OCT 華僑城亚洲

# Overseas Chinese Town (Asia) Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 03366

**ANNUAL REPORT 2016**

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# Corporate Information

| | |
|---|---|
| **Board of Directors** | **Executive Directors**<br>Mr. Yao Jun *(Chairman)*<br>Ms. Xie Mei *(Chief Executive Officer)*<br>Mr. Lin Kaihua<br><br>**Non-executive Directors**<br>Mr. Zhou Ping (resigned on 30 March 2017)<br>Mr. Zhang Jing (appointed on 30 March 2017)<br><br>**Independent Non-executive Directors**<br>Mr. Lu Gong<br>Ms. Wong Wai Ling<br>Professor Lam Sing Kwong Simon |
| **Audit Committee** | Ms. Wong Wai Ling *(Chairman)*<br>Professor Lam Sing Kwong Simon<br>Mr. Zhou Ping (resigned on 30 March 2017)<br>Mr. Zhang Jing (appointed on 30 March 2017) |
| **Remuneration Committee** | Ms. Wong Wai Ling *(Chairman)*<br>Professor Lam Sing Kwong Simon<br>Mr. Zhou Ping (resigned on 30 March 2017)<br>Mr. Zhang Jing (appointed on 30 March 2017) |
| **Nomination Committee** | Mr. Yao Jun *(Chairman)*<br>Ms. Wong Wai Ling<br>Professor Lam Sing Kwong Simon |
| **Qualified Accountant and Company Secretary** | Mr. Fong Fuk Wai *(FCPA, FCCA, ACA)* |
| **Head Office and Principal Place of Business** | Suites 3203-3204, Tower 6,<br>The Gateway, Harbour City,<br>Canton Road, Tsim Sha Tsui,<br>Kowloon, Hong Kong |
| **Registered Office** | Clifton House<br>PO Box 1350<br>75 Fort Street<br>Grand Cayman<br>Cayman Islands |

# Corporate Information

| | |
|---|---|
| **Auditor** | RSM Hong Kong<br>Certified Public Accountants<br>29th Floor, Lee Garden Two, 28 Yun Ping Road,<br>Causeway Bay<br>Hong Kong |
| **Hong Kong Legal Advisor** | Loong & Yeung<br>Room 1603, 16/F, China Building<br>29 Queen's Road Central, Central, Hong Kong |
| **Principal Bankers** | China Construction Bank (Asia) Corporation Limited<br>DBS Bank (Hong Kong) Limited<br>Hang Seng Bank Limited<br>Nanyang Commercial Bank<br>OCBC Wing Hang Bank Limited<br>Standard Chartered Bank (HK) Ltd. |
| **Principal Share Registrar and Transfer Office** | Estera Trust (Cayman) Limited<br>PO Box 1350<br>Clifton House<br>75 Fort Street<br>Grand Cayman, Cayman Islands |
| **Hong Kong Branch Share Registrar and Transfer Office** | Computershare Hong Kong Investor Services Limited<br>Shops 1712-16, 17/F Hopewell Centre<br>183 Queen's Road East, Hong Kong |
| **Stock Information** | Listing Date: 2 November 2005<br>Stock Code: 03366<br>Stock Short Name: OCT (ASIA) |
| **Company Website** | http://www.oct-asia.com |
| **Authorized Representatives** | Ms. Xie Mei<br>Mr. Fong Fuk Wai |

# Financial Highlights

## Summary of Consolidated Statement of Profit or Loss

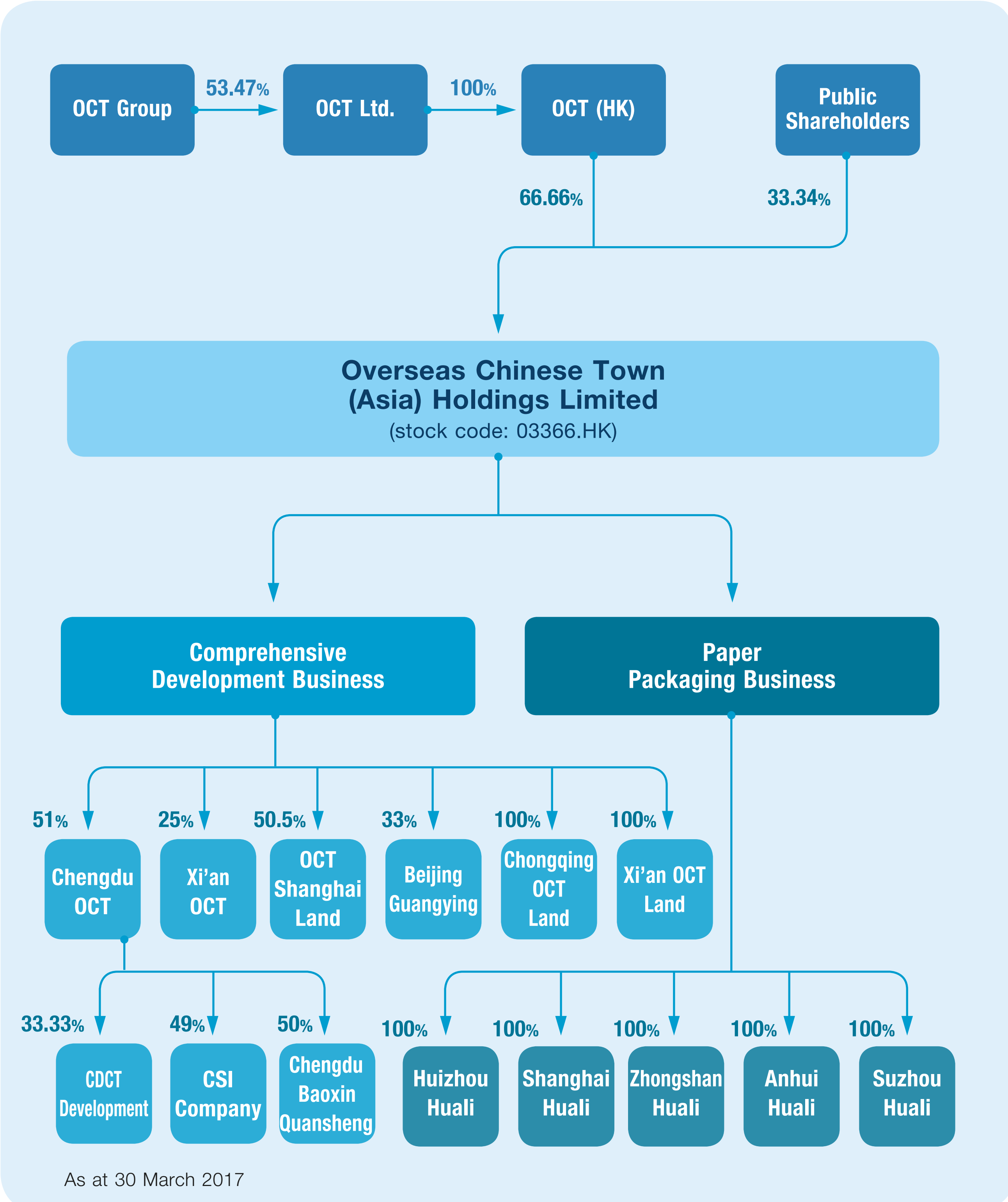
For the year ended 31 December 2016

| | 2016<br>RMB'000 | 2015<br>RMB'000 | Changes<br>(approximately) |
|---|---|---|---|
| **Revenue** | 5,358,174 | 6,436,110 | (16.7)% |
| **Gross profit** | 1,646,129 | 2,021,154 | (18.6)% |
| **Profit from operations** | 1,061,917 | 1,401,302 | (24.2)% |
| **Profit before tax** | 1,282,610 | 1,366,674 | (6.2)% |
| **Profit attributable to owners of the Company** | 385,511 | 273,042 | 41.2% |
| **Dividend payable to owners of the Company during the year** | | | |
| Proposed final dividend after the end of the reporting period | 110,740 | 92,813 | 19.3% |
| **Basic earnings per share (RMB)** | 0.57 | 0.40 | 42.5% |

## Summary of Consolidated Statement of Financial Position

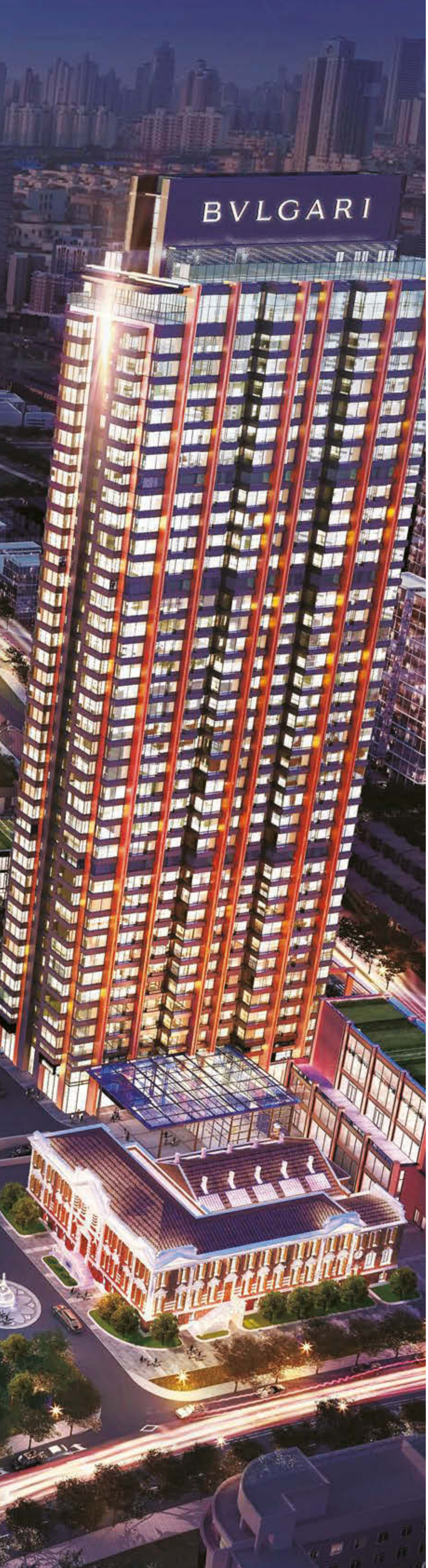
As at 31 December 2016

| | 2016<br>RMB'000 | 2015<br>RMB'000 | Changes<br>(approximately) |
|---|---|---|---|
| **Cash and cash equivalents** | 2,077,758 | 3,374,156 | (38.4)% |
| **Total assets** | 20,538,331 | 22,079,524 | (7.0)% |
| **Total assets less current liabilities** | 12,075,489 | 15,108,735 | (20.1)% |
| **Equity attributable to owners of the Company** | 3,026,948 | 3,035,855 | (0.3)% |


OCT Group
53.47%
OCT Ltd.
100%
OCT (HK)
Public Shareholders
66.66%
33.34%
Overseas Chinese Town (Asia) Holdings Limited
(stock code: 03366.HK)
Comprehensive Development Business
Paper Packaging Business
51%
25%
50.5%
33%
100%
100%
Chengdu OCT
Xi'an OCT
OCT Shanghai Land
Beijing Guangying
Chongqing OCT Land
Xi'an OCT Land
33.33%
49%
50%
CDCT Development
CSI Company
Chengdu Baoxin Quansheng
100%
100%
100%
100%
100%
Huizhou Huali
Shanghai Huali
Zhongshan Huali
Anhui Huali
Suzhou Huali
As at 30 March 2017

# CHAIRMAN'S STATEMENT

I am pleased, on behalf of Overseas Chinese Town (Asia) Holdings Limited (the "Company") and its subsidiaries (the "Group"), to present to all shareholders the operating results and annual report of the Group for the year ended 31 December 2016 (the "Period Under Review"), and would like to express my sincere gratitude to all shareholders and all the staff.




## Business Review

In 2016, the global economy continued to witness gradual recovery with twists and turns amid deepened adjustments. Economic growth of countries from emerging markets continued to slow down, while the Chinese economy showed early signs of stabilization and upward trend, although the foundation was still relatively weak. Despite such complex domestic and international economic conditions, the Group adhered to its established strategy, and achieved steady development in its businesses leveraging on its extensive experience and high quality products. During the Period under Review, the Company recorded a revenue of approximately RMB5.36 billion, representing a decrease of approximately 16.7% over the corresponding period of 2015. Profit attributable to shareholders amounted to approximately RMB385.51 million, representing an increase of approximately 41.2% as compared with the corresponding period of 2015.

### Grasping Market Opportunities and Achieving Stable and Healthy Development of Existing Business

#### *Comprehensive Development Business*

In 2016, the PRC destocking policies on real estates achieved positive results, and the transaction volume of the real estate market nationwide recorded a new high. The Group's comprehensive development business delivered satisfactory operating results as a result of its efforts in full play of its brand advantages, integration of customer resources and acceleration of the pace of destocking. During the Period under Review, the comprehensive development business of the Company recorded a revenue of approximately RMB4.60 billion, representing a decrease of approximately 17.9% as compared with the corresponding period of 2015; profit attributable to shareholders amounted to approximately RMB399.39 million, representing an increase of approximately 56.7% over the corresponding period of 2015.

*Shanghai Suhewan Project (owned as to 50.5% by the Company)*

The Shanghai Suhewan Project, which is developed by 華僑城(上海)置地有限公司 (Overseas Chinese Town (Shanghai) Land Company Limited) ("OCT Shanghai Land"), is advantageously situated at the junction of Suzhou River and Huangpu River banks, spanning across 1 km on the shorelines of Suzhou River and within the core district of the Inner Ring, Shanghai and possesses the scarce landscape resources. The project is comprised of three parcels of land, namely 1 Jiefang, 41 Jiefang and 42 Jiefang with a total site area of approximately 71,000 sq.m., a gross floor area (above ground) of approximately 280,000 sq.m. and a total gross floor area of approximately 430,000 sq.m. Products offered by the Shanghai Suhewan Project include waterfront multi-storey residential buildings, luxury residential properties, apartment-style offices, luxury hotels, boutique business premises and studios for artists, etc.

# Chairman's Statement

During the Period under Review, the Shanghai Suhewan Project launched the Bulgari Residence, the first in the country, and continued to engage in the sales of waterfront multi-storey residential properties which are highly scarce in the market, luxury high-rise residential tower, apartment-style offices and boutique business premises, which received high recognition from the market. In the ranking of high-end served departments with an area above 150 sq.m. and a total price of more than RMB10 million in Shanghai for the year 2016, the Bulgari Residence ranked first and second in terms of total sales and units sold, respectively. The waterfront multi-storey residential properties made new high record in the country in terms of unit price of residential products. During the Period under Review, the contracted sales area and amount of the Shanghai Suhewan Project were approximately 50,800 sq.m. and approximately RMB4.78 billion, respectively, with contracted sales amount increased by approximately 23.6% as compared with the same period of 2015, and the settled area and amount were approximately 38,000 sq.m. and approximately RMB3.43 billion, respectively, with settled amount recorded an increase of approximately 3.7% compared with the same period of 2015.

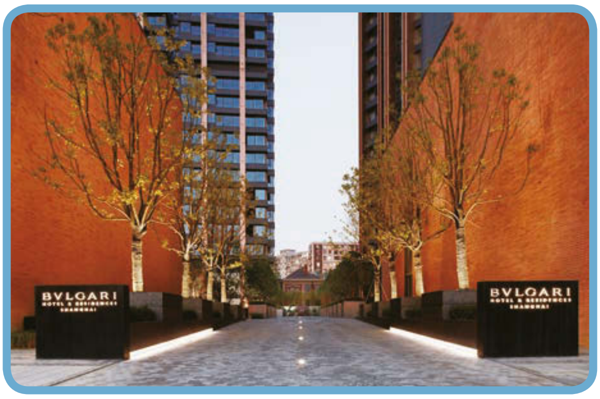
In 2016, the Bulgari Residence of the Shanghai Suhewan Project was granted the "Most Collectable Apartment Project 2016" by China Business News (第一財經日報). The project also obtained the "Popular China Real Estate Award – Top Ten Luxury Residential Properties in China 2016" granted by the organization committee of Boao Real Estate Forum (博鰲房地產論壇).

*Chengdu OCT Project (owned as to 51% by the Company)*

The Chengdu OCT project which developed by Chengdu Tianfu OCT Industry Development Company Limited) ("Chengdu OCT") is a large comprehensive development project located at both sides of Shaxi Line of Outer Sanhuan Road, Jinniu District, Chengdu City, Sichuan Province, comprising residential, commercial properties and a Happy Valley theme park, occupying a total site area of approximately 1,827,000 sq.m. and gross floor area of approximately 2,250,000 sq.m..

During the Period under Review, Chengdu OCT recorded a revenue of approximately RMB1.11 billion. The business mainly covers sales of high-end office products, high-rise residential properties, multi-storey residential properties

# Chairman's Statement




and part of the low-density residential properties. During the Period under Review, the contracted sales area and revenue of the residential and office property of Chengdu OCT reached approximately 138,500 sq.m. and approximately RMB1,104.00 million respectively, while the settled area and revenue were approximately 97,000 sq.m. and approximately RMB804.00 million respectively. The current rentable area for commercial use is approximately 96,000 sq.m., of which 93% has been occupied. Chengdu Happy Valley has attracted approximately 2.18 million visitors, revenue from which amounted to approximately RMB253.00 million. In 2016, Chengdu OCT officially introduced a Wal-Mart's Sam's Club store, the first in southwest China, marking the acceleration in the materialization of commercial facilities of Chengdu OCT.

*OCT Chang'an Metropolis Project (owned as to 100% by the Company)*

The OCT Chang'an Metropolis Project is located at the core business district of Zhonglou at the centre of Xi'an. As a complex sitting above the metro-station, the project enjoys prime location and superior commercial environment. The OCT Chang'an Metropolis Project was acquired by the Company on 9 October 2015, the total gross floor area of which is approximately 104,700 sq.m., comprising high-end office properties such as Building 2# and Building 3#, as well as some car parking spaces. During the Period under Review, the Group has completed the transfer of titles for all relevant properties and the novation of all tenants' contracts for Building 2#. The decoration and retrofitting works of Building 3# has also been completed.

*Chongqing OCT Land Project (owned as to 100% by the Company)*

Located at Lijia Block, New North Zone, major development zone in Chongqing, the Chongqing OCT Land Project has an aggregate site area of approximately 180,000 sq.m., which is expected to be developed into mid-to-high end high-rise residential properties and multi-storey residential properties with an aggregate gross floor area of approximately 440,000 sq.m. The Chongqing OCT Land Project enjoys a supreme location and with rich landscape resources, overlooking the panorama of Jialing River with a Happy Valley theme park under construction and large greenbelt planned in the neighborhood. The multi-storey products launched in the first phase of the Chongqing OCT Land Project have been offered on the market for pre-sale in March 2017.

*Beijing Unique Garden Project (owned as to 33% by the Company)*

The Beijing Unique Garden Project, developed by 北京廣盈房地產開發有限公司 (Beijing Guangying Residential Property Development Limited), is located at Laiguangyingxiang in Chaoyang District, Beijing, with a total site area of approximately 73,000 sq.m. and a total gross floor area of approximately 182,000 sq.m. All properties of the project are developed for residential purpose. In 2016, the Beijing Unique Garden Project speeded up the process of destocking and settlement on completion. Contracted sales area and revenue reached approximately 10,700 sq.m. and approximately RMB673.00 million respectively. The settled area and revenue were approximately 102,200 sq.m. and approximately RMB5,118.00 million respectively. During the Period under Review, the Beijing Unique Garden Project contributed investment returns of approximately RMB458.03 million to the Company.

*Xi'an OCT Project (owned as to 25% by the Company)*

Located at No. 2 of Second Beichitou Road, to the east of Tang Paradise, Qujiang New District, Xi'an City, Shaanxi Province, the Xi'an OCT Project is in proximity to several famous scenic spots and has a total site

# Chairman's Statement

area of approximately 137,000 sq.m. Most of products for the project are low-density residential properties. During the Period under Review, contracted sales area and revenue reached approximately 17,900 sq.m. and approximately RMB351.00 million respectively. The settled area and revenue were approximately 19,500 sq.m. and approximately RMB409.00 million, respectively. During the Period under Review, the project contributed investment returns of approximately RMB7.03 million to the Company.

*CDCT Development Project (owned as to approximately 33.33% by Chengdu OCT)*

成都文化旅遊發展股份有限公司 (Chengdu Culture & Tourism Development Company Limited) ("CDCT Development") owns the Xiling Snow Mountain Ski Resort in the national forest park "Xiling Snow Mountain", a national 4A tourist attraction, as well as the high-quality assets including the auxiliary hotels and cableway in Dayi County, Chengdu, Sichuan Province. Its shares were listed on the National Equities Exchange and Quotation System (also known as the New Third Board). During the Period under Review, CDCT Development contributed investment returns of approximately RMB12.33 million to the Company.

*CSI Project (owned as to 49% by Chengdu OCT)*

In January 2016, 成都華僑城創盈企業管理有限公司 (Chengdu OCT Chuang Ying Enterprise Management Company Limited) ("Chengdu Chuang Ying"), a wholly-owned subsidiary of Chengdu OCT, acquired 49% equity interests in 成都體育產業有限責任公司 (Chengdu Sports Industry Company Limited) ("CSI Company") at a total consideration of approximately RMB798 million. CSI Company owns a parcel of land located in Luomashi business district, a core business district in Chengdu, Sichuan Province, of which a site area of approximately 15,300 sq.m. will be developed into a commercial complex project namely "the Chengdu Centre", which is a landmark building for culture and tourism of Chengdu City. "The Chengdu Centre" is a development designed with various functions, including tourism and sight-seeing, commercial services, high-end accommodation facilities, as well as facilities for cultural and creative activities. CSI Company owns and operates the largest stadium in Chengdu capable of accommodating about 40,000 persons for holding activities such as large-scale performances and sports competitions, which continuously generates revenue for CSI Company. The project will enlarge the portfolio of projects of the Group in Chengdu, and will enhance the Group's brand influence in the city.

