggregate amount of RMB3,833,292,000 (2015: RMB682,719,000) were secured by share charges in respect of the equity interests of certain subsidiaries of the Group, details of which are set out in note 1 to these financial statements.

(c) Except for certain bank and other borrowings of RMB113,025,000 (2015: RMB706,298,000) and RMB2,903,401,000 (2015: RMB1,419,823,000) as at 31 December 2016 which were denominated in HK$ and United States dollars ("US$"), respectively, all of the Group's bank and other borrowings were denominated in RMB.

(d) At the end of the reporting period, except for certain bank and other borrowings of RMB5,175,000,000 (2015: RMB1,725,770,000) with fixed interest rates, all of the Group's bank and other borrowings bear interest at floating interest rates.

(e) As at 31 December 2015, the Group's bank and other borrowings of RMB532,719,000 were secured by a specific performance obligation imposed on Mr. Wong under which Mr. Wong is required to, among others, (i) remain the single largest shareholder in the Company, (ii) hold legally and beneficially and directly or indirectly 40% or more of all class of the Company's voting share capital and (iii) continue to control the Company.

(f) As at 31 December 2016, the Group's bank and other borrowings of RMB2,733,292,000 (2015: Nil) were secured by a specific performance obligation imposed on the Wong Family and pursuant to which (i) the Wong Family must remain the single largest shareholder in the Company; (ii) the Wong Family must hold legally and beneficially and directly or indirectly 40% or more of all classes of the Company's voting share capital and/or must directly or indirectly control the Company; and (iii) Mr. Wong or a member of the Wong Family must remain to be the chairman of the Board of the Company.

33. SENIOR NOTES AND DOMESTIC BONDS

	2016				2015			
	Principal at original currency 'million	**Contractual interest rate (%) per annum**	**Maturity**	**RMB'000**	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000
2012 Senior Notes	**US$350**	**11.50**	**2017**	**–**	US$350	11.50	2017	2,301,335
2015 Senior Notes	**US$350**	**10.00**	**2020**	**2,387,676**	US$350	10.00	2020	2,224,335
Domestic Bonds	**RMB3,500**	**5.18–5.30**	**2020**	**3,470,293**	RMB3,500	5.18-5.30	2020	3,463,811
				5,857,969				7,989,481

The Company, at its option, can redeem all or a portion of the 2015 Senior Notes at any time prior to the maturity date at the redemption prices (principal amount plus applicable premium) plus accrued and unpaid interest up to the redemption date, as set forth in the written agreements between the Company and the trustees of the 2015 Senior Notes.

The 2012 Senior Notes and the 2015 Senior Notes are secured by pledges over the equity interests of certain subsidiaries of the Company (note 1).

On 4 February 2016, the Company redeemed in full the outstanding 2012 Senior Notes before maturity at a redemption price of 105.75% of the principal amount of the outstanding 2012 Senior Notes plus accrued and unpaid interest.

As at 31 December 2016, the fair values for the 2015 Senior Notes and the Domestic Bonds amounted to RMB2,674,546,000 and RMB3,569,000,000, respectively.

As at 31 December 2015, the fair values for the 2012 Senior Notes, the 2015 Senior Notes and the Domestic Bonds amounted to RMB2,386,994,000, RMB2,367,216,000 and RMB3,510,500,000, respectively.

The fair values of the 2012 Senior Notes, the 2015 Senior Notes and the Domestic Bonds are based on price quotations from financial institution at the reporting date.

The fair values of the early redemption options of the 2015 Senior Notes was not significant and was therefore not recognised by the Group on inception and at 31 December 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

34. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Revaluation of properties RMB'000
At 1 January 2015	741,471
Charged to profit or loss during the year	98,530
At 31 December 2015 and 1 January 2016	840,001
Charged to profit or loss during the year	134,841
Acquisition of subsidiaries (note 41)	29,519
At 31 December 2016	1,004,361