# Chairman's Statement

*Chengdu Baoxin Quansheng Project (owned as to 50% by Chengdu OCT)*

In March 2016, Chengdu Chuang Ying acquired 50% equity interests in 成都保鑫泉盛房地產開發有限公司 (Chengdu Baoxin Quansheng Real Estate Development Company Limited) ("Chengdu Baoxin Quansheng") from Chengdu Baoxin Investment Company Limited (成都保鑫投資有限公司), an indirect wholly-owned company of Poly Real Estate Group Co., Ltd., at a consideration of RMB25 million. Chengdu Baoxin Quansheng owns a piece of land located in Jinniu District in Chengdu City with a total site area of approximately 58,300 sq.m. and total gross floor area of not more than 174,900 sq.m. which will mainly be used for the development of high-rise residential property, ground-floor shops, commercial duplexes, apartment buildings and underground car parking space. During the Period under Review, Chengdu Baoxin Quansheng project has launched its first batch of products, and the contracted sales area and revenue reached approximately 68,300 sq.m. and approximately RMB732.00 million, respectively.

***Paper Packaging Business***

The Group has more than 30 years of experience in the packaging and printing industry. It has set up five environmental packaging and manufacturing bases and several subsidiaries in economically dynamic regions including the Pearl River Delta and Yangtze River Delta, which are located in Huizhou of Guangdong, Shanghai, Zhongshan of Guangdong, Chuzhou of Anhui and Suzhou of Jiangsu, respectively, and has built up the "Huali" brand with solid customer base and good market reputation.

In 2016, under the influence of the macro economic conditions, domestic manufacturing industries and related supporting packaging companies were faced with adverse conditions, such as decrease in orders from overseas markets, continued rise in operating costs and weak growth in demand. In particular, the business environment was extremely hard in the fourth quarter as the raw paper market experienced unusual

# Chairman's Statement

conditions, such as severe imbalance in supply and demand and surge in price in a short term. In the face of these internal and external headwinds, the Group secured the stable operation of our paper packaging business through the integration of corporate resources and enhancement of operating efficiency. The capacity of the Group's paper packaging business was further improved in 2016 as the new factory of Suzhou Huali Environmental Packaging Technology Co., Ltd ("Suzhou Huali") was put into operation. During the Period Under Review, paper packaging business recorded a turnover of approximately RMB761.10 million, representing a decrease of approximately 9.4% over the same period of 2015. Loss attributable to shareholders amounted to approximately RMB13.88 million while a profit of approximately RMB18.13 million was recorded for the same period of 2015.

## A Robust Start in Our Innovative Financial Business with Investment in Industrial Funds

In 2016, the Group took an active approach to exploring and attempting to realize the organic combination of financial innovation and industrial strength, and made breakthrough in the area of industrial fund investment with the investment in a number of projects, including the Capital Fortune Investment New Industries Investment Fund, the Capital Fortune Investment No.10 Fund and the NCI Fund. We are confident that these initiatives will create more strategic investment opportunities for the Group.

On 30 September 2016, 深圳華友投資有限公司 (Shenzhen Huayou Investment Co., Ltd.) ("Huayou Investment"), an indirect wholly-owned subsidiary of the Group, entered into a limited partnership agreement with Shenzhen Capital Fortune Investment Management Co., Ltd. ("Capital Fortune Investment") and a number of other partners to establish

# Chairman's Statement

the Shenzhen Capital Fortune Investment Emerging Industries Investment Company (LLP) ("Capital Fortune Investment New Industries Investment Fund"). The total capital was RMB1.00 billion, of which RMB143.00 million was contributed by Huayou Investment. The investment of the Capital Fortune Investment New Industries Investment Fund covers a wide range of emerging industries, including new-energy automobiles, pharmacy and health, mobile internet, energy-saving and environmental protection.

On 19 December 2016, Huayou Investment entered into a limited partnership agreement with Capital Fortune Investment and a number of other partners to establish the Shenzhen Capital Fortune Investment No.10 Investment Enterprise (LLP) ("Capital Fortune Investment No.10 Fund"). The total capital was RMB206.00 million, of which RMB100.00 million was contributed by Huayou Investment. The Capital Fortune Investment No.10 Fund mainly engages in investment in the equity interests of a PRC securities firm.

On 28 December 2016, City Legend International Limited ("City Legend"), an indirect wholly-owned subsidiary of the Group, applied for investing in the segregated portfolio of the NCI Fund, a segregated portfolio company ("NCI Fund"). The amount of investment was US$50.00 million. The NCI Fund mainly engages in investment in the equity interest of a high-tech company operating in the People's Republic of China ("the PRC"), which proposed to apply for initial public offering of its securities.

## Outlook

Looking into 2017, the global economy will face great uncertainty and the economic recovery will be weak due to the lingering and profound impact of the global financial crisis. For domestic economy, the "structural reforms on the supply side" has reaped preliminary fruits. Despite the progressive stabilization of the overall economic conditions driven by stabilized domestic consumption and investment needs, the foundation for improvement on the basis of stable development is still relatively fragile. The PRC government will adhere to the core policy of "structural reforms on the supply side", implement the "prudent and neutral" monetary policies, deepen the "innovation-driven" development strategy, and boost the continued optimization and transformation of the industrial structure. Taking into account of these factors, we expect the quality of economic growth will improve gradually.

In 2017, as the domestic real estate market becomes more diversified, the PRC government will persist in its risk control and destocking measure and deepen the control measures on regional level based on the principle of "specific policies for different cities". In order to create a more stable market environment, while providing support to home purchasers for accommodation purpose, more emphasis will be placed on constraining speculative investment needs. Meanwhile, the Central Government will speed up the pace of the long-term mechanism for the real estate market. This, coupled with the breakthrough and progress in regional integration and new mode of urbanization, create a favorable environment for the long-term development of the real estate market. The Group maintains its prudently optimistic outlook for the domestic real estate market in 2017.

In 2017, as the Central Government expedites industrial upgrade, makes innovation in respect of economic development mode and deepens the reform of state-owned enterprises, Overseas Chinese Town Enterprise Company (華僑城集團公司) ("OCT Group"),

# Chairman's Statement

the controlling shareholder of the Company, will further promote industrial distribution with the focus placed on two strategic themes, i.e. "culture + tourism + urbanisation" and "tourism + internet + finance", with a view to become the "pacemaker of cultural industry, leader of new-type urbanisation and fugleman of all-for-one tourism in the PRC" and achieve leapfrog development.

The external macro-environment confronted with by the Group is undergoing tremendous and profound changes, which create unprecedented historic opportunities and great prospects for a new round of reform and development of the Group.

## Comprehensive Development Business

In 2017, the Company will focus on making greater efforts in promoting its new products in the market, accelerating the turnaround of products and enhancing operation efficiency through making close attention to the policies stimulated by the central and local government and base on the market conditions improvement and development policy. The planning of each comprehensive development project is as follows:

The Shanghai Suhewan Project will continue to introduce Bulgari Residence which possesses the scarce landscape resources, as well as waterfront multi-storey residential properties, high-rise residential towers and boutique business premises. The total saleable area is approximately 96,500 sq.m. in 2017. The highly-anticipated Bulgari Hotel will commence operation in the second half of 2017. As the strategic planning of "One Shaft Three Belts" (一軸三帶) in new Jing'an District in Shanghai is freshly announced, the Suhewan Segment, being a core segment of the new Jing'an District, is expected to be the new development core of Shanghai. As an iconic commercial complex project of the Suhewan Segment, the Shanghai Suhewan Project will remain in the spotlight of the market. The Chengdu OCT Project will launch the high-end customized villa in the only eyot of the downtown of Chengdu and a new phase of high-rise residential properties, and will continue its sale of low-density residential properties and high-end office products. Total saleable area will reach approximately 210,000 sq.m. in 2017. The Chengdu OCT Project will also speed up its commercial development and the first Wal-Mart Sam's Club store in the southwest China is expected to open in 2017. With regard to "the Chengdu Centre", a commercial complex under the CSI Project and in which Chengdu OCT holds equity interest, the planning and approval will be completed and construction will be commenced in 2017. In 2017, the high-rise and multi-story residential products of the Chongqing OCT Project will be launched by batches, with total saleable area of approximately 170,000 sq.m. The leasing for Building 3# of the OCT Chang'an Metropolis Project will be started in 2017.

Meanwhile, we will continue to adhere to the leading development and operation concept, give full play to our advantages, actively concern and looking for diversified investment opportunities by adhering to the overall development strategy of OCT, thus to enhance our development potential.

## Paper Packaging Business

Looking into 2017, the competition in the paper packaging market will still be extraordinarily intense. Adhering to market and customer orientation, the Group will further optimise its sales strategy, enhance operation efficiency and promote cost reduction and efficiency enhancement while paying attention to production safety, so as to keep steady business development.

# Chairman's Statement

## Innovative Development Concept

In 2017, the Group will accelerate its pace of innovative development and further improve and consolidate the important role of OCT Group's sole overseas listed investment and financing platform. It will proactively acquire and foster high quality resources and businesses with strong cooperation with OCT industrial ecosphere and growth potentials by means of domestic and overseas direct investments, indirect investments (industrial funds), etc. and build new development drivers for the Company with innovative financial measures to continuously enhance its corporate value.

The Board is full of confidence in the future development prospects. The Group, with the support of OCT Group, will also endeavor to create ideal return on investment for shareholders by fully leveraging OCT's advantages in its brand, resources and experience following the work idea of "share, breakthrough and implementation".

## Appreciation

I, on behalf of the Board, hereby express our most sincere gratitude to the management team and all the staff for their efforts and contributions made in the development of the Group. I also take this opportunity to thank all shareholders and business partners for their confidence and support to the Group.

**Yao Jun**
*Chairman*

Hong Kong, 30 March 2017

# **Management** Discussion and Analysis

## Financial Review

As at 31 December 2016, the Group's total assets amounted to approximately RMB20.54 billion, representing a decrease of approximately 7.0% over that as at 31 December 2015; the Group's total equity amounted to approximately RMB6.77 billion, approximate to that as at 31 December 2015.

For the year ended 31 December 2016, the Group realized revenue of approximately RMB5.36 billion, representing a decrease of approximately 16.7% over the same period of 2015, of which, revenue of the comprehensive development business was approximately RMB4.60 billion, representing a decrease of approximately 17.9% over the same period of 2015, primarily due to the decrease in revenue from Chengdu OCT; and revenue of the paper packaging business was approximately RMB761.10 million, representing a decrease of approximately 9.4% over the same period of 2015, primarily due to the decrease in customer orders and drop in selling price as a result of the intensified market competition. Profit attributable to owners of the Company was approximately RMB385.51 million, representing an increase of approximately 41.2% over the same period of 2015, of which, profit attributable to owners of the Company of the comprehensive development business was approximately RMB399.39 million, representing an increase of approximately 56.7% over the same period of 2015, mainly due to the significant increase in share of profits of associates; loss attributable to owners of the Company for the paper packaging business was approximately RMB13.88 million, while recorded a profit of approximately RMB18.13 million for the same period of 2015, mainly due to the recognition of impairment losses of the goodwill of paper packaging business of approximately RMB24.94 million (2015: RMB Nil), decrease in customer orders and drop in gross profit margin as a result of the intensified market competition during the Period under Review. The basic earnings per share for 2016 was RMB0.57, representing an increase of approximately 42.5% over the same period of 2015 (2015: RMB0.40).

During the Period under Review, the Group's gross profit margin was approximately 30.7% (2015: approximately 31.4%), representing a decrease of 0.7 percentage points over the same period of 2015, of which, the gross profit margin of the comprehensive development business was approximately 34.0%, which was substantially the same as compared to the same period of 2015; and the gross profit margin of the paper packaging business was approximately 10.7%, representing a decrease of 2.3 percentage points over the same period of 2015, mainly due to the fall in selling price and increase in cost of sales. Net profit margin attributable to owners of the Company was approximately 7.2% (2015: approximately 4.2%), representing an increase of 3.0 percentage points over the same period of 2015, of which, the net profit margin attributable to owners of the comprehensive development business was approximately 8.7%, representing an increase of 4.1 percentage points over the same period of 2015; and the net profit margin attributable to owners of the paper packaging business was a negative of approximately 1.8%, while it was a positive of approximately 2.2% for the same period of 2015.

## Distribution Costs and Administrative Expenses

Distribution costs of the Group for the year ended 31 December 2016 were approximately RMB285.83 million (2015: approximately RMB284.52 million), representing an increase of approximately 0.5% over the same period of 2015, of which, distribution costs of the comprehensive development business were approximately RMB240.15 million, representing an increase of approximately 1.6% over the same period of 2015, which was mainly due to the increase in promotion expenses of OCT Shanghai Land as compared to that of last year; distribution costs of the paper packaging business were approximately RMB45.68 million, representing a decrease of approximately 5.0% as compared to the same period of 2015, which was mainly due to the decrease in sales commissions and transportation expenses resulted from the decrease in revenue of the paper packaging business.

# Management Discussion and Analysis

The Group's administrative expenses for the year ended 31 December 2016 were approximately RMB248.93 million (2015: approximately RMB249.61 million), representing a decrease of approximately 0.3% over the same period of 2015, of which, administrative expenses of the comprehensive development business were approximately RMB213.71 million, which was approximate to the same period of 2015; administrative expenses of the paper packaging business were approximately RMB35.22 million, equivalent to that in the same period of 2015.

## Interest Expenses

The interest expenses of the Group were approximately RMB254.78 million for the year ended 31 December 2016 (2015: approximately RMB222.94 million), representing an increase of approximately 14.3% over the same period of 2015, of which interest expenses of comprehensive development business were approximately RMB250.96 million, representing an increase of approximately 15.4% over the same period of 2015, mainly due to more loan interests capitalized in last year; interest expenses of paper packaging business were approximately RMB3.82 million, representing a decrease of approximately 30.3% over the same period of 2015, mainly due to decrease in the amount of the loans related to paper packaging business.

## Dividends

The Board has resolved to recommend the payment of a final dividend of HK16.00 cents per ordinary share for the year ended 31 December 2016 (2015: HK14.00 cents per ordinary share).

The Board has resolved to approve the payment of a preferential dividend of HK20.25 cents per convertible preference share for the year ended 31 December 2016 (2015: HK20.25 cents).

## Inventories, Debtors' and Creditors' Turnover

For the year ended 31 December 2016, the Group's inventory turnover days for the paper packaging business were 35 days, representing an increase of 3 days as compared to 32 days for the year ended 31 December 2015, which was mainly due to the increase in inventory. The Group's debtors' turnover days for the paper packaging business were 129 days for the year ended 31 December 2016, representing an increase of 13 days as compared to 116 days for the year ended 31 December 2015, which was mainly due to the longer settlement period resulted from the change of payment method by some customers. The Group's creditors' turnover days for the paper packaging business were 50 days for the year ended 31 December 2016, representing a decrease of 12 days as compared to 62 days for the year ended 31 December 2015, which was mainly due to the shortened credit period after enjoying the cash discount granted by the suppliers.

## Liquidity, Financial Resources and Capital Structure

The total equity of the Group as at 31 December 2016 was approximately RMB6.77 billion (31 December 2015: approximately RMB6.77 billion). As at 31 December 2016, the Group had current assets of approximately RMB14.26 billion (31 December 2015: approximately RMB17.67 billion) and current liabilities of approximately RMB8.46 billion (31 December 2015: approximately RMB6.97 billion). The current ratio was 1.68 as at 31 December 2016, decreased by 0.85 as compared to that as at 31 December 2015 (31 December 2015: 2.53), which was mainly due to the repayment of certain related party loans and the transfer of part of the loans from non-current liabilities to current liabilities during the Period under Review. The Group generally finances its operations with internally generated cash flow and credit facilities provided by banks and shareholder's loan.

# Management Discussion and Analysis

As at 31 December 2016, the Group had outstanding bank and other loans of approximately RMB4.28 billion, without any fixed-rate loans (31 December 2015: outstanding bank and other loans of approximately RMB4.13 billion, without any fixed-rate loans). As at 31 December 2016, the interest rates of bank and other loans of the Group ranged from 1.05% to 6.38% per annum (31 December 2015: ranged from 2.14% to 6.64% per annum). Some of those bank loans were secured by floating charges of certain assets of the Group and corporate guarantees provided by certain subsidiaries of the Company. The Group's gearing ratio (being the total borrowings including bills payable and loans divided by total assets) was approximately 43.2% as at 31 December 2016, representing a decrease of 5.7 percentage points as compared to approximately 48.9% as at 31 December 2015, which was mainly due to the decrease in the amount of related party loans.

As at 31 December 2016, approximately 37.3% of the total amount of outstanding bank and other loans of the Group amounting to approximately RMB1.60 billion was in Renminbi (31 December 2015: approximately 38.7%); approximately 50.6% of which amounting to approximately HK$2.42 billion was in Hong Kong Dollars (31 December 2015: approximately 36.9%), approximately 12.1% of which amounting to approximately US$74.80 million was in United States Dollars (31 December 2015: approximately 24.4%). As at 31 December 2016, approximately 89.8% of the total amount of cash and cash equivalents of the Group was in Renminbi (31 December 2015: approximately 78.2%), approximately 7.8% of which was in Hong Kong Dollars (31 December 2015: approximately 19.2%) and approximately 2.4% of which was in United States Dollars (31 December 2015: approximately 2.6%).

The Group's liquidity position remains stable. The Group's transactions and monetary assets are principally denominated in Renminbi, Hong Kong Dollars and United States Dollars. For the year ended 31 December 2016, the Group has not experienced any material difficulties in or effects on its operations or liquidity as a result of fluctuations in currency exchange rates. For the year ended 31 December 2016, the Group did not enter into any foreign exchange forward contracts and other material financial instruments for hedging foreign exchange risks purpose.

## Employees and Remuneration Policy

As at 31 December 2016, the Group employed approximately 2,484 full-time staff members. The basic remunerations of the employees are determined with reference to the industry's remuneration benchmark, the employees' experience and their performance, and equal opportunities will be offered to all staff members. Salaries of the employees are maintained at a competitive level and are reviewed annually, with reference to the relevant labour market and economic situation. Directors' remuneration is determined basing on a variety of factors such as market conditions and responsibilities assumed by each Director. Apart from the basic remuneration and statutory benefits, the Group also provides discretionary bonuses based on the Group's results and the individual performance of the staff.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staffs. The Group maintains a good relationship with its employees. Most members of senior management have been working for the Group for many years.

In according to the ordinary resolution passed at the extraordinary general meeting on 15 February 2011, the Board adopted a new share option scheme and simultaneously terminated the share option scheme which was adopted by the Company on 12 October 2005. On 2 March 2016, all share options granted under the new share option scheme have expired. During the year ended 31 December 2016, no share options was exercised.

# Management Discussion and Analysis

## Contingent Liabilities

The Group had no contingent liabilities as of 31 December 2016.

## Important Events

*Acquisition of Chengdu Baoxin Quansheng*

On 7 March 2016, Chengdu Chuang Ying, a wholly-owned subsidiary of Chengdu OCT, entered into a cooperation agreement with 成都保鑫投資有限公司 (Chengdu Baoxin Investment Company Limited) ("Chengdu Baoxin Investment") to acquire 50% equity interest in 成都市保鑫泉盛房地產開發有限公司 (Chengdu Baoxin Quansheng Real Estate Development Company Limited) ("Chengdu Baoxin Quansheng") held by Chengdu Baoxin Investment at a consideration of RMB25.00 million. Chengdu Chuang Ying and Chengdu Baoxin Investment should provide shareholders' loan to Chengdu Baoxin Quansheng in proportion to their respective equity interests in Chengdu Baoxin Quansheng and provide corporate guarantees required for the bank loan(s) to be obtained by Chengdu Baoxin Quansheng, the total amount of which shall not exceed RMB1.95 billion. Chengdu Baoxin Quansheng owned a land located in Jinniu District, Chengdu City with a total site area of approximately 58,300 sq.m and total gross floor area not more than 174,900 sq.m. For more details, please refer to the announcement of the Company dated 7 March 2016.

*Investment in Capital Fortune Emerging Industry Funds*

On 30 September 2016, Huayou Investment, an indirect wholly-owned subsidiary of the Company, entered into a limited partnership agreement with Capital Fortune Investment and other several partners to establish Capital Fortune Emerging Industry Funds in the total capital of RMB1.00 billion, of which RMB143.00 million was contributed by Huayou Investment. The investment scope of Capital Fortune Emerging Industry Funds covers emerging industries, such as new-energy automobiles, pharmacy and health, mobile internet, energy-saving and environmental protection. For further details, please refer to the announcements dated 30 September 2016, 11 October 2016 and 24 October 2016 of the Company and the circular dated 27 October 2016 of the Company.

*Investment in Capital Fortune Fund No.10*

On 19 December 2016, Huayou Investment entered into a limited partnership agreement with Capital Fortune Investment and other several partners to establish Capital Fortune Investment No.10 Fund in the total capital of RMB206.00 million, of which RMB100.00 million was contributed by Huayou Investment. Capital Fortune Fund No.10 engages in investment in the equity interest in a PRC securities firm. For further details, please refer to the announcement dated 19 December 2016 of the Company.

*Investment in NCI Fund*

On 28 December 2016, City Legend, an indirect wholly-owned subsidiary of the Company has applied for investing in the total amount of US$50.00 million in the NCI Fund. The investment objective of NCI Fund is to invest in equity securities in a high technology company whose operation is based in the PRC and propose to make initial public offering of its securities. For further details, please refer to the announcement dated 28 December 2016 of the Company.

# Management Discussion and Analysis

## Subsequent Events

*Investment in Minsheng Education*

On 6 March 2017, City Legend entered into the cornerstone investment agreement with Minsheng Education Group Company Limited ("Minsheng Education"), to subscribe for 332,000,000 Shares of Minsheng Education at the IPO Price. The primary focus of Minsheng Education is to provide high-quality private formal higher education in the PRC dedicated to nurturing professional talents with growth potential and prospects. This investment is expected to broaden the sources of profits of the Group. The subscription was completed on 21 March 2017, with a total effective subscription price of approximately HK$463,000,000. For further details, please refer to the announcement of the Company dated 6 March 2017.

*Investment in Shanghai Libao Huachen Fund*

On 17 March 2017, Huayou Investment entered into the limited partnership agreement with Shanghai Rongzheng Libao Investment Management Co., Ltd., Shanghai Rongzheng Investment Advisory Co., Ltd., and other several partners to establish Shanghai Libao Huachen Investment Centre (LLP) ("Shanghai Libao Huachen Fund") with an aggregate capital of RMB400 million, among which Huayou Investment contributed RMB30,000,000. Shanghai Libao Huachen Fund principally invests in culture industry, including but not limited to segments of video and media, sports and entertainment, leisure and tourism as well as online education segment, and segments of upgrading and reconstruction of such industries through internet and mobile internet. For further details, please refer to the announcement of the Company dated 17 March 2017.

# Directors and Senior Management

## Executive Directors

Mr. Yao Jun, aged 57, being the chairman of the Board and a Senior Economist, joined the Group in 2016. Mr. Yao is also a director of Overseas Chinese Town (HK) Company Limited ("OCT (HK)", the beneficial owner and director of all the issued share capital in Pacific Climax Limited ("Pacific Climax"), the controlling shareholder of the Company, he is a vice president of Shenzhen Overseas Chinese Town Holding Company Limited ("OCT Ltd." the beneficial owner of all the issued share capital in OCT (HK)). Mr. Yao has extensive experience in corporate management and operation, A share listed company operation and large-scale integrated cultural tourism project operation. Mr. Yao is currently the chairman of the board of directors of Chengdu Tianfu OCT Industry Development Company Limited (成都天府華僑城實業發展有限公司), the vice chairman of the board of directors of Beijing Century Overseas Chinese Town Industrial Co. Ltd. (北京世紀華僑城實業有限公司), and an executive director of each of Nanjing Overseas Chinese Town Industrial Co. Ltd (南京華僑城實業發展有限公司), Chongqing Overseas Chinese Town Industrial Co. Ltd (重慶華僑城實業發展有限公司), Wuhan Overseas Chinese Town Industrial Co. Ltd (武漢華僑城實業發展有限公司) and Shenzhen Overseas Chinese Town Tourist Attraction Management Co. Ltd (深圳華僑城旅遊景區管理有限公司). Mr. Yao is also the vice chairman of China Association of Amusement Parks and Attractions (中國遊藝機遊樂園協會), the chairman of the amusement park working committee (主題公園工作委員會) of Recreational Facilities Industry Alliance (遊樂設施產業聯盟) and the vice chairman of Shenzhen Travel Association (深圳市旅游協會). Mr. Yao joined Overseas Chinese Town Enterprises Company (華僑城集團公司) ("OCT Group", the controlling shareholder of OCT Ltd.) in 1990, and was the assistant president, the general manager of the Tourism Department, the vice president, the president and a director of OCT Ltd. He was also the chairman of the board of directors of Qufu Kongzi International Tourism Co. Ltd. (曲阜孔子國際旅遊有限公司) and Shenzhen Splendid China Development Co., Ltd. (深圳錦繡中華發展有限公司), the general manager and the chairman of Shenzhen Overseas Chinese Town International Media and Performance Company Limited (深圳華僑城國際傳媒演藝有限公司) and Yunnan Overseas Chinese Town Industrial Co. Ltd (雲南華僑城實業有限公司). Mr. Yao was also the vice chairman of the board of directors of Shenzhen Window of the World Co., Ltd (深圳世界之窗有限公司) and a director of Shenzhen OCT Properties Co., Ltd (深圳華僑城房地產有限公司). Mr. Yao has obtained a master's degree in international law from Nankai University (南開大學) in 1989. Mr. Yao is also chairman of the nomination committee of the Company (the "Nomination Committee").

Ms. Xie Mei, aged 49, being the executive Director and chief executive officer of the Company, joined the Group in 2004. Ms. Xie is also the President Assistant of OCT Ltd. and the chairman of Chongqing Overseas Chinese Town Land Co., Ltd. (重慶華僑城置地有限公司), ("Chongqing OCT Land") and Xi'an OCT Land Co., Ltd. (西安華僑城置地有限公司) ("Xi'an OCT Land") (the wholly-owned subsidiary of the Company) and a director of all the subsidiaries of the Company. Ms. Xie is also the general manager of OCT (HK) and a director of Pacific Climax. She is also a director of Xi'an OCT Investment Ltd. (西安華僑城實業有限公司) ("Xi'an OCT") and Yunnan OCT Industrial Co., Ltd. (雲南華僑城實業有限公司), both being subsidiaries of OCT Ltd. Ms. Xie has rich management experience. Ms. Xie joined OCT Group in 1994 and she had been a deputy director and director of the strategic development department of OCT Group. Ms. Xie graduated from the Department of Electrical Engineering of Xi'an Jiaotong University and obtained a bachelor's degree in Engineering in 1989. She also obtained a master degree in Economics from the Renmin University of China in 1999.

# Directors and Senior Management

Mr. Lin Kaihua, aged 50, is the executive Director and vice president of the Company and also holds the director position in many subsidiaries of the Company, as well as in Beijing Guangying Real Estate Development Co., Ltd (北京廣盈房地產開發有限公司). He is also the deputy general manager of Overseas Chinese Town (HK) Company Limited. Mr. Lin has extensive experience in business operation and financial management. Since he joined OCT Group in 1992, Mr. Lin had held a number of positions including but not limited to the deputy general manager and the chief financial officer of OCT Shanghai Land (an indirect non-wholly owned subsidiary of the Company), the deputy general manager of Shenzhen Overseas Chinese Town Entertainment Investment Company Limited (深圳華僑城都市娛樂投資公司) (a wholly-owned subsidiary of OCT Ltd.), chief financial officer of Shenzhen Overseas Chinese Town Holding Company Limited (深圳華僑城控股股份有限公司) (currently known as OCT Ltd.) and the chief financial officer of Shenzhen Bay Hotel (深圳灣大酒店) (currently known as "InterContinental Shenzhen (華僑城大酒店)" a subsidiary of OCT Ltd.). Mr. Lin holds a bachelor's degree and a master's degree in Accounting, and has obtained Certified Public Accountant and Senior Accountant title.

## Non-executive Directors

Mr. Zhou Ping, aged 54, as a non-executive Director who joined the Group in 2013. He is a director of numbers of subsidiaries of the Company and the head of Strategic Development Department of OCT Ltd.. He is also a director of Beijing Century Overseas Chinese Town Industrial Co. Ltd. ("Beijing OCT", 北京世紀華僑城實業有限公司) (a subsidiary of OCT Ltd.), and a supervisor of Tianjin Overseas Chinese Town Industrial Co. Ltd (天津華僑城實業有限公司) and Tianjin Dong Li Hu Overseas Chinese Town Travel Investment Co. Ltd (天津東麗湖華僑城旅遊投資有限公司). Mr. Zhou joined OCT Group in 1994 and had been the general manager of Planning Department and the head of Strategic Development Department of OCT Group. Mr. Zhou had also been appointed as the vice chairman of Shenzhen Bay Hotel (深圳灣大酒店) and the chairman of Taizhou Overseas Chinese Town Co., Ltd (泰州華僑城有限公司) (a subsidiary of OCT Ltd.). Mr. Zhou had also been the director and general manager of Shenzhen Window of the World Company Limited (深圳世界之窗有限公司), the general manager of Wuhan OCT Industrial Development Ltd (武漢華僑城實業發展有限公司) (a subsidiary of OCT Ltd.), the deputy general manager of Travel Department of OCT Ltd. and the general manager of Shenzhen Eastern Overseas Chinese Town Co Ltd (深圳東部華僑城有限公司) (a subsidiary of OCT Ltd.). Mr. Zhou obtained a master's degree of industrial engineering and management from Huazhong University of Science and Technology in 1993. Mr. Zhou is a member of the Company's audit committee (the "Audit Committee") and remuneration committee (the "Remuneration Committee"). Mr. Zhou Ping resigned as a non-executive Director and a member of each of the Audit Committee and the Remuneration Committee of the Company on 30 March 2017.

Mr. Zhang Jing, aged 34, was appointed as a non-executive Director of the Company on 30 March 2017. Mr. Zhang is an Economist* （經濟師） and currently serves as the deputy director of the strategic development department of OCT Ltd.. Mr. Zhang joined OCT Enterprise since 2004, and had worked in Shenzhen Overseas Chinese Town Real Estate Company Limited （深圳華僑城房地產有限公司） ("OCT Real Estate"), OCT Enterprise, OCT Ltd. and Qingdao Overseas Chinese Town Industrial Co. Limited （青島華僑城實業有限公司） consecutively and acted as senior manager of the strategic development of OCT Ltd., and the director of the administration department of OCT Real Estate. Mr. Zhang graduated from Xian Jiaotong University （西安交通大學） in 2004 with bachelor degrees in engineering management and journalism. He also obtained a master's degree in business administration from Shanghai Jiaotong University （上海交通大學） in 2011. Mr. Zhang is a member of the Audit Committee and the Remuneration Committee of the Company.

# Directors and Senior Management

## Independent Non-executive Directors

Mr. Lu Gong, aged 58, joined the Group in 2013. Mr. Lu is the managing director of Granton Asia Limited, whose principal businesses are investment and holding equities of overseas hotels and apartments. Mr. Lu is also the senior advisor of China Development Bank International Investment Limited (國開國際投資有限公司) (formerly known as New Capital International Investment Limited), whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 01062). Mr. Lu was appointed as but has already ceased to be an independent non-executive director of China Development Bank International Investment Limited (國開國際投資有限公司) and as the senior advisor of Galaxy Entertainment Management Services Limited (銀河娛樂企業管理有限公司) and the executive director and the vice-chairman of New City Development Group Limited (formerly known as New Rank City Development Limited), whose shares are listed on the Main Board of the Stock Exchange (stock code: 00456). Mr. Lu had also worked for Unisys China Limited and Shell China Hong Kong Co., Limited and held senior management positions at Hong Kong Telecommunications Limited and Granton Asia Limited. Mr. Lu has extensive experience in general management.

Ms. Wong Wai Ling, aged 55, joined the Group in 2007. Ms. Wong holds a bachelor degree of arts from the University of Hong Kong and a post-graduate diploma in accounting and finance from the London School of Economics and Political Science. Ms. Wong is a fellow member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and has more than 20 years of extensive experience in accounting, tax, auditing and business. Ms. Wong had worked in various international and local audit firms for more than seven years until she began to be in private practice as a Certified Public Accountant since 1993. Ms. Wong is also an independent non-executive director and chairman of the audit committee of companies in addition to the Company listed on the Main Board of the Stock Exchange (China Ruifeng Renewable Energy Holdings Limited (stock code: 00527) and AVIC International Holdings Limited (stock code: 00161). Ms. Wong is also an independent non-executive director and chairman of the audit committee and remuneration committee of Yongsheng Advanced Materials Company Limited (stock code: 03608). Meanwhile, Ms. Wong is also a non-executive director of Hin Sang Group (International) Holdings Co., Ltd (衍生集團（國際）控股有限公司) (a company listed on the Main Board of the Stock Exchange, stock code: 06893). Ms. Wong was also appointed as but has already ceased to be an independent non-executive director of Glory Flame Holdings Limited (a company listed on the Growth Enterprise Market ("GEM") of the Stock Exchange, stock code: 08059) and an executive director of JC Group Holdings Limited (a company listed on the GEM of the Stock Exchange, stock code: 08326). Ms. Wong is the chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company.

Professor Lam Sing Kwong Simon, aged 58, joined the Group in 2009. Professor Lam is a professor of Management in the Faculty of Business and Economics, the University of Hong Kong. Professor Lam is well known for his studies and research in corporate strategy, organization development and operations management. He has published a number of academic papers and case analysis on the said topics. Before joining the University of Hong Kong, Professor Lam had worked as a management consultant and as a regional manager for a bank. He has gained extensive experience in the area of corporate governance, strategy development and corporate finance. Professor Lam is also the independent non-executive director of Kwan On Holdings Limited (listed on the Main Board of the Stock Exchange, stock code: 01559), and Sinomax Group Limited (listed on the Main Board of the Stock Exchange, stock code: 01418). Professor Lam is also the non-executive director of Jacobson Pharma Corporation Limited (listed on the Main Board of the Stock Exchange, stock code: 02633). Professor Lam is the member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

# Directors and Senior Management

## Senior Management

Mr. Qiu Xiaoping, aged 59, is the vice president of the Company and a director of various subsidiaries of the Company. Mr. Qiu joined OCT Group in 2002. He had been the deputy general manager of Shenzhen Overseas Chinese Town Happy Valley Tourism Co., Ltd. (a subsidiary of OCT Ltd.) and Shenzhen Special Economic Zone OCT China Travel Agency (深圳特區華僑城中國旅行社) (a subsidiary of OCT Ltd.), before which, Mr. Qiu had held positions as deputy managing director and managing director, etc. in several companies in Mainland and Hong Kong and has extensive experience in tourism management, real estate, investment and import and export business.

Mr. Zhang Xiaojun, aged 46, is the vice president of the Company. Mr. Zhang is a director of various subsidiaries of the Company. Mr. Zhang joined the Group in 1993. Mr. Zhang supervised the daily operation of Shenzhen Huali Packing & Trading Co., Ltd. (深圳華力包裝貿易有限公司) ("Shenzhen Huali") from 2003 to 2007. Mr. Zhang graduated from Zhuzhou Institute of Technology of Hunan (now known as Hunan University of Technology) majoring in Printing Technology, where he obtained his bachelor's degree in Engineering.

Mr. Fong Fuk Wai, aged 53, is the chief financial officer, company secretary and qualified accountant of the Company. He also serves as a director of Huali Holdings Company Limited, a wholly-owned subsidiary of the Company. He joined the Group in January 2005. Mr. Fong graduated from the Hong Kong Polytechnic University and obtained his bachelor's degree in Accountancy in 1994, and obtained a master degree in business administration at the Chinese University of Hong Kong in 1999. Prior to joining the Group, Mr. Fong worked with an international CPA firm and members of companies listed in Hong Kong. He had held the positions of senior accountant, manager and financial controller. He has many years of experience in auditing, accounting and finance. Mr. Fong is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and is also an associate member of the Institute of Chartered Accountants in England and Wales.

Mr. Li Yang, aged 34, is the vice president of the Company. He is studying the Qinghua-The Chinese University of Honk Kong MBA in Financial Services Programme, an affiliate member of the Hong Kong Institute of Chartered Secretaries, and hold the Secretary for Board of Directors Qualification Certificate issued by the Shenzhen Stock Exchange. Mr. Li joined the Group in January 2014. Mr. Li Yang is also the supervisor of Xi'an OCT Land and Chongqing OCT Land, and the deputy general manager of Shenzhen Huali. Mr. Li joined OCT Group in 2005 and has served as senior manager of OCT Ltd., in charge of investor relationship management. Mr. Li graduated from Chongqing University in 2005, majoring in Law and English, and has obtained a double bachelor's degree in Legal Studies and Literature.

# Directors and Senior Management

Mr. Zhang Dafan, aged 50, is the director and general manager of Chengdu OCT. Mr. Zhang is also a director of 成都文化旅遊發展股份有限公司 (Chengdu Culture & Tourism Development Company Limited) and a general manager of western division of OCT Ltd.. Mr. Zhang joined Chengdu OCT since its establishment in October 2005. Mr. Zhang successively served as the deputy general manager of import and export department of OCT Group, a director of Shenzhen Bay Hotel (深圳灣大酒店) (now known as InterContinental Shenzhen) and a deputy general manager of OCT (HK). Mr. Zhang graduated from the management engineering department of Nanjing University of Aeronautics and Astronautics and obtained a master degree in economics from Renmin University of China.

Mr. Yuan Jingping, aged 52, is the director and general manager of OCT Shanghai Land. Mr. Yuan is also the chairman of Nanjing Overseas Chinese Town Land Co., Ltd.(南京華僑城置地有限公司) (a subsidiary of OCT Ltd.), a director of Shanghai Highpower OCT Investment Inc. (a subsidiary of OCT Ltd.) and a general manager of east china division of OCT LTd.. Mr. Yuan has an extensive experience in real estate and construction industries. Since joining OCT Group in 1999, Mr. Yuan has been the general manager of Shenzhen CMOCT Investment Limited (深圳招商華僑城投資有限公司) (a subsidiary of OCT Ltd.) and Shanghai Highpower OCT. Before joining OCT Group, Mr. Yuan served as a principal architect in an architectural design institute. In 1989, Mr. Yuan obtained his master degree of architecture from Southeast University.

Mr. He Ming, aged 46, is the director and general manager of Chongqing OCT Land. Mr. He is also a general manager of Chongqing Overseas Chinese Town Industrial Co. Ltd. (a subsidiary of OCT Ltd.) and a deputy general manager of western division of OCT Ltd.). Mr. He joined the Group in 2012. Mr. He served as the head of the finance department of OCT Group, director of investment and security department of OCT (HK) and chief representative of the Beijing Office of OCT Group. He was the president of Changqing Investment Group (長青投資集團) from 2009 to 2012. Mr. He graduated from Zhongnan University of Economics and Law, majoring in international finance.

Mr. Qin Jun, aged 54, is a director and general manager of Xi'an OCT Land. Mr. Qin Jun joined the Group in 2015 and is also the director and general manager of Xi'an OCT and a deputy general manager of western division of OCT Ltd.). Mr. Qin Jun has served as the deputy general manager of the Beijing Century Overseas Chinese Town Industrial Co. Ltd. (北京世紀華僑城實業有限公司), the general manager of the Real Estate Department of Beijing Century Overseas Chinese Town Industrial Co. Ltd. (北京世紀華僑城實業有限公司地產事業部), etc.. He has also held positions in Shenzhen OCT Real Estate Corporation (深圳華僑城房地產公司), Shenzhen OCT Construction & Supervision Co., Ltd. (深圳市僑建工程監理有限公司), etc.. Mr. Qin Jun graduated in Hunan University, majoring in water supply and drainage engineering.

# **Corporate** Governance Report

The Company believes that a high standard of corporate governance and a highly efficient management team are very important in enhancing the investors' confidence and the return to the shareholders of the Company, as well as increasing long-term share value. Therefore, the Company is committed to implementing and maintaining a high standard of corporate governance, emphasising good communication with shareholders of the Company and investors, and nurturing the corporate culture of strict code of conduct, with a view to continuously improving the Company's transparency in management. This includes timely, comprehensive and accurate disclosure of information about the Company to safeguard the shareholders' interest and to raise long term share value.

During the year ended 31 December 2016, the Company has complied with all the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Details of the Company's corporate governance are summarized as below.

## Board of Directors

### Board Responsibilities and Delegation

The Board manages the Company's affairs and is responsible for the leadership and governance of the Company. The Board is also responsible for the Company's business, financial performance and preparation of financial statements. The Board formulates the strategy, policy and business plan of the Group, controls corporate risks, monitors the operation and financial performance of the Company. The Board endeavors to make decisions in line with the interest of the shareholders of the Company and the Company as a whole, and delegate's powers and responsibilities to the management led by the Chief Executive Officer of the Company to carry out the daily management and operation of the Group. All board members have separate and independent access to the senior management, and are provided with full and timely information about the business and development of the Company, including monthly report. In order to assist the Directors to carry out their duties, the Board has set out terms of reference, enabling the Directors to seek independent professional advice upon reasonable request under appropriate circumstances and the fees are payable by the Company.

### Corporate Governance Functions

The Board is responsible for performing the corporate governance functions set out in code provision D.3.1 of the Code. As at the date of this report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices, (b) training and continuous professional development of Directors and senior management, (c) the Company's policies and practices on compliance with legal and regulatory requirements, (d) the Company's code of conduct and (e) the Company's compliance with the disclosure requirements set out in the Code.

### Composition of the Board

The Board comprises seven members, including three executive Directors, one non-executive Director and three independent non-executive Directors. The number of independent non-executive Directors is more than one-third of the number of the members of the Board. Independent non-executive Directors are experienced professionals with profound expertise and experience in legal, accounting, financial or economic management aspects. The Board considers that all independent non-executive Directors are independent in their judgment. They ensure the Board has attained the strict standards in the financial and other statutory reporting areas and they provide sufficient check and balance to safeguard the interests of the shareholders and the Company as a whole.

# Corporate Governance Report

As at the date of this report, the Directors are as follows:

## Executive Directors

Mr. Yao Jun *(Chairman of the Board, appointed on 23 May 2016)*
Ms. Xie Mei *(Chief Executive Officer)*
Mr. Lin Kaihua

Mr. Yao Jun was appointed as an executive Director on 23 May 2016, and entered into a service agreement with the Company, for a term of one year commencing from 23 May 2016 and ending at the conclusion of the 2016 annual general meeting to be held in 2017.

Ms. Xie Mei have been re-elected as an executive Director at the annual general meeting of the Company held on 23 April 2014, and have entered into the service contract with the Company for a term of three years effective from 23 April 2014 until the conclusion of the 2016 annual general meeting of the Company to be held in 2017.

Mr. Lin Kaihua has been re-elected as an executive Director at the annual general meeting of the Company held on 12 May 2015, and has entered into a service contract with the Company for a term of three years commencing from 12 May 2015 until the conclusion of the 2017 annual general meeting of the Company to be held in 2018.

## Non-executive Director

Mr. Zhou Ping

Mr. Zhou Ping has been re-elected as a non-executive Director at the annual general meeting of the Company held on 23 April 2014, and has entered into a service contract with the Company for a term of three years commencing from 23 April 2014 until the conclusion of the 2016 annual general meeting of the Company to be held in 2017. Mr. Zhou Ping resigned as a non-executive Director on 30 March 2017.

Mr. Zhang Jing

Mr. Zhang Jing was appointed as a non-executive Director on 30 March 2017, and entered into a service agreement with the Company, for a term commencing from 30 March 2017 and ending at the conclusion of the 2016 annual general meeting to be held in 2017.

## Independent Non-executive Directors

Mr. Lu Gong
Ms. Wong Wai Ling
Professor Lam Sing Kwong Simon

Mr. Lu Gong has been re-elected as an independent non-executive Director at the annual general meeting of the Company held on 11 May 2016, and has entered into a service contract with the Company for a term of three years effective from 11 May 2016 until the conclusion of the 2018 annual general meeting of the Company to be held in 2019.

# Corporate Governance Report

Ms. Wong Wai Ling and Professor Lam Sing Kwong Simon were re-elected as independent non-executive Directors at the annual general meeting of the Company held on 12 May 2015 and have entered into service contracts with the Company for a term of three years effective from 12 May 2015 until the conclusion of the 2017 annual general meeting of the Company to be held in 2018.