34. DEFERRED TAX *(Continued)*

Deferred tax assets

	Unrealised profits arising from intra-group transactions RMB'000	Provision of LAT RMB'000	Accruals RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2015	31,118	92,302	20,557	114,114	258,091
Credited/(charged) to profit or loss during the year	3,827	(20,724)	(20,557)	10,913	(26,541)
At 31 December 2015 and 1 January 2016	34,945	71,578	–	125,027	231,550
Acquisition of subsidiaries (note 41)	–	–	–	3,917	3,917
Acquisition of subsidiaries that are not a business (note 42)	–	–	–	532	532
Credited/(charged) to profit or loss during the year	(12,735)	11,481	–	23,740	22,486
At 31 December 2016	22,210	83,059	–	153,216	258,485

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2016 RMB'000	2015 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**247,971**	188,539
Net deferred tax liabilities recognised in the consolidated statement of financial position	**993,847**	796,990

NOTES TO FINANCIAL STATEMENTS

31 December 2016

34. DEFERRED TAX *(Continued)*

At 31 December 2016, the Group has tax losses arising in Mainland China of RMB631,911,000 (2015: RMB510,435,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of certain of these losses of RMB19,048,000 (2015: RMB10,328,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these tax losses can be utilised.

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB7,407,456,000 at 31 December 2016 (2015: RMB5,854,950,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. PROVISION FOR MAJOR OVERHAULS

As detailed in note 17 to these financial statements, the Group has contractual obligations which it must fulfil as a condition of the Operating Concession under the Operating Right Agreement. The obligations are (a) to maintain the Facilities it operates to a specified level of serviceability and (b) to restore the Facilities to a specified condition before they are handed over to the Sports Bureau at the end of the Operating Concession. These contractual obligations to maintain or restore the sports and recreation facilities, except for the upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

35. PROVISION FOR MAJOR OVERHAULS *(Continued)*

The movements in the provision for major overhauls of the Facilities for the year are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**27,315**	24,842
Additional provisions	**4,787**	4,582
Increase in a discounted amount arising from the passage of time (note 7)	**1,460**	1,200
Amount utilised during the year	**(998)**	(3,309)
At 31 December	**32,564**	27,315

36. SHARE CAPITAL

Shares

	2016 HK$	2015 HK$
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000,000**	1,000,000,000
Issued and fully paid:		
3,423,840,000 ordinary shares of HK$0.10 each	**342,384,000**	342,384,000
Equivalent to RMB'000	**295,732**	295,732

There was no movement in the Company's share capital during the year.

Share options

Details of the Company's share option scheme are included in note 37 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

37. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted at the special general meeting held on 6 January 2010. Employees (including directors) of the Group are included in the eligible participants under the Scheme. A total of 284,000,000 shares will be available for issue under the Scheme, which represented 10% of the aggregate of the shares in issue on the date the shares of the Company commenced trading on the Hong Kong Stock Exchange. Each participant cannot be entitled to more than 1% of the total number of shares in issue in any 12-month period. The option shall expire, in any event, not later than 10 years from the date of grant of the option subject to the provision for early termination set out in the Scheme. The Scheme remains in force until 5 January 2020.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to directors, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 5 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of the share option is determinable by the directors, but should not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange daily quotation sheet on the date of grant of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the shares of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholder's meetings.

37. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Scheme during the year:

	2016 Exercise price HK$	2016 Number of options '000
At beginning of year	–	–
Granted during the year	**2.4**	**284,000**
At end of year	**2.4**	**284,000**

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2016

Number of options '000	Exercise price HK$	Exercise period
214,000	2.4	23 June 2017 to 5 January 2020
70,000	2.4	23 December 2018 to 5 January 2020
284,000		

The fair value of the share options granted during the year was HK$78,448,000 (equivalent to RMB70,281,000) (ranged from HK$0.275 to HK$0.276 each), of which the Group recognised a share option expense of HK$3,162,000 (equivalent to RMB2,833,000) (2015: Nil) during the year ended 31 December 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

37. SHARE OPTION SCHEME *(Continued)*

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted and the following table lists the major inputs used:

	2016
Dividend yield (%)	**4.33**
Expected volatility (%)	**25.59**
Risk-free interest rate (%)	**2.1**
Exit rates of the grantees of the options granted under the Scheme (%)	**0**

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 284,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 284,000,000 additional ordinary shares of the Company and additional share capital of HK$28,400,000 (equivalent to RMB25,444,000) and share premium of HK$653,200,000 (equivalent to RMB559,756,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 284,000,000 share options outstanding under the Scheme, which represented approximately 8.29% of the Company's shares in issue as at that date.