The biographies of each Director are set out between page 21 and 25 of this Report.

The Company has complied with Rules 3.10 (1) and 3.10 (A) of the Listing Rules. During the year ended 31 December 2016, there were three independent non-executive Directors in the Board and the number of independent non-executive Directors represents at least one-third of the Board. The Company has also complied with Rule 3.10 (2) of the Listing Rules, which stipulates that one of the independent non-executive Directors must possess appropriate professional qualifications or accounting or related financial management expertise. The Board considers that the independent non-executive Directors are all independent persons with appropriate qualifications or expertise and the Company has complied with the relevant requirements of the Listing Rules.

The Company has established a Nomination Committee. The Nomination Committee will evaluate the independence of all independent non-executive Directors each year and make sure that they comply with the independence requirement under Rule 3.13 of the Listing Rules. All members of the Board are not related to one another in all aspects, including finance, family and business.

## Chairman and Chief Executive Officer

The Company has a separate Chairman and Chief Executive Officer. The two positions are assumed by different persons in order to ensure that their independence, accountability and power are clear. Mr. Yao Jun, the Chairman, is responsible for the operation of the Board and the formulation of the Company's strategies and policies. Ms. Xie Mei, the Chief Executive Officer, with the assistance of other members of the Board and senior managements, is responsible for the management of the Group's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation.

## Appointment and Re-Election of Directors

The Nomination Committee identifies appropriate individuals qualified to become Board members and to provide advice to the Board in respect of nominating such persons to the Board. The Nomination Committee also makes recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. The Board is responsible for formulating the procedures for appointing Directors, and nominating suitable candidates for approval at the annual general meetings so as to fill vacancies due to resignation of Directors or to appoint additional Directors.

When selecting candidates for appointment as Directors, the Board will consider the candidates' integrity, achievements and experience in the relevant industry, expertise, educational background and whether they have sufficient time to assume the post of Directors.

Pursuant to the articles of association of the Company, every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

# Corporate Governance Report

## Number of Board Meetings Held and Procedures

The Board convened fifteen meetings in the year ended 31 December 2016.

The Board has established meeting procedures and has complied with the code provisions of the Code. The procedures of Board meetings provide that the Board shall meet at least four times each year and can convene additional meeting when necessary. The agenda and other reference documents shall be distributed prior to the Board meeting to allow sufficient time for the Directors to review. Directors can express different opinions at Board meetings. Important decisions will be made only after detailed discussions by the Board. Directors who have conflict of interest or material interests in the relevant transactions will not be counted in the quorum of the meeting and shall abstain from voting on the relevant resolutions. Minutes of Board meetings and other committee meetings will be drafted by the Company Secretary and will be sent to all members for their comment or record respectively. Directors are entitled to inspect the minutes at any time.

## The Attendance of Directors and Committee Members

The Directors' attendances of the meetings of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee and general meetings of the Company for the year ended 31 December 2016 are as follows:

| | Number of meetings attended/Number of meetings | | | | |
|---|---|---|---|---|---|
| **Name of Directors** | **The Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **General Meeting** |
| Wang Xiaowen *(Note 1)* | 5/15 | N/A | N/A | 2/2 | 0/1 *(Note 2)* |
| Yao Jun *(Note 1)* | 9/15 | N/A | N/A | N/A *(Note 3)* | N/A *(Note 3)* |
| Xie Mei | 15/15 | N/A | N/A | N/A | 1/1 |
| Lin Kaihua | 15/15 | N/A | N/A | N/A | 1/1 |
| Zhou Ping | 15/15 | 2/2 | 1/1 | N/A | 0/1 *(Note 2)* |
| Lu Gong | 15/15 | N/A | N/A | N/A | 0/1 *(Note 2)* |
| Wong Wai Ling | 15/15 | 2/2 | 1/1 | 2/2 | 1/1 |
| Lam Sing Kwong Simon | 15/15 | 2/2 | 1/1 | 2/2 | 0/1 *(Note 2)* |

*Notes:*

1. Ms. Wang Xiaowen resigned as executive Director on 23 May 2016 and Mr. Yao Jun was appointed as executive Director on 23 May 2016.

2. Certain Directors were not able to attend the general meeting held in 2016 due to their unavoidable business engagements.

3. We have convened two meetings for the Nomination Committee and one general meeting in 2016, and the time for the meetings were all earlier than the day of Mr. Yao Jun been appointed as executive Director.

## Directors' Continuous Professional Development Programme

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the relevant statutes, laws, rules and regulations.

Directors' training is an ongoing process. During the year ended 31 December 2016, Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year ended 31 December 2016, the Company had also organised briefing sessions conducted by the Hong Kong legal advisers of the Company for the Directors. The briefing sessions covered topics including but not limited to the Listing Rules in relation to connected transactions, corporate governance code and inside information.

According to the records provided by the Directors, a summary of training received by the Directors for the year ended 31 December 2016 are as follows:

| Name of Directors | Reading seminar materials relating to the effect of disclosure of inside information and the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong) | Attending Briefing Sessions |
|---|---|---|
| **Executive Directors** | | |
| Wang Xiaowen *(Note)* | ✓ | ✓ |
| Yao Jun *(Note)* | ✓ | ✓ |
| Xie Mei | ✓ | ✓ |
| Lin Kaihua | ✓ | ✓ |
| **Non-executive Director** | | |
| Zhou Ping | ✓ | ✓ |
| **Independent Non-executive Directors** | | |
| Lu Gong | ✓ | ✓ |
| Wong Wai Ling | ✓ | ✓ |
| Lam Sing Kwong Simon | ✓ | ✓ |

*Note*: Ms. Wang Xiaowen resigned as executive Director on 23 May 2016, and Mr. Yao Jun was appointed as executive Director on 23 May 2016.

# Corporate Governance Report

## Special Committees under the Board of Directors

The Board has the following committees:

### Audit Committee

As of 31 December 2016, the Audit Committee consists of three members, including two independent non-executive Directors, namely Ms. Wong Wai Ling and Professor Lam Sing Kwong Simon, and one non-executive Director, namely Mr. Zhou Ping, with Ms. Wong Wai Ling being the chairman of the Audit Committee.

The main terms of reference of the Audit Committee are as follows:

(a) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment or removal of the external auditors, and the approval of remuneration and terms of engagement of the external auditors;

(b) reviewing risk management and internal control and monitoring the work of internal audit department;

(c) reviewing the financial statements of the Company, the Company's annual reports and accounts, interim reports and quarterly reports (if any);

(d) examining financial statements and reporting to the Board for any significant opinions in relation to financial reporting;

(e) conferring with auditors on any problems and matters of doubt arising from the audit process, as well as other issues the auditors may like to discuss (if necessary, such discussions could be undertaken in the absence of the management); and

(f) reviewing correspondences addressed to the management by the external auditors and responses from the management.

The Audit Committee held two meetings during the year ended 31 December 2016, and performed the major works as below:

1. reviewed the annual financial results and report for the year ended 31 December 2015 and interim financial results and report for the six months ended 30 June 2016;

2. reviewed the internal audit department's report regarding the reviewing and procedures of the internal control and risk management of the Company; and

3. provided opinions to the Board in respect of the appointment of auditors.

The Audit Committee has reviewed this annual report, and confirmed that it is complete and accurate and complies with the Listing Rules.

### Remuneration Committee

As of 31 December 2016, the Remuneration Committee consists of three members, including two independent non-executive Directors, namely Ms. Wong Wai Ling and Professor Lam Sing Kwong Simon, and one non-executive Director, namely Mr. Zhou Ping, with Ms. Wong Wai Ling being the chairman of the Remuneration Committee.

The main role and function of the Remuneration Committee are as follows:

(a) consulting the chairman of the Board on remuneration recommendations concerning other executive Directors;

(b) putting forward recommendations to the Board on matters relating to the overall remuneration policy and structure for the Directors and senior managerial staff of the Company, as well as finalizing a formal and transparent remuneration policy of the Company;

(c) with authority delegated by the Board, finalizing the compensation packages for all the executive Directors and senior managerial staff and putting forward recommendations to the Board on remuneration for non-executive Directors; and

(d) reviewing and approving compensations paid to executive Directors and senior managerial staff, who lose their positions or whose appointments are terminated, in order to ensure that the compensations are paid in accordance with relevant contractual terms.

The Remuneration Committee held one meeting during the year ended 31 December 2016, and performed the major work as below:

1. reviewed and discussed the remuneration policy and structure of the Company and the remuneration and performance of duties of the executive Directors and senior management and other staff; and

2. reviewed the implementation of the share option scheme of the Company.

### Nomination Committee

As of 31 December 2016, the Nomination Committee consists of three members, including one executive Director, namely Mr. Yao Jun and two independent non-executive Directors, namely Ms. Wong Wai Ling and Professor Lam Sing Kwong Simon, with Mr. Yao Jun being the chairman of the Nomination Committee.

The Board has adopted its board diversity policy (the “Board Diversity Policy”). All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

# Corporate Governance Report

The main role and function of the Nomination Committee are as follows:

(a) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) reviewing the Board Diversity Policy of Board members and the implementation progress of targets set by such policy;

(c) identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(d) assessing the independence of independent non-executive Directors; and

(e) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer.

The Nomination Committee held two meetings during the year ended 31 December 2016 and performed the major work as below:

1. examined the structure, size and composition of the Board, to ensure the Directors have the expertise, skills and experience required to meet the Company's business;

2. reviewed the Board Diversity Policy of Board members and the implementation progress of targets set by such policy;

3. assessed the independency of all independent non-executive Directors; and

4. reviewed and discussed the nomination of Mr. Yao Jun as an executive Director, and make recommendations to the Board with regards to the reappointment of Mr. Lu Gong as independent non-executive Directors.

## Risk Management and Internal Control

The Group pays high attention to risk management. We believe that a set of comprehensive and effective risk management and internal control systems play an important role in achieving the Group's strategic goals. The challenge faced by the Group is in identifying and managing risks so that they are managed, mitigated, transferred, avoided or understood and accepted. The Group has established a robust framework of ongoing risk management process in identifying, evaluating and managing significant risks faced by the Group to promote the long-term success of the Company. The internal control system is implemented to minimize the risk to which the Group is exposed and used as a management tool for the day-to-day operation of business.

# Corporate Governance Report

The Board acknowledges its ultimate responsibility to establish and maintain appropriate risk management and internal control systems for the business of the Group. Also, the Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system. The Board fully recognizes that good risk management and internal control systems are designed to manage rather than eliminate the risks, and the system and processes that have been put in place do not provide an absolute shield against factors including unpredictable risks or uncontrollable events such as natural catastrophes or errors of judgment. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Group has never met any risk accident in the capital market upon listing. There has been no significant error or weakness in aspect of internal control, or such condition or consequence which may have a material impact on the truthfulness, accuracy and fairness on the financial matters of the Group.

The Company has an internal audit department which is independent of other departments. The internal audit department has the authority to inspect the information of the Group's risk management network, the control and governance processes in order to monitor the effectiveness of the internal control of the Company. The internal audit department conducts an overall review on every subsidiary once a year, and reports and makes recommendation to the management of the Company in respect of the review. Besides, the internal audit department also regularly reviews all the businesses and matters relating to work approach, procedures, expenses and internal control measures of the Company's subsidiaries. The department will also conduct ad hoc reviews and investigations when necessary. The internal audit department reports directly to the Audit Committee.

The internal audit department of the Company submits the comprehensive risk management report and internal audit report to the Audit Committee under the Board on an annual basis. The comprehensive risk management report is made once a year, which comprehensively describes the integrity and effectiveness of the internal control system of the Group, the results of internal and external risk assessment on the Group's strategy, finance, regulation and compliance, marketing and operation, and starts the supervision and improvement mechanisms for principal risk management strategies and solutions based on and with respect to the significant risks which are determined to have a material impact on the Group. The existing control measures may not only recognize and dispose such principal risks, but also contribute to improving the skills, interests and costs required, thus helping the Board to assess the actual control status and effectiveness of risk management.

### Three Defence Lines

The Group strived to establish the defence line for decision-making and monitoring of comprehensive risk management, defence line for implementation of comprehensive risk management measures, and defence line for assessment of comprehensive risk management with respect to its existing businesses.

# Corporate Governance Report

The framework of the Group's risk management and internal control systems is guided by the model of "Three Defence Lines":

### *First Defence Line: defence line for decision-making and monitoring of comprehensive risk management*

As the first defence line of comprehensive risk management organizational system, the defence line for decision-making and monitoring of comprehensive risk management comprises of the Board, management and department heads of the Company. As the decision-making and monitoring institutions of comprehensive risk management, the Board, management and department heads of the Company are mainly responsible for (among others): approving the organizational structure and duty schemes of risk management of the Company; approving the risk management policies, risk management measures and significant risk solutions of the Company; and monitoring and supervising the establishment and implementation of comprehensive risk management system and assessment mechanism of internal control.

### *Second Defence Line: defence line for implementation of comprehensive risk management measures*

All functional departments and special teamwork groups of the Group constitute the second defence line for implementation of comprehensive risk management measures, mainly responsible for performing and implementing of comprehensive risk management and internal control systems and relevant affairs, and strictly implementing the management measures of daily risks; organizing all departments to identify and evaluate the actual risk management of their respective businesses; and promptly reporting risks in relation to the implementation management strategies and solutions of significant risks.

### *Third Defence Line: defence line for assessment of comprehensive risk management*

As the third defence line for comprehensive risk management, the audit department is mainly responsible for supervising and assessing the implementation and quality of comprehensive risk management measures, and on-going effectiveness of risk countermeasures in combination of audit projects, and issuing the audit report on supervision and assessment.

## Management Procedures of Significant Risks

The Group formed the three defence lines of risk management organizational system to improve the monitoring and management of potential significant risks. The audit department leads and organizes each department and subsidiary to assess relevant risks on an annual basis.

Based on risk management provisions and actual corporate status, the Group focuses on nine dimensions and conducts risk assessment from the perspective of strategic risk, financial risk, market risk, operational risk, legal and compliance risk. Targeting at identifying such risks above, the potential significant risks are determined finally with qualitative and quantitative standards in accordance with the risk factors for identification and assessment of each core business. The Group prevents the reoccurrence of same or similar risk events by tracking and managing the whole process of risk assessment and relevant significant risks in the year, implementing the supervision and improvement mechanisms for significant risk management strategies and solutions, and preparing and implementing relevant solutions.

# Corporate Governance Report

***Measures and Means of Defence Lines:***

With an aim to improve the Group's risk management and internal control systems while enhancing its management standards and ability to mitigate risks, the audit department organizes all functional departments of the Group for publicizing and training on self-assessment of internal control and comprehensive risk management, requires all departments and personnel to carry out risk assessment as required and penetrate risk management in their daily works in combination with their actual status, so as to create unified cultural atmosphere for risk management within the Group. In addition, the Group is equipped with certain culture base for risk management due to the development of relatively complete risk assessment and response mechanisms.

In order to enhance the effect of risk awareness, the Group intensifies the establishment of internal control system, and train the internal control personnel on the on-going basis through "sharing of experience", and supports the training courses and relevant budgets involved. In addition, a teamwork group is formed with the business department and internal control specialists to improve the establishment of internal control system and comprehensive risk management. Furthermore, the organizational structure and post duties are defined again, and the audit team is expanded with experienced full-time talents to obtain more special audit projects, strengthen the audit power and develop an echelon of talents, thus enhancing the risk management and internal control of the Group.

## Inside Information Confidential Policy

An inside information confidential policy is in place to ensure potential inside information being captured and confidentiality of such information being maintained until timely disclosure are made in accordance with the Listing Rules. The policy regulates the handling and dissemination of inside information, which includes:

– designated reporting channels from different operations informing any potential inside information to designated departments;

– designated persons and departments to determine further escalation and disclosure as required; and

– designated persons authorised to act as spokespersons and respond to external enquiries.

During the Period Under Review, the Board examined the effectiveness of the risk management and internal control systems of the Company through the Audit Committee, and considered that the risk management and internal control systems are adequate and effective and the Company has complied with the code provisions on risk management and internal control of the Code.

## Principal Risks

A number of factors may affect the results and business operations of the Group. The Group focuses on addressing the following principal risks.

# Corporate Governance Report

**Principal Risks and Control Measures in 2016**

| Type of Risk | Description | Key Control Measures | Caused by |
|---|---|---|---|
| Strategic Risk | The risk of material adverse changes to the Group's business performance, development prospects or ability to deliver its strategy, caused by changes in business expansion, economic, competitive, regulatory or political environment. | 1. Proactive monitoring of global exchange industry trends, competitors and innovations;<br>2. Increase in market cooperation, supplementation of project resources and expansion of investment scale by virtue of the Group's available resources and brand influence; and<br>3. Responsive project controls to allow strategic flexibility and dedicated strategy resources. | The Group's new attempts in its business and expansion in market and investment projects. |
| Financial Risk | The risk of financial exchange caused by significant increase or decrease of exchange rate. | 1. Currency hedging policy in place to lower or hedging fluctuation risk through locking exchange and adjustment of foreign exchange reserve;<br>2. Sensitivity analysis conducted to forecast changes in exchange rate and adjust the stock fund or loan fund in good time; and<br>3. Monitoring foreign exchange or interest rate risks. | Influence of market interest rate or exchange rate and credit spread, intensified fluctuations in currency market, and potential increase in value loss on exchange or portfolio. |
| | The risk of cash flow caused by increasing number of domestic and foreign investment projects and large-scale cross-boundary flow of investment fund. | 1. Cross-boundary capital flow control mechanism in place for possible arrangement of domestic and foreign capital;<br>2. Investment policy, restrictions and guidelines in place covering Corporate Funds and Margin Funds; and<br>3. Clearing liquidity risk management requirements met through established stress testing practices on a regular basis. | Funding requirement and cross-border flows will increase with the development and expansion of investment projects. |

**Principal Risks and Control Measures in 2016**

| Type of Risk | Description | Key Control Measures | Caused by |
|---|---|---|---|
| Legal and Compliance Risk | The risk of loss resulting from breach of or non-compliance with applicable laws, regulations or contractual obligations. | 1. Internal and where appropriate external legal advice sought and compliance reviews conducted on new business activities and new initiatives; and<br>2. Legal review of contracts by legal specialist and compliance review monitoring. | Increasing number of investment and acquisition projects, intensified risks of relevant laws and compliance, and more problems to be solved for supervision. |
| Market Risk | The risk of potential market fluctuations caused by environmental changes including domestic and overseas macro economy, market supply and demand and industrial competition. | 1. Internal response mechanism optimized to deal with changes in market demands more sharply and effectively;<br>2. Product structure adjusted to cater for the market more actively. | Gradually fierce competition for land purchase in real estate industry in recent years. |
| Operational Risk | Sales progress and performance influenced by home-purchase restriction, credit limit and other macro policies. | 1. More flexible and reasonable sales policies and pricing policies in place;<br>2. Periodic analysis of sales facts to facilitate marketing, de-stocking and fund recovery. | Large risks of economic situation and soft operation environment, intense industry competition and more risks in operation difficulty resulting from the strict state macro-control. |

In 2017, the Audit Committee of the Group will continue to refine the improved group-wide risk management process in line with the Corporate Governance Code and industry best practices. In addition, we will focus on communication, awareness and ownership of risks across the Group.

## Financial Reporting

The Directors are responsible for overseeing the preparation of the financial statements, to ensure the annual report giving a true and fair view of the financial position, results and cash flow of the Group for the year. In preparing the financial statements for the year ended 31 December 2016, the Directors have:

- selected appropriate accounting policies and applied them consistently; and
- made judgments and estimates that are reasonable.

# Corporate Governance Report

The Company recognizes that high quality corporate reporting is very important in reinforcing the trustworthy relationship with the Company's stakeholders and aims at presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects in all corporate communications. In order to have timely and effective communications between the Company and its shareholders, the annual results of the Company are announced in a timely manner within the limit of four months after the end of a financial year.

The auditors' responsibilities are set out in the Auditor's Report on page 77.

Through the Audit Committee, the Board has reviewed the internal control system in respect of finance, operations and compliance of the Company and its subsidiaries. The Audit Committee considers that the Company and its subsidiaries have established all necessary mechanisms. The above control mechanism has ensured compliance in respect of the Company's operations. The Board considers that the Company has complied with the code provisions of the Code on internal control.

## Remuneration of Directors and Senior Management

The Group paid total Directors' remuneration amounts of approximately RMB1,361,000, RMB922,000, RMB154,000, RMB129,000 and RMB129,000 to Ms. Xie Mei, Mr. Lin Kaihua, Mr. Lu Gong, Ms. Wong Wai Ling and Professor Lam Sing Kwong Simon respectively for the year ended 31 December 2016. Ms. Wang Xiaowen, Mr. Yao Jun and Mr. Zhou Ping did not receive any basic remuneration from the Group as of 31 December 2016. Details in relation to the Director's remuneration payment of the Group in the year ended 31 December 2016 are set out on page 120 of this Report.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director.

Senior management's remuneration payment of the Group for the year ended 31 December 2016 falls within the following bands:

| | **Number of individuals** |
|---|---|
| RMB500,000 or below | 2 |
| RMB500,001 to RMB1,000,000 | 2 |
| RMB1,000,001 to RMB1,500,000 | 2 |
| RMB1,500,001 to RMB2,000,000 | 0 |
| RMB2,000,001 to RMB2,500,000 | 2 |

### Securities Transactions by Directors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules (the "Model Code"). The Board confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions during the year ended 31 December 2016.

# Corporate Governance Report

## Securities Transactions by Senior Management and Staff

The senior management and staff have been individually notified and advised about the Model Code by the Company.

### Financial Officer

The Financial Officer of the Company is responsible for preparing interim and annual financial statements based on accounting principles generally accepted in Hong Kong and ensures that the financial statements truly reflect the Group's results and financial position as well as in compliance with the disclosure requirements under the applicable provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Listing Rules and other relevant laws and regulations. The Financial Officer reports directly to the chairman of the Audit Committee and coordinates with external auditors on a regular basis. In addition, the Financial Officer will review the control of financial risks of the Group and provide advice thereon to the Board.

### Company Secretary

The Company Secretary of the Company reports directly to the Board. All Directors have easy access to the Company Secretary and the responsibility of the Company Secretary is to ensure the board meetings procedures are properly followed and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for giving advice to the Board with respect to the Directors' obligations on securities interest disclosure, disclosure requirements of notifiable transactions, connected transactions and inside information. The Company Secretary shall provide advice to the Board with respect to strict compliance with the laws, requirements and the Company's articles of association as appropriate. As the Company's principal channel of communication with the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance so as to bring the best long term value to the shareholders of the Company. In addition, the Company Secretary also provides relevant information updates and continuous professional development to the Directors with respect to legal, supervisory and other continuous obligations for being a director of a listed company as appropriate. The Company Secretary is also responsible for supervising and managing the investors' relations of the Group.

The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements during the year ended 31 December 2016.

### External Auditor

The Company reappointed RSM Hong Kong (formerly known as RSM Nelson Wheeler) as the auditor of the Company on 12 May 2016.

For 2016, RSM Hong Kong is the external auditor of the Company. In 2016, the auditing and non-auditing (acted as reporting accountants for the notifiable transactions of the Company) fees paid to the external auditor were approximately RMB1,357,000 and approximately RMB624,000 respectively. The auditor's responsibilities to the shareholders of the Company are set out on page 77 of this Report.

# Corporate Governance Report

### Investor Relations

The Company places great emphasis on its relationship and communication with investors. The Company has numerous communication channels, such as press conference and seminars, to communicate with the media, analysts and fund managers. Designated senior management staff holds dialogue with analysts, fund managers and investors, who are also arranged to visit the Company and investment projects from time to time, so as to keep them abreast of the Group's business and latest developments. In addition, investors can also visit the Company's website at www.oct-asia.com for the most-updated information and the status of the business development of the Group.

The Board has adopted the revised and restated memorandum and articles of association. Investors can obtain the Company's latest memorandum and articles of association at the Company's website.

There had been no significant changes in the memorandum and articles of association of the Company during the Period Under Review.

## Communication with the Shareholders of the Company

The Board and senior management recognise the responsibility of safeguarding the interest of the shareholders of the Company and provide highly transparent and real-time information on the Company so as to keep the shareholders of the Company and investors abreast of the Company's position and help them to make the best investment decision. The Company believes that maintaining good and effective communication with shareholders of the Company can facilitate their understanding of the business performance and strategies of the Group. The Board and senior management also recognise the responsibility of safeguarding the interest of the shareholders of the Company. In order to safeguard the interest of the shareholders of the Company, the Company reports its financial and operating performance to the shareholders of the Company through annual reports and interim reports. Shareholders of the Company can also obtain information of the Group in time through annual reports, interim reports, announcements, circulars, press releases and the Company's website at www.oct-asia.com.

The annual general meetings are an appropriate forum for direct communications between the Board and the shareholders of the Company. Shareholders of the Company can raise questions directly to the Board in respect of the performance and future development of the Group at the annual general meetings.

# Corporate Governance Report

## Shareholder's Right

### Procedures for putting forward proposals at a general meeting by shareholders

In accordance with the requirements under Article 64 of the articles of association of the Company, extraordinary general meetings shall also be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, 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 Directors shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to Article 113 of the articles of association of the Company, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office. The minimum length of the period, during which the notices required under the articles of association of the Company will commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

### Procedures for directing shareholders' enquiries to the Board

Shareholders of the Company may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Attention: The Company Secretary
Overseas Chinese Town (Asia) Holdings Limited
Suite 3203-3204, Tower 6 The Gateway, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong
Email: ir-asia@chinaoct.com

The Company Secretary shall forward the shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to answer the questions of the shareholders of the Company.

# Environmental, Social and Governance Report

## About ESG Report

The Environmental, Social and Governance Report (the "ESG Report") elaborates the various work of the Company and its subsidiaries fully implementing the concept of sustainable development and performing its corporate social responsibilities, and its performance of social governance in 2016.

### Scope of the Report

The ESG Report focuses on the environmental and social performance of the core business of the Group in mainland China during the Period Under Review. As for the information of corporate governance, please refer to the "Corporate Governance Report" in this annual report.

### Reporting Framework

The ESG Report was prepared based on the "Environmental, Social and Governance Reporting Guide" under Appendix 27 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### Stakeholder Engagement

The preparation of the ESG Report, which was supported by staff from the Group's different departments, enabled the Group to have a better understanding of its current environmental and social development. The information ESG Report gathered were not only the summary of the environmental and social work carried out by the Group during 2016, but also the basis for the Group to make short and long term strategies for sustainable development.

### Information and Feedbacks

Your opinions will be highly valued by the Group. If you have any advices or suggestions, please email to the following address: ir-asia@chinaoct.com.

## Public Welfare and Charity

It is the corporate citizen's responsibility to give back to the society by sharing the resources taken from it. As a subsidiary under the Overseas Chinese Town Group, a leading brand in the tourism industry which ranks first in Asia and fourth in the world, the Company has been cherishing a pure heart of contributing to the society by actively organizing various events, providing resources and support for people in need, and devoting itself to care the ecological environment. These initiatives have not only enriched the corporate culture of the Group but also benefited the community.

### Social Welfare Activities


From January 1 to 20, in the activity "Donating Books to Green Bookstore" organized by Overseas Chinese Town Group, the Group responded positively to the initiative by encouraging all the staff to donate their idle books that were healthy and suitable for primary school students to the children of Koupu Primary School in Koupu village, Huilai County, Jieyang City, Guangdong Province. The activity gathered the care and love of all the staff and built up a bridge of understanding the world for the children. In addition, the Group also actively held exhibitions and activities such as paper packaging culture exhibition, to enrich the cultural life of the mass, and appealed to the staff to participate in the cultural and educational activities organized by the community, such as the volunteer activity of street traffic safety.

# Environmental, Social and Governance Report


During the Period Under Review, Chengdu OCT also undertook different charity projects. On 2 April, Chengdu OCT organized a large-scale charity event named "Caring for the Children of Stars" to appeal to the society to care for autistic children. This charity event, involving medical consultation, charity bazaar, photography exhibition and interactive park tour, provided a public service activity for local warm-hearted people. On 23 April, Chengdu OCT organized a sports and food carnival with the theme of "Enjoy the Moment and Burn Calories" which attracted over a thousand sports lovers. Participants did the fitness exercises energetically together under the guidance of the coaches and enjoyed the fun of burning calories. On 28 September, the Central Sport Club of the Army Moscow, the Champion of the Euroleague Basketball in last season, together with the cheering team of Red Star Belgrade visited Chengdu Happy Valley and participated in the One Team Activity of 2016 Euroleague Basketball China Tour. They came to interact with the children of special education schools in Qingyang District of Cheungdu to spread love and positive energy.

### Environmental Welfare Activities

On 29 April, Zhongshan Huali arranged an environmental activity for staff, with the theme of "Labour Makes Me Happy". The staff participated in removing trash and applying fertilizers in the factory, so as to help improve the environment and beautify the appearance of the factory.

On 4 June, Chengdu OCT co-organized a walking race named "Walking in Love along Our Beautiful Fu River" with the Hang Lv Group. With over a thousand participants walking in this competition, it delivered the positive energy of loving and protecting the Fu River to the whole city, and enhanced the citizen's environmental protection awareness from the perspectives of green travel and healthy low-carbon lifestyle.

## Ecological and Environmental Protection

Environment is the basis for human survival and an important issue for corporate sustainable development. Protecting the natural environment and building ecological civilization are not only the foundation of the sustainability of human society, but also the obligation of each enterprise citizen. During the Period Under Review, the Group continued to respond to national policies on energy conservation, emission reduction and green development. The Group started with its daily operations and increased the investment in environment protection by minimizing the impact on the environment at source and making the best use of energy, water and materials, so as to reduce pollutants and carbon emissions.

# Environmental, Social and Governance Report

The Group's comprehensive development business involves real estate development, leasing and managing theme parks. It complies with laws and regulations, including the Environmental Protection Law of the People's Republic of China, the Ambient Air Quality Standard, the Integrated Wastewater Discharge Standard and the Regulations on the Administration of Construction Project Environmental Protection. For the paper packaging business, except the laws and regulations mentioned above, the local air and water pollutants emission limits and the Emission Standard for Industrial Enterprises Noise at Boundary are also followed. All subsidiaries of the paper packaging business have obtained the ISO14001: 2004 Environmental Management System certificate.

## Pollution Control and Emission Reduction

### *Wastewater Discharge*

The premises of the Group's comprehensive development business mainly discharge municipal sewage. All premises have been granted the wastewater discharge permit. Chengdu Happy Valley is running a theme park with a lake inside. Staff of the theme park carry out cleaning cycles regularly to maintain the water quality at a level better than the natural rivers in the city.

The premises of the Group's paper packaging business mainly discharge production wastewater and domestic sewage. All premises have been granted pollutant discharge permit. The wastewater, treated by multiple processes such as the process of "Coagulation Sedimentation + Anaerobic Biological Treatment Process (four-stage anaerobic tank) + Aeration Tank + Artificial Wetland (four-stage plant succession)" in the wastewater treatment plant of the factory, is recycled or discharged after reaching discharge standard.

### *Air Pollutants Emission*

The Group's comprehensive development business has taken a series of measures to reduce air pollutants emission and improve indoor air quality during its operation process. For instance, purchasing construction materials in nearby areas to reduce transportation distance, taking anti-dust measures in construction sites, using low nitrogen oxide burners for boilers, adopting solar water heating system, adopting low-temperature radiant floor heating system, selecting water chillers and boilers with high efficiency for air-conditioning system, using environmentally friendly refrigerants (such as R410a and R130a), installing ventilation system with primary air handling unit and mechanical extract system, growing and placing green plants, using environmentally paints, and so on.

The premises of the Group's paper packaging business mainly discharge smoke, dust, sulphur dioxide and nitrogen oxides from the boilers. In order to reduce air pollutants emission, each subsidiary has taken different measures. Shanghai Huali has installed natural gas boiler so that gas can be emitted within the emission limits without treatment; Zhongshan Huali has replaced coal to biomass pellets as the boiler fuel, which reduces sulphur dioxide emission by 90% and nitrogen oxides emission by 50%; Anhui Huali and Suzhou Huali has phased out coal burning boilers and used steam energy supplied by thermal power station, which achieves zero air pollutants emission. Huizhou Huali has installed desulphurization and dust removal systems for boilers to treat and discharge smoke and dust within the emission limits.

### Solid Waste Disposal

The Group's comprehensive development business mainly generates solid waste from office, domestic households, renovation sites and construction sites. In order to reduce the impact of solid waste discharge on the environment, the Group encourages double-sided printing, recycles part of the paper, promotes paperless office by establishing the Office Automation System (OA system), and cooperates with high schools to hold an arts exhibition showing art pieces made from old paper boxes. The Group also promotes purchasing products with simple packaging and mercury-free alkaline batteries. All used batteries are placed in battery collection box in the community and recycled by government authority. The Group requires used photocopiers toner cartridges to be recycled by professional companies. All renovation, office and domestic waste are collected and processed by sanitation department. Earthwork and construction waste produced from construction projects are collected and transported by units approved by the government. Recyclable materials are collected and processed by contractors. Apart from these, the Group also installs kitchen waste disposal pulverizers in some households, reduce the volume and convert the waste into non-toxic, odourless and effective fertilizers for plants by setting up biological treatment facilities which utilize microorganisms to decompose waste in waste compacting stations.

The premises of the Group's paper packaging business discharge toxic solid waste including sewage sludge, residual waste and hazardous waste produced from wastewater treatment, and non-toxic solid waste including paper (such as scraps of base paper, office use paper), metal (such as old components of equipment, scraps of metal), disused templates, plastic boards, plastic buckets, ink-boxes, domestic waste, and so on. The Group upholds the principle of reducing waste at source and implements monitor control by carrying out a series of measures to manage and recycle the waste, such as transporting sewage sludge to landfills, reducing paper wasted by designing paper packages according to product specifications, using starch to replace glue, reducing starch consumption by implementing optimal management, cooperating with qualified waste treatment enterprises, reducing the pollutants emission by decomposing sewage sludge with microorganisms, recycling and processing product waste for reusing or reselling, and so on.

### Noise Pollution Control

Other than wastewater, air pollutants and solid waste, the Group also generates noise pollution during its operation process. The Group's comprehensive development business controls the work hour strictly during the construction period. Take the renovation of the Chang'an Metropolis Centre Block 3 as an example, considering the impact of the construction work on the residence in the neighborhood, the Xi'an OCT Land prohibited construction activities from 9pm to 6am, to reduce the impact of noise on the surroundings. The premises of the Group's paper packaging business are set up with no residential areas nearby with the sound-proof rooms installed. When the corrugated cardboard lines are in operation, the factory doors are closed.

# Environmental, Social and Governance Report

## Low-carbon Development

### *Electricity Conservation*

Global warming caused by greenhouse gas is still one of the toughest challenges the world is facing nowadays. In order to reduce the emission of carbon dioxide, each subsidiary of the Group's comprehensive development business seek out multiple ways to save energy in its daily operation, such as using energy saving fluorescent lamps and light-emitting diode (LED) lights, applying central control lighting systems, altering the operation hours of lights depending on the weather and locations, choosing air conditioning systems with energy efficiency labels like Daikin variable refrigerant volume (VRV) air-conditioning systems or Carrier central air-conditioning systems, limiting the operation hours and temperature of the air-conditioning systems, using double glazed low radiance glass and insulated aluminum frames for windows and doors, choosing energy-saving elevators, enhancing the energy saving awareness of the staff, and so on.

The energy saving measures taken by the subsidiaries of the Group's paper packaging business include setting up a team for cost reduction and efficiency improvement, making energy management policies, conducting monthly assessment and assigning supervisors, installing LED lights and realizing automatic control according to time, installing air-conditioning systems with energy efficiency labels, making frequency conversion renovation for motors, and so on.

### *Water Conservation*

In terms of water conversation, the Group's comprehensive development business installs water saving sanitary ware, sets up rainwater collection system for planting and landscaping, installs condensed water collection system for flushing in public toilets or washing the car park floor to increase the water efficiency.

The premises of the Group's paper packaging business have taken various measures to reduce water consumption. For instance, Zhongshan Huali is planning to upgrade the production line so that steam consumption can be reduced by 15%. Anhui Huali installed water meters in every water-consuming spot which is linked with the production volume, and installed reclaimed water reusing system. These two water saving measures have reduced the annual water consumption greatly from 15,000 tons to 13,000 tons. Closed condensed water collection system, which allows the recovered condensed water to be used as the staff's domestic hot water after heat exchange and used for starch pulping producing, ground cleaning and toilet flushing after cooling, is used for the new projects of Suzhou Huali.

### *Other Energy Sources*

Natural gas is a clean, environmentally friendly, economical, safe and high-quality energy. It is the most practical choice to improve air quality and control air pollution. Therefore, both the Group's comprehensive development business and paper packaging business use natural gas as the main fuel during production and operation processes. Other than natural gas, the Group's paper packaging business also uses different kinds of new energy sources. For instance, Huizhou Huali has introduced coal water slurry boiler system to supply steam for production systems and hot water for residential area, which reduces the cost of business with the gas emission meeting the standard.

# Environmental, Social and Governance Report

### Ecological Construction

The Group has always put ecological and environmental protection onto the top of its agenda. During the operation process of comprehensive development business, the Group has successfully created functional and sustainable ecological humane scenic spots and communities with beautiful environment one after another, depending on which the Group forms its new competitiveness. The Shanghai Suhewan Project is such a model.

The Shanghai Suhewan Project combines the axis of cultural attractions and the axis of waterfront attractions, achieving the planning concept of “One Centre and Two Axes”, that is, the green field with an area of 100,000 square metres is the centre, and the two axes are stretching east and west respectively. The waterfront axis links the whole piece of green landscape along the river, and creates leisure and interesting environment for residents and tourists. The cultural axis renovates and protects the existing historical architectures while adding modern elements and new functions in this age.

Chengdu OCT has also actively fulfilled the responsibility of central State-owned enterprises to build a city oasis for the public. Since 2005, Chengdu OCT has been committed to the ecological rectification and protection of Fu River, the Mother River of Chengdu for 12 years. It has invested hundreds of millions of RMB on the overall planning and improvement of the 3.3-kilometer upstream of the river, fully retained the original landscape of the natural resources, and appropriately utilized the original vegetation to build a 40,000 square meters of natural riverside wetland, the 50-meter riverside hydrophilic green on the both shores and hundreds of thousands of square meters of the lake and water. Chengdu OCT, presenting a rare public ecological green corridor for the city and creating 3,000 acres of urban ecological habitat for the public, has now become the city’s last high-quality river plate.

## Cultural Inheritance

Being a creator of high-quality life, the Group not only focuses on the business development, but also makes efforts to preserve and pass on the ethnic culture, so as to build a humanistic and harmonious society.

### Material Culture

Planning Exhibition Centre of the Shanghai Suhewan Project was renovated from the historical site “Ewo Press Packing Company” which was a processing warehouse set up by the Jardine, Matheson, and Co. in 1907. In order to restore the architectural features and to give renewed vitality for the building of a hundred years of history, OCT Shanghai Land reconstructed the building by keeping the original architectural features with new interior design and strengthened structure. Modern facilities are equipped so the building can serve as a venue for exhibitions, work and entertainment. Temple of the Queen of Heaven, another historical architecture within Suhewan area, is the contemporary origin of Shanghai Mazu culture. It was also the first temple run by the Chinese government since 1879, with uniqueness,

*Ewo Press Packing Company, 1907*

*Ewo Press Packing Company after reconstruction, which is the exhibition center of Suhewan project* originality and ingenuity. OCT Shanghai Land reconstructed the Temple of the Queen of Heaven during the development phase of the Suhewan project and rebuilt the temple as a stage which travels through time and space, and inherits the historical culture. Moreover, there are many other excellent historical architectures lying in the Suhewan area, such as Shanghai General Chamber of Commerce, Shanghai Sihang Warehouse, Shikumen in Shenyu Li, and so on. These old architectures reflect the centurial history of the city mark in Shanghai. They are the sign of the flourishing industry and commerce of the nation. OCT Shanghai Land explored the possibility of keeping both the modern and the historical architectures by means of protective development, which preserved these old architectures and gave them new functions.

In Chengdu Happy Valley, a new feature related to the culture of the Qiang people was added to the area "Sensation of Bashu", showing iconic elements of the Qiang's including architectures, decorations, traditions, songs and dance, and so on. Chengdu OCT tailormade all these to preserve the culture of the Qiang people in response to the Chinese government after the Wenchuan earthquake.

## Intangible Culture

Chengdu Happy Valley actively promotes Bashu culture through their arts performance projects. The characteristics of the Land of Abundance, Sichuan, are shown to tourists in multiples ways: the original arts performance "Paradise Ethos" is composed of cultural elements including Sanxingdui, Jinsha, Sichuan opera, "stepping-the-green", Tibetan folk dance, Yi people's festival torches, Flower night of the Qiang people, Yi people's "Costume Competition Festival", and so on. With the modern stage technologies and the splendid

*"Dragon Liver Phoenix Brain" on the exhibition spot*

*The Grand Stage Performance "Golden Mask Dynasty"*

and magnificent arts performance on stage, the glorious Sichuan civilization history is fully reflected. The magical fantasy performance "Golden Mask Dynasty" is an original show based on the historical background of Sanxingdui civilization. With the use of "Phantom Imaging" and other top multimedia technologies, the touching and romantic legend is divided into eight chapters including war, mulberry field, forging, celebration, under the moon, flood, heaven worship and fantastic transformation, which allow the audiences to travel through ancient and modern times, reality and fantasy. Chengdu Happy Valley has also created live shootout and action performance "Catching Able-bodied Men" and the magical fantasy show "Pointer" based on the local Sichuan features so that the audiences can enjoy extraordinary audiovisual effect.

Apart from providing tourists with splendid shows, Chengdu OCT also closely sticks to the season by organizing timely theme activities which are integrated with traditional Chinese culture elements and inviting folk teams to present performances like Dance of Steel Flower and stilts in the Spring Festival, the Lantern Festival and the Mid-Autumn Festival. During the Period Under Review, Chengdu OCT even invited one hundred manual craftsmen to elaborate the "Fancy Lights Festival" with a creative line consisting of elements such as fashion, joy, Christmas and Rooster Year, bringing tourists shocking visual impact and lively festival atmosphere. The entertainment spots of the park also sets up guessing lantern riddles, writing Spring Couplets and other interactive games to inherit and promote traditional Chinese culture as well as to provide tourists with experiences full of Chinese flavor.

## Quality of Life

The Group insists to reveal the public the more artistic and healthy lifestyle with its unlimited creativity. It is representing the city with its quality of life.

OCT-Contemporary Art Terminal (OCAT) Shanghai, located in the Shanghai Suhewan Project area, is one of the OCAT Terminals of the Overseas Chinese Town Group. With media arts and architectural design as the professional directions, it promotes art exchange and education and enhances the public's artistic quality through exhibitions, academic research, exchange, education, publications and exchange with international artists or studios. During the Period Under Review, the terminal held various kind of activities, including "Dragon Liver Phoenix Brain – Eight Emerging Artists" exhibition, "Stubborn Image – Geng Jianyi Solo exhibition", "The Grand Voyage: A Man Upside Down – by Guo Xi and Zhang Jianling", "The Distant Unknown" group exhibition and "Investigation" group exhibition, and so on.

Visual Arts Centre of Chengdu OCT is an open platform for exhibitions, promotions, exchanges and collection of photographic arts, which comes with photography training, high-end forums, national photography contest, and so on. During the Period Under Review, the centre held the first Sichuan Joint exhibition for professional photographers in Sichuan and the establishment ceremony of Sichuan Professional Photographers Association. It also held the photography exhibition of Zhang Kechun "Between the Mountains and the Water". All these activities showed the public the vividness of photographic arts and provided the public with great image experience.