38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on pages 84 and 85 of the financial statements.

(b) Capital reserve

Capital reserve represents the difference between the amounts of consideration and the carrying values of non-controlling interests acquired or disposed of.

(c) Statutory surplus reserve

Transfers from retained profits to the statutory surplus reserve were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

For the entities concerned, the statutory surplus reserve can be used to cover previous years' losses, if any, and may be converted into capital in proportion to equity holders' existing equity holdings, provided that the balance after such conversion is not less than 25% of their registered capital.

(d) Merger reserve

The merger reserve represents the excess of the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control upon the group reorganisation completed in December 2007.

(e) Share option reserve

Share option reserve represents the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 3 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

39. PERPETUAL CAPITAL INSTRUMENTS

	RMB'000
Carrying amount at 1 January 2015	1,173,000
Issuance of perpetual capital instruments	1,200,000
Redemption of perpetual capital instruments	(1,173,000)
Carrying amount at 31 December 2015 and 1 January 2016	1,200,000
Issuance of perpetual capital instruments	900,000
Redemption of perpetual capital instruments	(1,200,000)
Carrying amount at 31 December 2016	900,000

The perpetual capital instruments are jointly guaranteed by the Company and certain subsidiaries, secured by pledged of the shares of the subsidiaries. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the issuers of the perpetual capital instruments.

40. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2016	2015
Percentage of equity interest held by non-controlling interests:		
West-Coast Investment	**42%**	42%

	2016 **RMB'000**	2015 RMB'000
Profit/(loss) for the year attributable to non-controlling interests:		
West-Coast Investment	**52,917**	(5,548)
Accumulated balances of non-controlling interests at the reporting dates:		
West-Coast Investment	**964,606**	911,689

40. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

The following table illustrates the summarised financial information of West-Coast Investment. The amounts disclosed are before any inter-company eliminations:

	2016 **RMB'000**	2015 RMB'000
Revenue	**114,146**	309,858
Other income	**134,050**	6,137
Total expenses	**(122,201)**	(329,205)
Profit/(loss) for the year	**125,995**	(13,210)
Total comprehensive income/(loss) for the year	**125,995**	(13,210)
Current assets	**194,858**	1,420,899
Non-current assets	**2,671,908**	2,401,685
Current liabilities	**(218,153)**	(1,329,734)
Non-current liabilities	**(351,931)**	(322,163)
Net cash flows used in operating activities	**(202,659)**	(250,281)
Net cash flows from investing activities	**131,981**	187,268
Net cash flows from/(used in) financing activities	**127,600**	(46,170)
Net increase/(decrease) in cash and cash equivalents	**56,922**	(109,183)

NOTES TO FINANCIAL STATEMENTS

31 December 2016

41. BUSINESS COMBINATION

On 25 April 2016, the Group entered into an equity transfer agreement with an independent third party for the acquisition of the entire equity interest in Shanghai Heng Zhi for a consideration of RMB617,010,000. The acquisition was made as part of the Group's strategy to extract development potential of lands acquired which may potentially bring additional revenue to the Group. The acquisition was completed on 10 July 2016.

The fair values of the identifiable assets and liabilities of Shanghai Heng Zhi as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property and equipment	14	307
Properties under development		1,064,000
Deferred tax assets	34	3,917
Prepayments, deposits and other receivables		5,111
Cash and cash equivalents		7,038
Trade and bills payables		(13,392)
Other payables and accruals		(583,485)
Interest-bearing bank and other borrowings		(360,000)
Deferred tax liabilities	34	(29,519)
Total identifiable net assets at fair value		93,977
Gain on bargain purchase recognised in other income and gains in profit or loss	6	(43,977)
		50,000
Satisfied by:		
Cash		617,010
Shareholders' loans		(567,010)
		50,000

41. BUSINESS COMBINATION *(Continued)*

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	RMB'000
Cash consideration	(50,000)
Cash and cash equivalents acquired	7,038
Net outflow of cash and cash equivalents included in cash flows from investing activities	(42,962)

The results of the subsidiaries acquired during the year had no significant impact on the Group's consolidated revenue or profit for the year.

42. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS

On 31 January 2016, the Group entered into an equity transfer agreement with an independent third party for the acquisition of the entire equity interest in Hangzhou Bailu at a consideration of RMB223,151,000. The acquisition was completed on 31 January 2016 and Hangzhou Bailu became a wholly-owned subsidiary of the Group.

On 18 November 2016, the Group also entered into an equity transfer agreement with three independent third parties for the acquisition of 79.81% equity interest in Fu On International Investment HK Company ("Fu On International"), which owned 80.5% each of Nanjing Guanyu Building Material Industrial Development Co., Ltd. and Nanjing Guanyu Property Development Co., Ltd., at a consideration of RMB348,690,000. The acquisition was completed on 18 November 2016 and Fu On International became a partly-owned subsidiary of the Group.

Prior to completion of the respective acquisitions, Hangzhou Bailu and Fu On International and its subsidiaries had not carried on any significant business activities except for holding a parcel of land in Hangzhou, the PRC, and 5 parcels of lands in Nanjing, the PRC, respectively. These acquisitions were accounted for by the Group as acquisition of assets, as the operations of Hangzhou Bailu and Fu On International do not constitute a business.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

42. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS *(Continued)*

The net assets acquired by the Group in the above transactions are as follows:

	Hangzhou Bailu RMB'000	Fu On International RMB'000	Total RMB'000
Net assets acquired			
Property and equipment (note 14)	–	58	58
Deferred tax assets (note 34)	–	532	532
Properties under development	–	105,914	105,914
Prepaid land lease payments (note 16)	375,302	310,292	685,594
Prepayments, deposits and other receivables	32,012	10,573	42,585
Cash and cash equivalents	7,071	367	7,438
Trade and bills payables	–	(260)	(260)
Other payables and accruals	(406,385)	(132,629)	(539,014)
Non-controlling interests	–	(28,811)	(28,811)
	8,000	266,036	274,036
Satisfied by:			
Cash	223,151	348,690	571,841
Shareholders' loans	(215,151)	(82,654)	(297,805)
	8,000	266,036	274,036

An analysis of the cash flows in respect of the acquisitions as follows:

	RMB'000
Cash consideration	(274,036)
Cash and cash equivalents acquired	7,438
Net outflow of cash and cash equivalents included in cash flows from investing activities	(266,598)

43. FINANCIAL GUARANTEES

(a) At the end of the reporting period, the Group had financial guarantees which are not provided for in the financial statements as follows:

	2016 **RMB'000**	2015 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the Group's properties (notes)	**11,845,901**	11,363,195

Notes:

(i) As at 31 December 2016, the Group provided 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 guarantees, in the event of default on mortgage payments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks, net of any auction proceeds as described below.

Pursuant to the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans, in the event of default on mortgage repayments by these purchasers, the banks are entitled to take over the legal titles and will realise the pledged properties through open auction. The Group is responsible for repaying the banks when the proceeds from the auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties.

The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

(ii) The fair value of the guarantees is not significant and the directors of the Company consider that in the event of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalties and therefore no provision has been made in the financial statements for the guarantees.

In addition, the Group's share of the joint ventures' own financial guarantees, which are not included in the above, is as follows:

	2016 **RMB'000**	2015 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the joint ventures' properties	**238,418**	228,818

NOTES TO FINANCIAL STATEMENTS

31 December 2016

43. FINANCIAL GUARANTEES *(Continued)*

(b) At the end of the reporting period, contingent liabilities not provided for in the financial statements is as follows:

	2016 **RMB'000**	2015 RMB'000
Guarantees given to a bank in connection with a loan facility granted to a joint venture	**1,000,000**	2,200,000

As at 31 December 2016, the loan facility guaranteed by the Group to a joint venture was utilised to the extent of RMB731,000,000 (2015: RMB2,080,000,000).

44. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group were pledged to secure certain bank and other borrowings granted to the Group:

	2016 **RMB'000**	2015 RMB'000
Bank deposits (note 28)	**261,941**	421,992
Property and equipment (note 14)	**71,821**	71,985
Investment properties (note 15)	**2,708,900**	2,728,900
Prepaid land lease payments (note 16)	**5,942,152**	948,374
Properties under development (note 18)	**9,545,183**	5,834,024
Completed properties held for sale (note 24)	**337,132**	2,257,686
	18,867,129	12,262,961

45. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to fifteen years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**33,303**	25,071
In the second to fifth years, inclusive	**22**	218
	33,325	25,289

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**6,636**	6,707
In the second to fifth years, inclusive	**396**	–
	7,032	6,707

NOTES TO FINANCIAL STATEMENTS

31 December 2016

46. COMMITMENTS

In addition to the operating lease commitments detailed in note 45(b) above, the Group had the following capital commitments at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Capital expenditure for properties under development, prepaid land lease payments and construction of investment properties in Mainland China	**10,316,388**	7,902,863

In addition, the Group's share of the joint ventures' own capital commitments, which are not included in the above, is as follows:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Capital expenditure for joint ventures' properties under development and construction of investment properties in Mainland China	**213,796**	365,210

At the end of the reporting period, the Group did not have any significant commitments.

47. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed in note 27 to the financial statements, the Group had the following transactions with related parties during the year:

	Notes	**2016** **RMB'000**	2015 RMB'000
Rental income from companies controlled by the Wong Family	(i)	**6,135**	2,688
Property management fees from companies controlled by Mr. Wong	(ii)	**5,572**	1,942
Project management income received from a joint venture	(iii)	**76,102**	–
Aircraft leasing expense paid to a company controlled by Mr. Wong	(iv)	**3,316**	–

Notes:

(i) The rental income was charged at rates ranging from RMB18 to RMB170 (2015: from RMB32 to RMB175) per square metre.

(ii) The property management fees were charged at rates ranging from RMB13 to RMB60 (2015: from RMB13 to RMB25) per square metre.

(iii) The project management income was charged with reference to the contracted sales amount and certain costs incurred on a property development project.

(iv) The leasing expense was charged at RMB332,000 per month.

(b) In the opinion of the directors, the directors of the Company represent the key management personnel of the Group. Further details of the compensation of key management personnel of the Group are set out in note 9 to the financial statements.

Transactions of items (a)(i), (a)(ii) and (a)(iv) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

48. FINANCIAL INSTRUMENTS BY CATEGORY

Except for the derivative financial instruments and the available-for-sale investment, which are measured at fair value, other financial assets and liabilities of the Group as at 31 December 2016 and 2015 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments, other than derivative financial instruments, available-for-sale investment and senior notes and domestic bonds, reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, restricted cash, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, current portion of interest-bearing bank and other borrowings, amounts due from/to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of deposits and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2016 was assessed to be insignificant.

Derivative financial instruments, the capped forward cross currency swap contracts, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of capped forward cross currency swap contracts are the same as their fair values.

As at 31 December 2016, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

The fair value of the unlisted available-for-sale equity investments is estimated by using prices from recent transaction without adjustment.

The Group did not have any financial liabilities measured at fair values as at 31 December 2016 and 2015.

During the year, there were no transfer of fair value measurements between level 1 and level 2 and no transfer into or out of level 3 for both financial assets and financial liabilities (2015: Nil).

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings and senior notes and domestic bonds, amounts due from/to related parties, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions such as capped forward cross currency swap contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The Group's accounting policies related to derivatives are set out in note 3 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Other than deposits held at banks, the Group does not have significant interest-bearing assets. Restricted deposits were held at banks in the PRC at the same savings rate of unrestricted deposits throughout the year. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank and other borrowings with floating interest rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2016		
RMB	**150**	**(63,434)**
HK$	**150**	**(1,695)**
US$	**150**	**(43,551)**
RMB	**(150)**	**63,434**
HK$	**(150)**	**1,695**
US$	**(150)**	**43,551**

NOTES TO FINANCIAL STATEMENTS

31 December 2016

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2015		
RMB	150	(39,164)
HK$	150	(10,594)
US$	150	(21,297)
RMB	(150)	39,164
HK$	(150)	10,594
US$	(150)	21,297

Foreign currency risk

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange Bureau by complying with certain procedural requirements. However, approval from appropriate PRC governmental authorities is required where RMB is to be converted into a foreign currency and remitted out of China to pay capital account items, such as the repayment of bank and other borrowings denominated in foreign currencies.