The fourth Bulgari Hotel is scheduled to open in the Suhewan area in 2017. This will be the first Bulgari Hotel in China. The guests can enjoy facilities based on their requirements, including a modern fitness centre, a spa with a 25-meter-long swimming pool, an exclusive hair salon, an iconic Bulgari Italian restaurant and bar. This is an ideal venue for charity banquets, wedding parties, individual social activities or press launch. Besides, the Shanghai Suhewan Project also introduced waterfront multi-storey residential properties which are highly scarce in the market, luxury high-rise residential properties and some boutique business premises. The 10 multi-storey residential properties with red brick walls as the appearance and front and back yard attached, are right situated beside the Suzhou River, and merge Shanghai style with international top class luxury elements. The top floor of the 150-meter-tall Suhewan tower is the clubhouse with area of 3,000 square metres. Residents can enjoy top class living environment with five stars platinum services. In the future, the Shanghai Suhewan Project will build a forward-looking platform with close connection with international high-end arts, culture, luxury and lofty resources, and starts 150-meter-tall builds a more stylish lifestyle in the centre of Shanghai.

# Environmental, Social and Governance Report

Located in the 3,000 acres of Fu River ecological zone in the upper reaches of Chengdu, Chengdu OCT has upheld the confidence and persistence of "Build a City for One Home" and built a metropolitan city with the functions including high-end residence, tourism and shopping, recreation and entertainment, dining hotels and restaurants, culture and education, sports and trading, which achieved the high-end living dream of Chengdu citizens. During the past 12 years, Chengdu OCT has been upgrading the real estate product line, and built the high-end villa sector with the OCT East Coast as the representative, the high-level perfection sector with the OCT Original Shore as the representative, and the high-end business sector with the OCT Imagination Centre as the representative, respectively. The three ultimate products changed the residential and commercial structure of Chengdu, and represent its excellent lifestyle.

In addition to creating high-quality residence for relaxation and living, the Group has also shaped brand culture image of OCT community through organizing a variety of community cultural activities. During the Period Under Review, Chengdu OCT and the Chengdu Subsidiary of Shenzhen OCT Properties Corporate Limited organized the music and dance concerts, mahjong competitions, painting and calligraphy tasting parties, photography competitions and other community activities jointly. The service center of each community also continuously carried out community free clinics, convenience activities, flea market, well graffiti and other activities. These colorful community activities have been widely recognized by the owners, creating a good platform for the creation of a harmonious community.

## People-oriented Culture

Staff are the most valuable resources and assets of the enterprise. It is the combined efforts of the staff that leads to the growth and development of the Group. Adhering to the people-oriented principle, the Group values and protects the lawful interests of staff. The Group is committed to creating a good working environment for staff and providing a dynamic platform for their career development, sharing its success with them and achieving growth together.

The Group acts in strict compliance with the relevant laws and regulations, such as the Labour Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Regulation on Paid Annual Leave of the Staff, the Employment Ordinance of the Hong Kong Special Administrative Region ("HKSAR"). The Group has also established a set of relatively sound human resources systems concerning different areas, including recruitment and resignation, remuneration and benefits, working hours and leave, performance appraisal, occupational health and safety as well as vocational training, so as to regulate labour behavior based on these provisions.

### Employees' Rights

The Group gives priority to internal recruitment based on the job requirements. Vacancies would be filled by open recruitment if no suitable person is identified within the Group. The Group puts the emphasis on rigorous examination and the recruitment of outstanding candidates. Except for some special positions as set by the national and regional regulations, recruitment is made on a fair basis, regardless of the gender, household registration and age. To prevent employing child labour, the Group acts in strict compliance with the Provisions on the Prohibition of Using Child Labour promulgated by the State Council and has established the relevant review policies and remedial measures. For instance, identification cards would be strictly examined in the process of recruitment, and spot checks would be performed on the profiles of the new joined staff. The Group reserves the right to terminate the employment contract with anyone who has violated the Group's provisions or the Labour Contract Law of the People's Republic of China or anyone who has been charged for the criminal offence.

The Group offers equal opportunities for all staff. The remuneration is set based on the pay scales of the industry and the experience and performance of the staff. The Group provides competitive remuneration and conducts reviews every year by referring to the labour market and the economic trend. The remuneration of the Hong Kong staff is determined by the market level and the laws of the HKSAR. Except basic salaries and statutory benefits, the Group also offers bonus to staff, based on the Group's financial result and the individual performance. The Group performs a thorough performance appraisal at the end of every year. A promotion or salary review would be considered for those who outperform, and a demotion might be considered for those who fail to meet the satisfactory level. The Group would terminate the employment contract with anyone who has been rated as "unqualified" for his/her position two times in a row, in accordance with the human resources policies.

The Group stipulates that the standard working hours should not exceed 7 hours per day, and 35 hours per week. Statutory holidays are provided in accordance with the relevant national and regional regulations. For staff approved to work overtime, compensation leave are arranged for them. The Group protects staff's rights to ask for leaves, and promotes their work-life balance. Staff can enjoy different types of leave, including annual leave, compensation leave, sick leave, personal leave, compassionate leave, wedding leave, maternity leave, parental leave, and so on. The Group also offers overtime compensation for those who work overtime during the statutory holidays, in accordance with the laws and regulations.

For the staff benefits, the Group has established a complicated security system, which is mainly associated with social insurance and housing provident fund, and supplemented by the annuity and additional medical insurance. Besides, the Group focuses on providing family property insurance for staff, ensuring the protection of the health and property of the staff and their carefree life. In addition, the Group has gradually developed a relatively sound two-dimensional welfare model that is to provide specific benefits for staff based on the practical situation of the Group, including festival fees and high temperature subsidies on the basis of the standard statutory benefits as set by the country. The benefits of the Hong Kong staff, including basic insurance and mandatory provident fund, are also provided, in strict compliance with the relevant laws and regulations of the HKSAR.

### Occupational Health and Safety

Staff's safety is of paramount importance for the production and operation of an enterprise. Putting a great emphasis on the health and safety of staff, the Group has established safety production inspection system and implemented a series of policies to provide a safe and healthy working environment for staff.

The Group strictly implements the national labour safety and hygiene rules and standards in its operation by regularly carrying out various special inspections, perfecting the safety signs of the workplace, and providing staffs with labour safety and hygienic conditions in line with national regulations and necessary labour protection supplies such as helmets, earplugs, dust mask, and so on. To improve the safety awareness and risk prevention skills of the staff, the Group regularly conduct training of labour safety education and drills. In addition, the Group places green plants in the office and regularly cleans the air conditioning system to provide staff with a comfortable and healthy working environment.

# Environmental, Social and Governance Report

For the production and operation of the paper packaging business, the Group also provides safety education and training for staff. The Group stipulates that staff of some special positions need to receive specialized training and attain the professional qualifications first before work. Any risks of occupational diseases and the related consequences as well as the preventive measures would be truthfully reported to workers and specified on the labour contracts. Occupational health checks are arranged for those workers who have exposure to occupational hazards at least once in a year. Apart from these, the Group also carries out regular safety checks to prevent any potential safety hazards. In case there is any accident, the Group would adopt immediate measures to provide emergency care, timely report it to the relevant authorities in accordance with the rule on a timely basis and cooperate with the relevant authorities to facilitate the investigation. No critical casualties were reported during the Period Under Review.

## Platform for Growth

The Group pays close attention to the growth and development of staff and places high importance on their career planning. The Group not only provides diversified opportunities for the staff to develop their career by allowing intra-company transfers, but also offers the platform for their development and growth by leveraging all resources. On one hand, the Group actively provides opportunities for qualified staff to participate in the Group's "Hang" series trainings. On the other hand, during the Period Under Review the Group carried out equity investment practice, project management and other trainings for 11 times in total with each staff trained 30 hours in average, which obviously improved the professional ability and overall quality of the staff.

During the Period Under Review, the subsidiaries of the comprehensive development business offered different training programs for staff of different departments. For instance, training program in information technology and records management for human resources staff; training program in prefabricated concrete architecture and BTM software as well as Shanghai Architecture Exhibition Tour for designers. At the same time, the Group developed a training system composed of different types of online and offline programs. There were 8 types of core programs: "Hang" series, Management Improvement Program (MIP), Professional Improvement Program (PIP), Quality Improvement Program (QIP), skill sets, safety, new joined staff and online learning. Some internal and external training programs about western investment were also designed according to the grades of the staff, and the themes include Innovative Thinking and Innovative Management, Corporate Financial Strategies, Advancement of the Skills of Interviewers, Financial Management, and Training Camps for New Joined Staff, and so on. The Group also provides training in safety and professional skills for staff. The subsidiaries of paper packaging business offered offer the training in safety management, professional skills, fire drill and professional knowledge for staff.

Given that the job performance of staff and their quality of life are interrelated, the Group provides diversified recreational and social functions for staff to enrich their life outside work and strengthen their sense of belonging. For instance, Xi'an OCT Land organized military training, wall marathon, winter long-distance run, and so on. OCT Shanghai Land has mobilized staff to join the 3-kilometer health run in the Jing'an district, table tennis community competition, basketball competition, festive variety show and spring hiking. The Group's headquarters has organized the "New Development Cup" football game, participated in the Overseas Chinese Town Group dragon boat race and won the champion in the basketball competition organized by the Overseas Chinese Town Group.

## Operation Management

Comprehensive and effective management is the key to the development of an enterprise. The Group complies with strict operations management by setting up clear rules and regulations on supply chain management, product liability, anti-bribery and corruption.

### Supply Chain Management

The Group selects its suppliers for its comprehensive development business by strict compliance with the Bidding Law of the People's Republic of China and other relevant laws and regulations. On one hand, the Group solicits suppliers in accordance with the national and local relevant policies, and organizes departments of construction, cost, design, monitoring and auditing to conduct inspection against each proposed supplier, only those fulfilling the Group's requirements will be included in the Group's list of suppliers. On the other hand, the Group appoints various departments to review and comment on the suppliers' performance every year, so as to guarantee the survival of the fittest suppliers, ensure the quality of the suppliers and prevent potential risks. In addition, in purchasing office equipment, the Group gives priority to those suppliers which are Green Supply Chain certified.

The raw materials of paper packaging business are base paper and starch. To ensure the source of raw and auxiliary materials and the quality of service, the Group developed an assessment program against the suppliers of its paper packaging business. Each supplier is required to provide a "The Restriction of the use of Certain Hazardous Substances in Electrical and Electronic Equipment" (RoHS) test report. After the assessment, the qualified suppliers will be included in a list for each subsidiary's reference, receive promotional materials of the Group and be evaluated monthly.

## Product Responsibility

### *Safety Management*

The Group complies strictly with national and regional laws and regulations concerning health and safety of products and services. During the Period Under Review, the Group made concerted efforts to take precautions and paid close attention to co-ordination. It has delivered a satisfactory answer in the aspects of perfecting safety management mechanism and ensuring safety production. On one hand, the Group conscientiously implemented the safety responsibility system by signing 68 pieces of "Safety Management Responsibility Book" and 1,219 pieces of "Staff Safety Commitment" with the annual safety indicators fully completed. On the other hand, the Group vigorously conducted safety inspection and safety hazard investigation, and completed all rectifications, which effectively protected the safety of the normal production. In addition, the Group has also formulated the "Safety Hazard Identification Manual" with common hazards and common sense of safety as the main line, and further consolidated the basis of safety management.

# Environmental, Social and Governance Report

The subsidiaries of comprehensive development business insist on the principle of "Safety is Greater than Everything and Safety Lies in the Heart of Everyone" and adhere to ground patrol, frequent inspection, timely detection of problems, timely rectification of working methods so as to protect the smooth operation of their business. In the meanwhile, the subsidiaries pay attention to the training and reserve of safety management personnel, and actively make efforts to cultivate professional safety management personnel according to the strategic development needs of each subsidiary, so that security management support for projects are available. In view of the management of urban areas, in order to keep the city new, the environment beautiful, and the transportation convenient, the subsidiaries strives to innovate and actively explore for the work of fully standing on the positions of the company and the proprietors to consider issues, and analyzing problems regarding traffic, environment, hygiene, security.

In order to guarantee the tourists' personal safety, Chengdu Happy Valley has formulated the Special Equipment Safety Inspection and Maintenance, Safety Tips and Risk Prevention Measures before Use based on the Special Equipment Safety Law of the People's Republic of China, Regulations on Safety Supervision over Special Equipment and other relevant laws and regulations, and made the following provisions: The maintenance staff must carry out safety inspection of the equipment every day, a medium-scale inspection and maintenance every week, a large-scale inspection and maintenance every month and a large-scale repair every year. The equipment cannot be further used unless passing the annual inspection. All the special equipment maintenance staff and operating staff need to work with certificates, and attend safety training and examination every quarter. Before the tourists use equipment, the operating staff must repeat the Notice for Tourists, safety tips and attention through pictures, text, videos and recording. As for projects with high-speed rail equipment, the operating staff must guide the tourists to warm up to avoid strain and sprain. During the Period Under Review, the Equipment Department totally conducted safety drills for 345 times with nearly 5,000 participants, safety inspections for 56 times with 102 potential problems being punished and 408 participants, safety trainings for 19 times with 2,909 participants, daily equipment inspections for around 20,000 times, weekly equipment inspection for more than 2,400 times, and monthly equipment inspections for more than 360 times. The inspections conducted by the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) covered all the 22 sets of type A equipment of the park with equipment failure for 87 times and a troubleshooting rate of 100%.

The subsidiaries of paper packaging business strictly abide by the Group's "Safety Production Inspection System" and carry out supervision of the rectification as well as careful inspection on the implementation of Safety Responsibility System and various rules and regulations, the performance of equipment and devices, whether the safety channels and exports are smooth, the dangerous factors in the production processes and working environment of various departments, the unsafe behavior of operating personnel, the loopholes of safety production management, the qualifications of relevant staff (special types of work), the use of dangerous chemicals and other aspects. The subsidiaries have obtained the Second-Class Safety Production Standardization Certification.

# Environmental, Social and Governance Report

### *Legitimate Operation*

In relation to the preservation of advertisement, labels and intellectual properties, The Group strictly complies with the Advertisement Law of the People's Republic of China, the Trademark Law of the People's Republic of China, the Intellectual Property Law of the People's Republic of China and other relevant laws and regulations, which guarantees the authenticity and accuracy of the advertisement based on the laws and regulations, preserves the intellectual properties of the Group and eliminates any alleged infringement.

In order to protect the privacy of the Group and the clients, the Group's subsidiaries have implemented regulations related to customers' information management based on respective business requirements to treat customers' information in the strictest confidence. Staff are also required to avoid leaking the Group's commercial secret to any third party.

### *Product Quality*

The Group strictly complies with the national and regional laws and regulations concerning the health and safety of products and services. All the subsidiaries of the Group have obtained ISO9001: 2008 Quality Management System Certificate. The projects developed and constructed all conform to the national and regional laws and regulations concerning environmental protection and hygiene.

## Anti-corruption

To build a good corporate image and promote integrity and anti-corruption among the staff, the Group has taken the practical situation into consideration and established the policies on anti-corruption, in accordance with the Rules on Integrity of Executives of State-Owned Enterprises, the Anti-Corruption and Bribery Law of the People's Republic of China and the Anti-Money Laundering Law of the People's Republic of China. The Group adheres to the implementation of clean administration construction and anti-corruption work by ways of signing Anti-corruption Agreement and Liability Statement for Party Conduct, Honest and Clean Administration Construction, strengthening the specific supervision of bidding, providing legal training, organizing promotional seminars, and so on. These measures have promoted the education of anti-corruption and prevented the crimes of corruption and bribery. During the Period Under Review, the Group strictly implemented the code of conduct on incorruptible employment and no irregularity occurred.

# Directors' Report

The Board has pleasure in submitting the annual report together with the audited consolidated financial statements for the year ended 31 December 2016.

## Principal Place of Business

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 28 February 2005. Its registered office and principal place of business are at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, Cayman Islands and Suites 3203-3204, Tower 6, The Gateway, Harbour City, Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong respectively.

## Principal Activities and Business Review

The Company is an investment holding company. The Group is principally engaged in the comprehensive development business and the manufacture and sale of cartons and paper products.

Further discussion and analysis of the business review required by Schedule 5 to the Companies Ordinance, including an analysis on financial key performance quota, an indication of likely future development in the Group's business, employment policy and subsequent event(s), can be found in the "Chairman's Statement" and "Management Discussion and Analysis" set out on page 6 to 20 of the annual report. A summary of the principal risks facing the Group are set out in the section headed "Corporate Governance Report" of the annual report on page 26 to 42. This discussion forms part of this "Directors' Report".

## Results and Distributions

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 83.

The Directors consider that dividends declared during the year or to be declared in future by the Group will be decided by the Board in its discretion. The factors that the Board will take into consideration include (but not limited to) distributable profits, the Group's profits, financial position, capital requirements and other factors which the Directors may deem relevant at the time. Undistributed profits will be used to provide funds for the Group's continuous growth and business expansion. Subject to the above, the Directors proposed the distribution of a dividend of HK16 cents per ordinary share for the year ended 31 December 2016 (2015: HK14 cents per ordinary share).

## Financial Statements

The profit of the Group for the year ended 31 December 2016 and the state of affairs of the Group as at that date is set out in the consolidated financial statements on pages 85 to 86.

## Proposed Final Dividend and Closure of Register

The register of members of the Company will be closed from 29 May 2017 to 2 June 2017 (both days inclusive), for the purpose of determining shareholders' entitlement to attend the forthcoming annual general meeting (the "Annual General Meeting"), during which period no transfer of shares of the Company will be registered. In order to qualify for attending the Annual General Meeting, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 26 May 2017.

# Directors' Report

The Board recommends the payment of a final dividend (the "Final Dividend") of HK16 cents per share to shareholders whose names appear on the register of members of the Company on 12 June 2017. The register of members will be closed from 8 June 2017 to 12 June 2017, both days inclusive, and the proposed Final Dividend is expected to be paid on 22 June 2017. The payment of Final Dividend shall be subject to the approval of the shareholders at the Annual General Meeting to be held on 2 June 2017. In order to be qualified for the proposed Final Dividend, shareholders should deliver share certificates together with transfer documents to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 7 June 2017.

The Board has approved the payment of a preferential dividend of HK20.25 cents per convertible preference share for the year ended 31 December 2016 on 13 April 2017.

## Transfer to Reserves

Profit attributable to owners of the Company before dividends of approximately RMB386 million (2015: approximately RMB273 million) has been transferred to reserves. Other movements in the reserves are set out in consolidated statement of changes in equity and note 30 to the consolidated financial statements.

## Fixed Assets

During the Period under Review, the Group invested approximately RMB1,740.8 million for the acquisition of fixed assets (including construction in progress). Details of the movements of fixed assets and construction in progress are set out in note 13 to the consolidated financial statements.

## Share Capital

As of 31 December 2016, the total number of the issued ordinary shares of the Company was 652,366,000 shares, which was equal to the number of the prior year; the total number of the issued convertible preference shares of the Company was 96,000,000 shares, which is equal to the number of the prior year.

Details of the movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

## Distributable Reserves

Pursuant to the relevant rules of the Cayman Islands, the Company's distributable reserves as at 31 December 2016 amounted to RMB2,516.6 million.

## Pre-Emptive Rights

There was no provision in respect of pre-emptive rights in the articles of association of the Company or any requirement in the laws of the Cayman Islands requiring the Company to issue new shares to the existing Shareholders proportionately.

# Directors' Report

## Purchase, Sale or Redemption of Shares

The Company has not purchased its own listed shares during the Period Under Review. During the Period Under Review, save as disclosed in this announcement, the Company or any of its subsidiaries has not purchased or sold or redeemed any of the listed shares in the Company.

## Material Contracts

Save as disclosed in this report, no contract of significance has been entered into during the Reporting Period between the Company or any of its subsidiaries and the controlling shareholder or its subsidiaries.

## Service Contracts

No Director has an unexpired service contract which is not determinable by the Company within one year without payment of compensation other than normal statutory compensation.

## Environmental Policies and Performance

We are committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. In respect of the paper packaging business of the Group, we are committed to becoming an enterprise concerning environmental protection and creating an eco-supply chain penetrating suppliers, customers and consumers. For this, we require suppliers to provide environmental monitoring report to ensure that the raw materials purchased are in compliance with the requirements of relevant environmental regulations and rules. Our comprehensive development business carried out the concept of green construction, including construction planning and design, application of renewable energy, construction environmental-friendly and green operation.

## Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself is listed on the Stock Exchange. Our operations accordingly shall comply with relevant laws and regulations in the mainland China and Hong Kong. During the year ended 31 December 2016, the Group did not breach the relevant laws and regulations that exert a significant impact on the Company.

## Directors

The Directors during the year were as follows:

### Executive Directors:

Ms. Wang Xiaowen *(Chairman, resigned on 23 May 2016)*
Mr. Yao Jun *(Chairman, appointed on 23 May 2016)*
Ms. Xie Mei *(Chief Executive Officer)*
Mr. Lin Kaihua

# Directors' Report

### Non-executive Directors:

Mr. Zhou Ping (resigned on 30 March 2017)
Mr. Zhang Jing (appointed on 30 March 2017)

### Independent Non-executive Directors:

Mr. Lu Gong
Ms. Wong Wai Ling
Professor Lam Sing Kwong Simon

## Directors' Interests in Contracts

Save as disclosed in this annual report, no contract of significance in relation to the Group's business to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Personal Biographies of Directors and Senior Management

Personal biographies of Directors and senior management are set out on pages 21 to 25.

## Directors' Interest in Competing Business

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2016 and up to and including the date of this annual report.

## Directors' and Chief Executive's Interests and/or Short Positions in Shares and Underlying Shares

As at 31 December 2016, no interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix X of the Listing Rules.