The Group's PRC subsidiaries may also retain foreign currencies in their current accounts to satisfy foreign currency liabilities or to pay dividends. Since foreign currency transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange Bureau, this could affect the Group's subsidiaries' ability to obtain required foreign currency through debt or equity financing, including by means of loans or capital contributions from the shareholders.

All the revenue-generating operations of the Group are transacted in RMB. The majority of the Group's assets and liabilities are denominated in RMB except for the Company and certain investment holding companies within the Group operating in Hong Kong, in which bank and other borrowings, the 2012 Senior Notes and the 2015 Senior Notes were denominated either in HK$ or US$. The fluctuation of exchange rate of RMB against other foreign currencies will not have material adverse effect on the operating results of the Group.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate against HK$, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax RMB'000
2016		
If HK$ weakens against RMB	**3%**	**(44,127)**
If HK$ strengthens against RMB	**(3%)**	**44,127**

Credit risk

It is the Group's policy that all customers are required to pay deposits in advance of the purchase of properties. In addition, the Group does not have any significant credit risk as the credit given to any individual or corporate entity is not significant. The Group performs appropriate and sufficient credit verification procedures for every credit sale transaction to minimise credit risk. There is no significant concentration of credit risk within the Group.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 43(a).

The credit risk of the Group's other financial assets, which mainly comprise cash and short term deposits, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. In the opinion of the directors of the Company, the Group will have adequate sources of funding to finance its operation needs and manage its liquidity position.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2016			
	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	**4,316,625**	**3,501,239**	**6,229,980**	**14,047,844**
Senior notes and domestic bonds	**421,513**	**421,513**	**6,494,818**	**7,337,844**
Trade and bills payables	**2,540,470**	**35,206**	**19,671**	**2,595,347**
Financial liabilities included in other payables and accruals	**2,046,080**	**–**	**–**	**2,046,080**
Due to related parties	**1,567,671**	**–**	**–**	**1,567,671**
	10,892,359	**3,957,958**	**12,744,469**	**27,594,786**
Financial guarantees issued:				
Maximum amount guaranteed	**12,845,901**	**–**	**–**	**12,845,901**

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

	2015			
	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	4,064,316	1,647,495	1,052,973	6,764,784
Senior notes and domestic bonds	668,946	2,934,985	6,877,123	10,481,054
Trade and bills payables	2,505,810	–	–	2,505,810
Financial liabilities included in other payables and accruals	1,355,099	–	–	1,355,099
Due to related parties	478,509	–	–	478,509
	9,072,680	4,582,480	7,930,096	21,585,256
Financial guarantees issued: Maximum amount guaranteed	13,443,195	–	–	13,443,195

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. 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. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a net gearing ratio, which is net debt divided by the total equity. Net debt includes total interest-bearing bank and other borrowings, senior notes and domestic bonds (as shown in the consolidated statement of financial position) less cash and bank balances (including restricted cash, time deposits and pledged deposits). Capital comprises all components of equity (i.e., share capital, non-controlling interests, perpetual capital instruments and reserves). The Group aims to maintain a healthy and stable net gearing ratio.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

The net gearing ratios as at 31 December 2016 and 2015 were as follows:

	2016	2015
	RMB'000	RMB'000
Interest-bearing bank and other borrowings (note 32)	**12,420,386**	6,462,804
Senior notes and domestic bonds (note 33)	**5,857,969**	7,989,481
Less: Cash and bank balances (note 28)	**(8,602,758)**	(6,247,028)
Net debt	**9,675,597**	8,205,257
Total equity	**12,071,831**	11,598,601
Net gearing ratio	**80.2%**	70.7%