## Interests and Short Positions of Substantial Shareholders and Other Persons

As at 31 December 2016, as far as known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

# Directors' Report

## Long Position in Shares

| Name of substantial shareholders | Capacity/Nature | No. of Shares held | Approximate % of shareholding |
|---|---|---|---|
| Pacific Climax Limited ("Pacific Climax") *(Note 1)* | Beneficial owner | 530,894,000 (long position) | 81.38% |
| Overseas Chinese Town (HK) Company Limited ("OCT (HK)") | Interest of a controlled corporation *(Note 2)* | 530,894,000 (long position) | 81.38% |
| Shenzhen Overseas Chinese Town Company Limited ("OCT Ltd.") | Interest of a controlled corporation *(Note 3)* | 530,894,000 (long position) | 81.38% |
| Overseas Chinese Town Enterprises Company ("OCT Group") | Interest of a controlled corporation *(Note 4)* | 530,894,000 (long position) | 81.38% |
| **Others** | | | |
| UBS Group AG | Person having a security interest in shares *(Note 5)* | 14,000 (long position) | 0.002% |
| | Interest of a controlled corporation *(Note 5)* | 51,179,000 (long position) | 7.55% |
| | | 278,000 (short position) | 0.04% |
| UBS AG | Person having a security interest in shares *(Note 5)* | 3,200,000 (long position) | 0.49% |
| | Interest of a controlled corporation *(Note 5)* | 48,996,000 (long position) | 7.51% |
| | Beneficial owner *(Note 5)* | 278,000 (long position) | 0.04% |
| | | 278,000 (short position) | 0.04% |

*Notes:*

(1) The interests held by Pacific Climax consist of (long position) in 434,894,000 ordinary shares and 96,000,000 convertible preference shares. Ms. Xie Mei and Mr. Lin Kaihua, both being executive Directors, and Mr. Zhou Ping, being a non-executive Director, are also directors of Pacific Climax.

(2) OCT (HK) is the beneficial owner of all the issued share capital in Pacific Climax. Therefore, OCT (HK) is deemed, or taken to be interested in all the Shares beneficially held by Pacific Climax for the purpose of the SFO. Mr. Yao Jun and Ms. Xie Mei, both being executive Directors, and Mr. Zhou Ping, being a non-executive Director, are also directors of OCT (HK).

(3) OCT Ltd. is the beneficial owner of all the issued share capital of OCT (HK), which is in turn the beneficial owner of all the issued share capital of Pacific Climax. Therefore, OCT Ltd. is deemed, or taken to be interested in all the Shares which are beneficially owned by OCT (HK) and Pacific Climax for the purpose of the SFO. OCT Ltd. is a company incorporated in the PRC, the shares of which are listed on the Shenzhen Stock Exchange. OCT Ltd. is a subsidiary of OCT Group.

(4) OCT Group is the beneficial owner of 53.47% of the issued shares of OCT Ltd., which is the beneficial owner of all the issued shares of OCT (HK) and in turn, the beneficial owner of all the issued share capital of Pacific Climax. Therefore, OCT Group is deemed, or taken to be interested in all the Shares which are beneficially owned by OCT Ltd., OCT (HK) and Pacific Climax for the purpose of the SFO.

(5) The interests of UBS AG consist of the interests (long position) in 39,088,000 shares, 5,756,000 shares, 4,152,000 shares and 278,000 shares (total: 49,274,000 shares) held by UBS Fund Services (Luxembourg) SA, UBS Global Asset Management (Hong Kong) Ltd, UBS Global Asset Management (Singapore) Ltd and UBS AG. UBS Fund services (Luxembourg) SA, UBS Global Asset Management (Hong Kong) Ltd and UBS Global Asset Management (Singapore) Ltd are wholly-owned by UBS AG while UBS AG is directly owned as to 100% by UBS Group AG, and the interests (short position) in 278,000 shares held by UBS AG. UBS Group AG is also interested in 14,000 shares (long position) in the capacity as a person having a security interest in the shares. Therefore, UBS Group AG is deemed, or taken to be interested in the total of 51,193,000 shares (long position) and 278,000 shares (short position) for the purpose of the SFO.

Save as disclosed above, as at 31 December 2016, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

## Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the Period Under Review.

## Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | **Percentage of the Group's total** | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 4.7% | |
| Five largest customers in aggregate | 10.5% | |
| The largest supplier | | 13.1% |
| Five largest suppliers in aggregate | | 37.4% |

# Directors' Report

Other than OCT Group, the ultimate controlling company of the Company, which owns approximately 21.75% of the total issued share capital and has gained the control of majority of the board of Konka Group Co., Ltd. (and its subsidiaries), one of the five largest customers of the Group in 2016, at no time during the year have the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the member of issued shares of the Company) had any interest in the Group's five largest suppliers or customers.

## Connected Transactions

During the year, the Group has the following continuing connected transactions (the "Connected Transactions") and the Company has fully complied with the announcement, reporting and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules (where applicable):

1. On 11 December 2013, the Company and OCT Group entered into a cartons sale and purchase agreement for a term of three years with effect from 1 January 2014 and ending on 31 December 2016 ("Cartons Sale and Purchase Agreement"). Pursuant to the Cartons Sale and Purchase Agreement, the Group agreed to sell cartons and other paper products to OCT Group and its associates. The exact amount of products to be sold and the selling price will be determined by OCT Group and/or its associates and the Group on each sale transaction with reference to the prevailing market prices of the products.

   OCT Group is a holding company of OCT Ltd., holding approximately 53.47% interests in OCT Ltd. as at the date of this annual report. OCT Ltd. owns 100% equity interests in OCT (HK), which owns 100% equity interests in Pacific Climax, a controlling shareholder of the Company, and hence each of OCT Group and its associates is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the arrangements under the above Cartons Sale and Purchase Agreement constitute continuing connected transactions under the Listing Rules.

2. On 11 December 2013, OCT Shanghai Land entered into a property management agreement with Shanghai Branch Office of Shenzhen Overseas Chinese Town Property Service Company Limited (深圳市華僑城物業服務有限公司) ("OCT Property Service") ("OCT Property Service Shanghai Branch") ("Property Management Agreement"). OCT Property Service Shanghai Branch will provide property management services to OCT Shanghai Land in relation to the Shanghai Suhewan Project for a term of three years with effect from 1 January 2014 and ending on 31 December 2016. The management fees payable under Property Management Agreement will be calculated based on the actual areas that are managed, and the labour costs to be incurred by OCT Property Service Shanghai Branch and the parties shall enter into separate management contract(s) for the precise property that would be managed by OCT Property Service Shanghai Branch which shall specify the payment arrangement for the management fees.

   OCT Property Service is an indirect wholly-owned subsidiary of OCT Ltd. Therefore, OCT Property Service is a connected person of the Company pursuant to the Listing Rules. OCT Property Service Shanghai Branch is a branch company of OCT Property Service. Accordingly, the arrangements under the above Property Management Framework Agreement constitute continuing connected transactions under the Listing Rules.

3. On 11 December 2013, OCT Shanghai Land entered into an electrical and mechanical services consultation agreement with Shenzhen Overseas Chinese Town Water and Electricity Company Limited (深圳華僑城水電有限公司) ("OCT Electricity") for a term of three years with effect from 1 January 2014 and ending on 31 December 2016 ("Electrical and Mechanical Service Consultation Agreement"). Pursuant to the Electrical and Mechanical Services Consultation Agreement, OCT Electricity will provide electrical and mechanical consultation services to OCT Shanghai Land in relation to the Shanghai Suhewan Project. The consultation fees payable under Electrical and Mechanical Services Consultation Agreement will be calculated based on the labour costs to be incurred by OCT Electricity. The parties shall enter into separate consultation contracts for the consultation services that would be provided by OCT Electricity which shall specify the payment arrangement for the consultation fees.

   OCT Electricity is a wholly-owned subsidiary of OCT Ltd., and hence a connected person of the Company within the meaning of the Listing Rules. Accordingly, the arrangements of the above Electrical and Mechanical Services Consultation Agreement constitute continuing connected transactions under the Listing Rules.

4. On 11 December 2013, Chengdu OCT entered into a property management framework agreement with Chengdu branch office of OCT Property Service ("OCT Property Service Chengdu Branch") for a term of three years with effect from 1 January 2014 and ending on 31 December 2016 ("Property Management Framework Agreement"). Pursuant to the Property Management Framework Agreement, OCT Property Service Chengdu Branch will provide property management services to Chengdu OCT in relation to Chengdu OCT's project in Chengdu. The management fees payable under Property Management Framework Agreement will be calculated based on the actual areas that are managed and the manpower that have been employed by OCT Property Service Chengdu Branch and the parties shall enter into separate management contract(s) for the precise property that would be managed by OCT Property Service Chengdu Branch which shall specify the payment arrangement for the management fees.

   OCT Property Service is an indirect wholly-owned subsidiary of OCT Ltd. Therefore, OCT Property Service is a connected person of the Company within the meaning of the Listing Rules. OCT Property Service Chengdu Branch is a branch of OCT Property Service. Accordingly, the arrangements under the above Property Management Framework Agreement constitute continuing connected transactions under the Listing Rules.

5. On 11 December 2013, Chengdu OCT entered into an electricity consultation services agreement with OCT Electricity Chengdu Branch for a term of three years with effect from 1 January 2014 and ending on 31 December 2016 ("Electricity Consultation Services Agreement"), pursuant to which OCT Electricity Chengdu Branch will provide, among others, daily and regular inspection, maintenance and management service to Chengdu OCT, its subsidiaries and branches in relation to certain electricity facilities in properties in the operating areas of Chengdu OCT and provide consultation services to Chengdu OCT, its subsidiaries and branches in relation to professional electricity supply skills and related business and the plan of constructing an electricity monitoring system of Chengdu OCT. The charges for the services will be determined by the parties by way of negotiation with reference to the prevailing market prices at the time of provision of such services and paid on a quarterly basis.

   OCT Electricity is a wholly-owned subsidiary of OCT Ltd., and hence a connected person of the Company within the meaning of the Listing Rules. OCT Electricity Chengdu Branch is a branch company of OCT Electricity. Hence, the arrangements under the above Electricity Consultation Services Agreement constitute continuing connected transactions under the Listing Rules.

6. On 11 December 2013, Chengdu OCT entered into a theme show framework agreement with Shenzhen Overseas Chinese Town International Media and Performance Company Limited (深圳華僑城國際傳媒演藝有限公司) ("OCT International Media") for a term of three years with effect from 1 January 2014 and ending on 31 December 2016 ("Theme Show Framework Agreement"), pursuant to which OCT International Media, its subsidiaries and branches agreed to provide consultancy services to Chengdu OCT, its subsidiaries and branches, provide improvement and/or modification services and production services, and act as the general agent of Chengdu OCT, its subsidiaries and branches to sell theme shows tickets and rental of the Chengdu OCT Theatre. The charge of such services will be determined by the parties by way of negotiation with reference to the prevailing market prices at the time of provision of such services. Payment of service charges shall be made after completion of works for each stage of service. The specific payment arrangement will be specified in the separate service agreement(s) to be entered into between the parties.

   OCT International Media is a non-wholly-owned subsidiary of OCT Ltd. and is owned directly as to 10% by Chengdu OCT, and hence a connected person of the Company. Accordingly, the arrangements under the above Theme Show Framework Agreement constitute continuing connected transactions under the Listing Rules.

7. On 11 December 2013, Chengdu OCT entered into a Konka framework agreement with Konka Group Chengdu Branch for a term of three years with effect from 1 January 2014 and ending on 31 December 2016 ("Konka Framework Agreement"). Pursuant to the Konka Framework Agreement, Chengdu OCT, its subsidiaries and branches agreed to purchase and Konka Group Chengdu Branch agreed to supply the LED equipment, television and other electronic products and service to Chengdu OCT.

   Konka Group is directly owned by OCT Group as to approximately 21.75% of its total issued share capital and has gained control of majority of the board of Konka Group. Therefore, Konka Group is a connected person of the Group pursuant to the Listing Rules. Konka Group Chengdu Branch is a branch company of Konka Group. Accordingly, the arrangements under the above Konka Framework Agreement constitute continuing connected transactions under the Listing Rules.

8. On 11 December 2013, Happy Valley branch office of Chengdu OCT ("Chengdu OCT Happy Valley Branch") entered into an entertainment facilities framework agreement with OCT Culture Tourism and Technology Co., Ltd (深圳華僑城文化旅遊科技有限公司) ("OCT Culture") for a term of three years with effect from 1 January 2014 and ending on 31 December 2016 ("Entertainment Facilities Framework Agreement"). Pursuant to the Entertainment Facilities Framework Agreement, Chengdu OCT Happy Valley Branch agreed to purchase and OCT Culture agreed to supply entertainment facilities and related services to Chengdu OCT Happy Valley Branch.

   OCT Culture is a non-wholly-owned subsidiary of OCT Ltd., and hence a connected person of the Group within the meaning of the Listing Rules. Accordingly, the arrangements under the above Entertainment Facilities Framework Agreement constitute continuing connected transactions under the Listing Rules.

9. On 11 December 2013, Chengdu OCT Happy Valley Branch entered into a cooperation agreement with Chengdu Shaxi Line branch office of Shenzhen Overseas Chinese Town City Inn Company Limited (深圳華僑城城市客棧有限公司) ("OCT City Inn Chengdu Branch") for a term of three years with effect from 1 January 2014 to 31 December 2016 ("Cooperation Agreement"), pursuant to which, among others, Chengdu OCT Happy Valley Branch agreed to sell tickets of the Theme Park to OCT City Inn Chengdu Branch at a fixed discounted price per ticket. OCT City Inn Chengdu Branch shall settle the ticket sales on a monthly basis in cash for the actual transaction amount.

   OCT City Inn is an indirect wholly-owned subsidiary of OCT Ltd., and hence a connected person of the Company within the meaning of the Listing Rules. OCT City Inn Chengdu Branch is the branch company of OCT City Inn. Accordingly, the arrangements under the above Cooperation Agreement constitute continuing connected transactions under the Listing Rules.

10. On 11 December 2013, Chengdu OCT entered into a tenancy agreement with OCT City Inn Chengdu Shaxi Line Branch for a term of three years with effect from 1 January 2014 and ending on 31 December 2016, pursuant to which Chengdu OCT agreed to lease to OCT City Inn Chengdu Shaxi Line Branch certain premises located at Jinniu District, Chengdu, Sichuan Province, the PRC, owned by Chengdu OCT for the operation of an inn ("Chengdu Tenancy I").

    OCT City Inn is an indirect wholly-owned subsidiary of OCT Ltd., and hence a connected person of the Company within the meaning of the Listing Rules. OCT City Inn Chengdu Shaxi Line Branch is a branch company of OCT City Inn. Accordingly, the arrangements under the above Chengdu Tenancy I constitute continuing connected transactions under the Listing Rules.

11. On 11 December 2013, Chengdu OCT entered into a tenancy agreement with Chengdu branch office of Shenzhen OCT Hake Culture Company Limited (深圳華僑城哈克文化有限公司) ("OCT Hake Chengdu Branch") for a term of three years with effect from 1 January 2014 and ending on 31 December 2016, pursuant to which Chengdu OCT agreed to lease to OCT Hake Chengdu Branch certain premises located at Jinniu District, Chengdu, Sichuan Province, the PRC for the operation of an entertainment centre ("Chengdu Tenancy II").

    OCT Hake is a wholly-owned subsidiary of OCT Ltd., and hence a connected person of the Company within the meaning of the Listing Rules. OCT Hake Chengdu Branch is a branch company of OCT Hake. Accordingly, the arrangements under the above Chengdu Tenancy II constitute continuing connected transactions under the Listing Rules.

12. On 9 July 2014, Shenzhen Overseas Chinese Town Entertainment Investment Company Limited (深圳華僑城都市娛樂投資公司) ("OCT Entertainment") entered into a tenancy agreement with Shenzhen Huali for a term of three years commencing from the date of delivery of the premises i.e. 10 September 2014 at a rental of RMB278,200 per month ("Tenancy Agreement"), pursuant to which, OCT Entertainment agreed to lease certain properties located in Nanshan district, Shenzhen, Guangdong Province to Shenzhen Huali as office premises.

    OCT Entertainment is a branch company of Overseas Chinese Town Real Estate Company Limited (深圳華僑城房地產有限公司) ("OCT Property"). OCT Property is a wholly-owned subsidiary of OCT Ltd., and hence a connected person of the Company within the meaning of the Listing Rules. As such, the above arrangements of the Tenancy Agreement constitute a continuing connected transaction under the Listing Rules.

# Directors' Report

Details of items 1 to 11 of the Connected Transactions are set out in the announcement of the Company dated 11 December 2013. Details of item 12 of the Connected Transactions are set out in the announcement of the Company dated 9 July 2014. The transaction amount and cap amount of the Connected Transactions for the year ended 31 December 2016 are as follows:

| | Particulars of the continuing connected transactions | Transaction amount for the year ended 31 December 2016<br>RMB'000<br>(approx.) | Cap amount for the year ended 31 December 2016<br>RMB'000 |
|---|---|---|---|
| (1) | Cartons Sale and Purchase Agreement between the Group and OCT Group | 51,094 | 85,000 |
| (2) | Property Management Agreement Between OCT Shanghai Land and OCT Property Service Shanghai Branch | 10,990 | 11,000 |
| (3) | Electrical and Mechanical Services Consultation Agreement between OCT Shanghai Land and OCT Electricity | 163 | 1,000 |
| (4) | Property Management Framework Agreement between Chengdu OCT and OCT Property Service Chengdu Branch | 18,645 | 39,000 |
| (5) | Electricity Consultation Services Agreement between Chengdu OCT and OCT Electricity Chengdu Branch | 6,154 | 7,080 |
| (6) | Theme Show Framework Agreement between Chengdu OCT and OCT International Media | 0 | 13,500 |
| (7) | Konka Framework Agreement between Chengdu OCT and Konka Group Chengdu Branch | 230 | 20,000 |
| (8) | Entertainment Facilities Framework Agreement between Chengdu OCT Happy Valley Branch and OCT Culture | 0 | 50,000 |
| (9) | Cooperation Agreement between Chengdu OCT Happy Valley Branch and OCT City Inn Chengdu Branch | 1,040 | 2,000 |
| (10) | Chengdu Tenancy I between Chengdu OCT and OCT City Inn Chengdu Shaxi Line Branch | 1,593 | 1,800 |
| (11) | Chengdu Tenancy II between Chengdu OCT and OCT Hake Chengdu Branch | 1,124 | 3,000 |
| (12) | Tenancy Agreement between OCT Entertainment and Shenzhen Huali | Annual ancillary miscellaneous charge: 195<br>Rental: 3,815 | Annual ancillary miscellaneous charge: 600<br>Rental: 4,415 |

The Directors confirm that for the above Connected Transactions, the Company has complied with the disclosure, reporting and/or shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the above Connected Transactions and confirm that the above Connected Transactions are:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms, or if there are insufficient comparable transactions to judge whether the terms of those transactions are normal commercial terms, as far as the Company is concerned, the terms of the above transactions are no less favourable than those available to or from independent third parties (as the case may be); and

(3) entered into under the terms of the agreements in respect of the relevant transactions and the transaction terms are fair and reasonable and are in the interest of shareholders of the Company as a whole.

In addition, the Company's auditors have also confirmed in writing to the Board:

Nothing had come to their attention which caused them to believe that:

- the Connected Transactions had not received the approval of the Board;

- the Connected Transactions had not been entered into, in all material aspects, in accordance with the relevant agreements governing the transactions;

- the Connected Transactions had not been entered into, in all material aspects, in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group; and

- the transaction amount occurred in 2016 for each of the Connected Transactions had exceeded the maximum aggregate annual value as disclosed in the Company's announcements dated 11 December 2013 and 9 July 2014.

On 30 September 2016, Huayou Investment and Capital Fortune Investment, Shenzhen Tongbao Haina Investment Enterprise (LLP) ("Shenzhen Tongbao") and other partners entered into a limited partnership agreement ("LP Agreement"), and established Shenzhen Capital Fortune Investment New Industries Investment Enterprise (LLP), with an aggregate capital of RMB1 billion, of which Huayou Investment contributed RMB143 million, Shenzhen Tongbao contributed RMB2 million. In the view that Shenzhen Tongbao is owned by two Directors, Ms. Xie Mei and Mr. Lin Kaihua, as to 50% and 50% respectively, hence Shenzhen Tongbao is an associate of Ms. Xie and Mr. Lin and a connected person of the Company. Accordingly, LP Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As no Shareholder has material interest in the transactions contemplated under the LP Agreement, none of the Shareholders is required to abstain from voting if a general meeting of the Company was convened to approve the LP Agreement and the transactions contemplated thereunder. The Company has obtained a written approval from Pacific Climax for the transaction. Pursuant to Rule 14A.37 of the Listing Rules, the Stock Exchange granted a waiver from the requirement for the Company to convene a Shareholders' meeting on 4 October 2016, on the basis that the LP Agreement and the transactions contemplated thereunder have been approved by the written approval of a Shareholder.

# Directors' Report

The Group has entered into the following continuing connected transactions on 28 December 2016, and has complied with Chapter 14A of the Listing Rules.

1. On 28 December 2016, the Company and OCT Group entered into a cartons sale and purchase agreement for a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Cartons Sale and Purchase Agreement"). Pursuant to the Cartons Sale and Purchase Agreement, the Group has agreed to sell cartons and other paper products to OCT Group and its associates. The exact amount of products to be sold and the selling price will be determined by OCT Group and/or its associates and the Group on each sale transaction with reference to the prevailing market prices of the products.

   OCT Group is the holding company of OCT Ltd. and holds approximately 53.47% interests in OCT Ltd. as at the date of this annual report. OCT Ltd. owns 100% equity interest in OCT (HK), which in turn owns 100% equity interest in Pacific Climax, which is a controlling shareholder of the Company. Therefore, each of OCT Group and its associates is a connected person of the Company within the meaning of the Listing Rules. Hence, pursuant to Listing Rules, the arrangement of the above New Cartons Sale and Purchase Agreement constitutes a continuing connected transaction.

2. On 28 December 2016, OCT Shanghai Land entered into a property management agreement with OCT Property Service Shanghai Branch for a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Property Management Agreement"). Pursuant to the Property Management Agreement, OCT Property Service Shanghai Branch will provide property management services to OCT Shanghai Land in relation to the Shanghai Suhewan Project, the management fees payable will be calculated based on the actual areas that are managed, and the labour costs to be incurred by OCT Property Service Shanghai Branch. The parties shall enter into separate management contract(s) for the precise property that would be managed by OCT Property Service Shanghai Branch which shall specify the payment arrangement for the management fees.

   OCT Property Service is an indirect wholly-owned subsidiary of OCT Ltd. Therefore, OCT Property Service is a connected person of the Company pursuant to the Listing Rules. OCT Property Service Shanghai Branch is a branch company of OCT Property Service. Accordingly, the arrangements under the above Property Management Agreement constitute continuing connected transactions under the Listing Rules.