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	–	–
Derivative financial instruments	139,821	–
Due from subsidiaries	2,454,333	2,295,941
Total non-current assets	2,594,154	2,295,941
CURRENT ASSETS		
Prepayments	932	379
Due from subsidiaries	2,489,582	3,391,978
Cash and cash equivalents	6,047	278,144
Total current assets	2,496,561	3,670,501
CURRENT LIABILITIES		
Other payables and accruals	12,583	37,284
Due to subsidiaries	223,391	131,715
Interest-bearing bank and other borrowings	1,046,169	1,689,616
Total current liabilities	1,282,143	1,858,615
NET CURRENT ASSETS	1,214,418	1,811,886
TOTAL ASSETS LESS CURRENT LIABILITIES	3,808,572	4,107,827
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	2,733,292	320,098
Senior notes	2,387,676	4,525,670
Total non-current liabilities	5,120,968	4,845,768
Net liabilities	(1,312,396)	(737,941)
EQUITY		
Issued capital	295,732	295,732
Reserves (note)	(1,608,128)	(1,033,673)
Total equity	(1,312,396)	(737,941)

Wong Chiu Yeung
Director

Huang Youquan
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2016

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Notes	Share premium account RMB'000	Exchange fluctuation reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015		1,476,373	(176,311)	–	(1,546,150)	(246,088)
Total comprehensive loss for the year		–	(25,880)	–	(624,653)	(650,533)
2015 interim dividend	12	(137,052)	–	–	–	(137,052)
At 31 December 2015 and 1 January 2016		1,339,321	(202,191)	–	(2,170,803)	(1,033,673)
Total comprehensive loss for the year		–	(77,502)	–	(356,313)	(433,815)
2015 final dividend	12	(143,473)	–	–	–	(143,473)
Share option expenses	37	–	–	2,833	–	2,833
At 31 December 2016		1,195,848	(279,693)	2,833	(2,527,116)	(1,608,128)

52. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 February 2017.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities, perpetual capital instruments and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out as below:

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**12,480,683**	10,690,080	6,887,392	6,588,124	3,636,658
Cost of sales	**(9,354,990)**	(7,679,498)	(4,485,001)	(4,742,908)	(2,352,023)
Gross profit	**3,125,693**	3,010,582	2,402,391	1,845,216	1,284,635
Other income and gains	**341,472**	80,165	96,836	162,562	97,627
Changes in fair value of investment properties	**548,382**	398,022	749,701	602,909	381,754
Selling and marketing expenses	**(407,116)**	(300,828)	(248,227)	(184,547)	(102,389)
Administrative expenses	**(471,771)**	(398,479)	(343,157)	(301,445)	(259,016)
Other expenses	**(129,454)**	(53,107)	–	(711)	(5,098)
Finance costs	**(316,894)**	(269,041)	(160,388)	(246,103)	(107,052)
Exchange differences arising from retranslation of senior notes, net	**–**	(27,918)	19,705	–	2,546
Share of profits and losses of:					
Joint ventures	**803,593**	110,080	21,444	25,772	1,018
Associates	**(120)**	(497)	784	1,689	(1,928)
PROFIT BEFORE TAX	**3,493,785**	2,548,979	2,539,089	1,905,342	1,292,097
Income tax expense	**(1,053,334)**	(980,435)	(972,048)	(731,078)	(391,073)
PROFIT FOR THE YEAR	**2,440,451**	1,568,544	1,567,041	1,174,264	901,024
Attributable to:					
Owners of the parent	**2,072,284**	918,660	900,580	887,816	672,003
Holders of perpetual capital instruments	**49,967**	248,756	68,202	–	–
Non-controlling interests	**318,200**	401,128	598,259	286,448	229,021
	2,440,451	1,568,544	1,567,041	1,174,264	901,024

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES, PERPETUAL CAPITAL INSTRUMENTS AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**50,834,872**	40,276,238	34,443,072	26,928,930	20,028,730
TOTAL LIABILITIES	**(38,763,041)**	(28,677,637)	(23,429,314)	(18,426,723)	(13,107,846)
PERPETUAL CAPITAL INSTRUMENTS	**(900,000)**	(1,200,000)	(1,173,000)	–	–
NON-CONTROLLING INTERESTS	**(2,764,014)**	(3,471,171)	(3,295,670)	(2,763,201)	(2,079,535)
	8,407,817	6,927,430	6,545,088	5,739,006	4,841,349