3. On 28 December 2016, OCT Shanghai Land entered into an electrical and mechanical services consultation agreement with OCT Electricity for a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Electrical and Mechanical Services Consultation Agreement"). Pursuant to the Electrical and Mechanical Services Consultation Agreement, OCT Electricity will provide electrical and mechanical consultation services to OCT Shanghai Land in relation to the Shanghai Suhewan Project. The consultation fees payable under Electrical and Mechanical Services Consultation Agreement will be calculated based on the labour costs to be incurred by OCT Electricity. The parties shall enter into separate consultation contracts for the consultation services that would be provided by OCT Electricity which shall specify the payment arrangement for the consultation fees.

   OCT Electricity is a wholly-owned subsidiary of OCT Ltd., and hence a connected person of the Company within the meaning of the Listing Rules. Accordingly, the arrangements of the above Electrical and Mechanical Services Consultation Agreement constitute continuing connected transactions under the Listing Rules.

4. On 28 December 2016, Chengdu OCT entered into a property management framework agreement with OCT Property Service Chengdu Branch for a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Property Management Framework Agreement"). Pursuant to the Property Management Framework Agreement, OCT Property Service Chengdu Branch will provide property management services to Chengdu OCT in relation to Chengdu OCT's project in Chengdu. The management fees payable under Property Management Framework Agreement will be calculated based on the actual areas that are managed and the manpower that have been employed by OCT Property Service Chengdu Branch and the parties shall enter into separate management contract(s) for the precise property that would be managed by OCT Property Service Chengdu Branch which shall specify the payment arrangement for the management fees.

   OCT Property Service is an indirect wholly-owned subsidiary of OCT Ltd. Therefore, OCT Property Service is a connected person of the Company pursuant to the Listing Rules. OCT Property Service Chengdu Branch is a branch of OCT Property Service. Accordingly, the arrangements under the above Property Management Framework Agreement constitute continuing connected transactions under the Listing Rules.

5. On 28 December 2016, Chengdu OCT entered into an electricity consultation services agreement with OCT Electricity Chengdu Branch with a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Electricity Consultation Services Agreement"), pursuant to which, OCT Electricity Chengdu Branch will provide, among others, daily and regular inspection, maintenance and management service to Chengdu OCT, its subsidiaries and branches in relation to certain electricity facilities in properties in the operating areas of Chengdu OCT and provide consultation services to Chengdu OCT, its subsidiaries and branches in relation to professional electricity supply skills and related business and the plan of constructing an electricity monitoring system of Chengdu OCT. The charges for the services will be determined by the parties by way of negotiation with reference to the prevailing market prices at the time of provision of such services and shall be made on a quarterly basis.

   OCT Electricity is a wholly-owned subsidiary of OCT Ltd.. Therefore, OCT Electricity is a connected person of the Company within the meaning of the Listing Rules. OCT Electricity Chengdu Branch is a branch office of OCT Electricity. Therefore, the arrangement of Electricity Consultation Services Agreement above constitutes continuing connected transactions under the Listing Rules.

6. On 28 December 2016, Chengdu OCT entered into a theme show framework agreement with OCT International Media with a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Theme Show Framework Agreement"), pursuant to which, OCT International Media, its subsidiaries and branches agree to (1) provide planning, costumes design and production, consultation and other services to Chengdu OCT for new projects in the future; (2) comprehensively be responsible for the improvement, amendment and other works of Paradise Ethos; (3) complete the improvement and modification works for the existing performance projects in the Theme Park of Chengdu OCT, including but not limited to, scene play, theatre party, float parade, festival performance, etc.; and (4) assist Chengdu OCT to complete other performance works. The specific payment arrangement will be specified in the separate service agreement(s) to be entered into between the parties.

   OCT International Media is a non-wholly owned subsidiary of OCT Ltd. and 10% of its equity interest is directly owned by Chengdu OCT, and hence, OCT International Media is a connected person of the Company. Therefore, the arrangement of Theme Show Framework Agreement above constitutes continuing connected transactions under the Listing Rules.

# Directors' Report

7. On 28 December 2016, Chengdu OCT entered into the Konka framework agreement with Konka Group Chengdu Branch with a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Konka Framework Agreement"). Pursuant to the Konka Framework Agreement, Chengdu OCT, its subsidiaries and branches agreed to purchase and Konka Group Chengdu Branch agreed to supply the LED equipment, television and other electronic products and service to Chengdu OCT.

   Konka Group is directly owned as to 21.75% by OCT Group, and also has control of majority of the board of Konka Group. Hence, Konka Group is connected persons of the Group within the meaning of the Listing Rules. Konka Group Chengdu Branch is a branch office of Konka Group. Therefore, the arrangement of Konka Framework Agreement above constitutes continuing connected transactions under the Listing Rules.

8. On 28 December 2016, Chengdu OCT Happy Valley Branch entered into an entertainment facilities framework agreement with OCT Culture with a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Entertainment Facilities Framework Agreement"). Pursuant to the Entertainment Facilities Framework Agreement, Chengdu OCT Happy Valley Branch agreed to purchase and OCT Culture agreed to supply entertainment facilities and related services to Chengdu OCT Happy Valley Branch.

   OCT Culture is a non-wholly owned subsidiary of OCT Ltd.. Therefore, OCT Culture is a connected person of the Group within the meaning of the Listing Rules. Therefore, the arrangement of Entertainment Facilities Framework Agreement above constitutes continuing connected transactions under the Listing Rules.

9. On 28 December 2016, Chengdu OCT Happy Valley Branch entered into a cooperation agreement with Chengdu Branch office of OCT Creative Culture Hotel ("OCT Creative Culture Hotel Chengdu Branch") for a term of three years with effect from 1 January 2017 to 31 December 2019, pursuant to which, among others, Chengdu OCT Happy Valley Branch agreed to sell tickets of the Theme Park to OCT Creative Culture Hotel Chengdu Branch at a fixed discounted price per ticket. OCT Creative Culture Hotel Chengdu Branch shall settle the ticket sales on a monthly basis in cash for the actual transaction amount.

   OCT Creative Culture Hotel is an indirect wholly-owned subsidiary of OCT Ltd.. Therefore, OCT Creative Culture Hotel is a connected person of the Company within the meaning of the Listing Rules. OCT Creative Culture Hotel Chengdu Branch is a branch office of OCT Creative Culture Hotel. Therefore, the arrangement of the said Cooperation Agreement constitutes continuing connected transaction under the Listing Rules.

10. Chengdu OCT entered into a tenancy agreement with OCT Creative Culture Hotel Chengdu Branch on 28 December 2016, for a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Chengdu Tenancy I"), pursuant to which Chengdu OCT agreed to lease to OCT Creative Culture Hotel Chengdu Branch certain premises owned by Chengdu OCT located at Jinniu District, Chengdu, Sichuan Province, the PRC for the operation of inns.

    OCT Creative Culture Hotel is an indirect wholly owned subsidiary of OCT Ltd. Therefore, OCT Creative Culture Hotel is a connected person to the Company within the meaning of the Listing Rules. OCT Creative Culture Hotel Chengdu Branch is a branch office of OCT Creative Culture Hotel. Therefore, the arrangement of the said Chengdu Tenancy I constitutes continuing connected transaction pursuant to the Listing Rules.

11. Chengdu OCT entered into a tenancy agreement with OCT Hake Chengdu Branch on 28 December 2016, for a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Chengdu Tenancy II"), pursuant to which Chengdu OCT agrees to lease to OCT Hake Chengdu Branch certain premises located at Jinniu District, Chengdu, Sichuan Province, the PRC for the operation of an entertainment centre.

    OCT Hake is a wholly-owned subsidiary of OCT Ltd.. Therefore, OCT Hake is a connected person of the Company within the meaning of the Listing Rules. OCT Hake Chengdu Branch is a branch office of OCT Hake. Therefore, the arrangement of the said Chengdu Tenancy II constitutes continuing connected transaction pursuant to the Listing Rules.

12. Xi'an OCT Land entered into a tenancy agreement with Overseas Chinese Town (Xi'an) Industry Company Limited ("OCT Xi'an Industry") on 28 December 2016, for a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Xi'an Tenancy"), pursuant to which Xi'an OCT Land agreed to lease a property located in Nanguanzheng Street, Xi'an, the PRC to OCT Xi'an Industry as an office premise.

    OCT Xi'an Industry is an indirect non-wholly owned subsidiary of OCT Ltd.. Therefore, OCT Xi'an Industry is a connected person of the Company within the meaning of the Listing Rules. Therefore, the arrangement of the said Xi'an Tenancy constitutes continuing connected transaction pursuant to the Listing Rules.

13. Chengdu OCT Happy Valley Branch entered into a travel consultation agreement with Shenzhen OCT Tourism Planning Consultancy Company Limited ("OCT Tourism") on 28 December 2016, for a term of three years with effect from 1 January 2017 and ending on 31 December 2019 ("Travel Consultation Agreement"), pursuant to which Chengdu OCT Happy Valley Branch agreed to entrust OCT Tourism to provide planning program, planning and design, architectural design, landscape design, operational consultation and other services for the development projects. The specific payment arrangement will be specified in the separate service agreement(s) to be entered into between the parties.

    OCT Tourism is a wholly owned subsidiary of OCT Ltd.. Therefore, OCT Tourism is principally engaged in tourism project planning within the meaning of the Listing Rules. Therefore, the arrangement of the said Travel Consultation Agreement constitutes continuing connected transaction pursuant to the Listing Rules.

The related party transactions are set out in note 34 to the consolidated financial statements of the Company. Apart from the connected transactions and continuing connected transactions disclosed above, all the other related party transactions did not fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For the year ended 31 December 2016, OCT Group and its associates provided financial support to the Group and the interest and related expenses payable by the Group amounted to approximately RMB264 million in total. Such financial support constituted a connected transaction of the Company, but was exempted from complying with the requirements of reporting, announcement and approval from independent shareholders based on that the financial support provided to the Group by OCT Group and its associates and which benefited the Company was made on the normal commercial terms (or more favorable than that provided to the listing issuer) to provide loans to the Company and no asset of the Group was pledged as collateral for this financial support.

# Directors' Report

## Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2016 are set out in note 26 to the consolidated financial statements.

## Five Year Summary

A summary of the results and the assets and liabilities of the Group for the last five years is set out on pages 171 to 172 of this annual report.

## Retirement Schemes

The Group participates in two defined contribution retirement schemes which cover the Group's full-time employees. Particulars of these retirement schemes are set out in note 27 to the consolidated financial statements.

## Confirmation of Independence

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent parties.

## Directors' Liability Insurance and Indemnity

The Company has purchased appropriate and sufficient liability insurance to indemnify its Directors and senior officers in respect of legal actions against the Directors and senior officers.

## Auditor

RSM Nelson Wheeler was first appointed as the auditor of the Company in 2012. On 26 October 2015, our auditor changed the name under which it practices to RSM Hong Kong. At the Company's last annual general meeting, RSM Hong Kong was reappointed as auditor of the Company.

RSM Hong Kong will retire and, being eligible, offer itself for reappointment. A resolution for the reappointment of RSM Hong Kong as the auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

## Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules.

## Share Option Scheme

Under the ordinary resolution passed at the extraordinary general meeting on 15 February 2011, the Board adopted a new share option scheme (the "New Scheme"). The purpose of the New Scheme is to attract and retain the best available personnel, to provide additional incentive to the employees (full-time and part-time), Directors, consultants and advisers of the Group and to promote the business development of the Group. The New Scheme shall be valid and effective for a period of ten years ending on 14 February 2021, unless terminated earlier by shareholders of the Company at general meeting.

The participants of the New Scheme include any full-time or part-time employee, Director, advisor and professional consultant of the Group or any member of the Group. The Directors may at their absolute discretion and on such terms as they may think fit, propose any eligible people under the New Scheme to take up options.

An offer for the grant of options must be accepted within 28 days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

The subscription price of a share in respect of any particular option granted under the New Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a share on the date of grant of the option.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under all the New Schemes and any other share option scheme does not exceed 10% of the shares in issue at the date of approval of the New Scheme. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all options granted and yet to be exercised under all the New Schemes and any other share option scheme of the Company does not exceed 30% of the shares in issue at the time.

The total number of options available for issue under the New Scheme as at 31 December 2016 was 20,436,000 options, which represented approximately 3.13% of all the issued share capital of the Company as at 31 December 2016. An option may be exercised in accordance with the terms of the New Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant. The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company then in issue.

Pursuant to the terms of the New Scheme, the Company granted 30,100,000 options to some eligible participants (including some Directors and employees) at the exercise price of HK$4.04 and grant price of HK$1 on 3 March 2011. Details of the shares options granted under the New Scheme above are set out in the announcement of the Company dated 3 March 2011. As at 2 March 2016, all share options granted under the New Scheme expire. As at 31 December 2016, the total number of shares to be issued under the granted options is zero.

# Directors' Report

The status of the share options granted as of 31 December 2016 is as follows:

| Name and category of participants | As at 1 January 2016 | Granted during the period | Exercised during the period | Cancelled/ lapsed during the period | As at 31 December 2016 | Date of grant of share options | Exercise period of share options | Exercise price of share options* | Share price of the Company as at the date of grant of share options** | Share price of the Company as at the date of exercise of share options*** |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of unlisted share options (physically settled equity derivatives) | | | | | | | | | |
| | | | | | | | | HK$ | HK$ | HK$ |
| **Directors** | | | | | | | | | | |
| Zhou Ping | 160,000 | – | – | 160,000 | – | 3 March 2011**** | 3 March 2011 to 2 March 2016 | 4.04 | 4.04 | – |
| **Other employees** | 26,264,000 | – | – | 26,264,000 | – | 3 March 2011**** | 3 March 2011 to 2 March 2016 | 4.04 | 4.04 | – |
| Total | 26,424,000 | – | – | 26,424,000 | – | | | | | |

* The exercise price of the share options was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

** The share price of the Company disclosed as at the date of the grant of the share options was the closing price as quoted on the Stock Exchange of the trading day immediately prior to the date of the grant of the share options.

*** The share price of the Company as at the date of the exercise of the share options was the weighted average closing price of the shares immediately before the dates on which the share options were exercised during the period.

**** The share options granted under the New Scheme shall be exercisable during the period from the date of acceptance of the offer of the grant (the "Date of Grant") up to 5 years from the Date of Grant subject to the following vesting term:

| Maximum percentage of share options exercisable including the percentage of share options previously exercised | Period for exercise of the relevant percentage of the share options |
|---|---|
| 30% | at any time after the expiry of 2 years from the Date of Grant up to 3 years from the Date of Grant |
| 60% | at any time after the expiry of 3 years from the Date of Grant up to 4 years from the Date of Grant |
| 100% | at any time after the expiry of 4 years from the Date of Grant up to 5 years from the Date of Grant |

The details of the model and significant assumptions used to estimate the fair value of the share options granted by the Company to the eligible participants during the period are set out in note 28 to the consolidated financial statements of the Company.

Apart from the foregoing, at no time during the period prior to the date of this report was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

After the end of the Period Under Review, the Directors proposed a final dividend. Further details are disclosed in note 30 to the consolidated financial statements of the Company.

By order of the Board
**Yao Jun**
*Chairman*

Hong Kong, 30 March 2017

# Independent Auditor's Report

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF**
**OVERSEAS CHINESE TOWN (ASIA) HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

## Opinion

We have audited the consolidated financial statements of Overseas Chinese Town (Asia) Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 83 to 170, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "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. The key audit matters we identified are:

1. Recoverability of inventories
2. Impairment of goodwill
3. Taxation

## Key Audit Matters *(continued)*

| Key Audit Matter | How our audit addressed the Key Audit Matter |
| --- | --- |
| *Recoverability of inventories*<br><br>Refer to page 141 to 142 (financial statements disclosures), page 100 to 101 (significant accounting policies) and page 109 (key estimates).<br><br>The Group held RMB72.9 million and RMB10,417.9 million of inventories as at 31 December 2016 in relation to its paper packaging business and comprehensive development business respectively.<br><br>Inventory is carried at the lower of cost and net realisable value. The determination of net realisable value involves significant management judgements and estimates. These include:<br><br>• an estimate of expected sales prices which are based on recent sales prices achieved;<br><br>• an estimate of costs to complete; and<br><br>• consideration of other factors specific to each property development project. | *Our procedures in respect of the recoverability of inventories included:*<br><br>• assessing the estimated sales prices used by management by reviewing the latest sales prices that have been achieved<br><br>• testing on a sample basis the costs incurred to date and management's estimates of costs to complete<br><br>.<br>• assessing the current status of the property development projects and considering whether any site specific factors have been properly reflected in the estimates<br><br>• considering the adequacy of the disclosures in the consolidated financial statements in relation to the carrying values and net realisable value write down/write-backs of inventories |

# Independent Auditor's Report

## Key Audit Matters *(continued)*

| Key Audit Matter *(continued)* | How our audit addressed the Key Audit Matter *(continued)* |
|---|---|
| *Impairment of goodwill*<br><br>Refer to page 126 to 128 (financial statements disclosures), page 95 (accounting policies) and page 110 (key estimates).<br><br>As at 31 December 2016 the goodwill held by the Group was RMB570,000. The Group recognised impairment losses on goodwill of RMB103,170,000 for the year then ended.<br><br>The goodwill is attributed to cash-generating units ("CGU") and is reviewed for impairment using a value in use model which requires significant management judgement in estimating the forecast future cash flows of each CGU, including growth rates for revenues and costs, and selecting appropriate discount rates. | *Our procedures in relation to the impairment of goodwill included:*<br><br>• challenging the reasonableness of management's key assumptions in view of the historical performance of each CGU and our understanding of the business<br><br>• working with our in house valuation specialists to review the integrity of the value in use models and the appropriateness of the discount rates adopted by management<br><br>• checking input data to supporting evidence including approved budgets and considering the accuracy of management's previous budgets<br><br>• considering the adequacy of the impairment testing disclosures in the consolidated financial statements |
| *Taxation*<br><br>Refer to page 118 to 119 and page 153 (financial statement disclosures), page 105 to 106 (significant accounting policies) and page 110 (key estimates).<br><br>There is significant judgement around accounting for income taxes particularly the recognition of deferred income tax assets and land appreciation tax.<br><br>This gives rise to complexity and uncertainty in respect of the calculation of income taxes and deferred tax assets and consideration of contingent liabilities associated with tax years open to audit. | *Our procedures in relation to taxation included:*<br><br>• considering the appropriateness of management's assumptions and estimates in relation to the likelihood of generating future taxable profits to support the recognition of deferred tax assets with reference to forecast taxable profits and consistency of these forecasts with the Group's budgets<br><br>• using our internal tax specialists to assist in assessing the appropriateness of the tax provisions, including assessment against relevant tax regulations and review of supporting documents and latest tax correspondence |

## Other Information

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

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

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

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

## Responsibilities of Directors for the Consolidated Financial Statements

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

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

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

# Independent Auditor's Report

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 skepticism throughout the audit. We also:

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

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

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

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

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

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

*(continued)*

We communicate with the Audit Committee, 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 Liu Eugene.

**RSM Hong Kong**
*Certified Public Accountants*
Hong Kong

30 March 2017

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Revenue** | 6(a) | 5,358,174 | 6,436,110 |
| Cost of sales | | (3,712,045) | (4,414,956) |
| **Gross profit** | | 1,646,129 | 2,021,154 |
| Other revenue | 7(a) | 44,033 | 46,717 |
| Other net gains/(losses) | 7(b) | 10,373 | (9,669) |
| Distribution costs | | (285,833) | (284,517) |
| Administrative expenses | | (248,930) | (249,613) |
| Other operating expenses | | (103,855) | (122,770) |
| **Profit from operations** | | 1,061,917 | 1,401,302 |
| Finance costs | 8(a) | (254,777) | (222,935) |
| Share of profits of associates | 17 | 480,926 | 188,307 |
| Share of loss of a joint venture | 18 | (5,456) | – |
| **Profit before tax** | 8 | 1,282,610 | 1,366,674 |
| Income tax expense | 9 | (665,952) | (704,731) |
| **Profit for the year** | | 616,658 | 661,943 |
| **Attributable to:** | | | |
| Owners of the Company | | 385,511 | 273,042 |
| Non-controlling interests | | 231,147 | 388,901 |
| | | 616,658 | 661,943 |
| **Earnings per share (RMB)** | 12 | | |
| Basic | | 0.57 | 0.40 |
| Diluted | | 0.52 | 0.37 |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Profit for the year** | 616,658 | 661,943 |
| **Other comprehensive income for the year, net of tax:** | | |
| *Items that may be reclassified to profit or loss:* | | |
| Exchange differences on translating foreign operations | (300,871) | (146,260) |
| **Total comprehensive income for the year** | 315,787 | 515,683 |
| **Attributable to:** | | |
| Owners of the Company | 84,640 | 126,782 |
| Non-controlling interests | 231,147 | 388,901 |
| | 315,787 | 515,683 |

# Consolidated Statement of Financial Position

At 31 December 2016

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 13 | | |
| – Investment property under development | | 821,096 | – |
| – Investment property | | 1,556,753 | 770,615 |
| – Property, plant and equipment | | 1,227,053 | 1,232,849 |
| – Interests in leasehold land held for own use | | 617,031 | 637,396 |
| | | 4,221,933 | 2,640,860 |
| Intangible assets | 14 | 2,092 | 2,125 |
| Goodwill | 15 | 570 | 103,740 |
| Investments in associates | 17 | 1,634,164 | 394,588 |
| Investment in a joint venture | 18 | 19,544 | – |
| Other financial assets | 19 | 247,320 | 4,320 |
| Deferred tax assets | 29(a) | 154,251 | 160,947 |
| Other long-term deposits | 20 | – | 1,107,843 |
| | | 6,279,874 | 4,414,423 |
| **Current assets** | | | |
| Inventories | 21 | 10,490,803 | 13,183,088 |
| Trade and other receivables | 22 | 530,196 | 1,107,857 |
| Other financial assets | 19 | 1,159,700 | – |
| Cash and cash equivalents | 23 | 2,077,758 | 3,374,156 |
| | | 14,258,457 | 17,665,101 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | 2,845,650 | 2,912,157 |
| Receipts in advance | 25 | 1,423,911 | 605,260 |
| Bank and other loans | 26 | 2,559,663 | 1,313,139 |
| Related party loans | 26 | 1,212,000 | 1,373,752 |
| Current tax liabilities | | 421,618 | 766,481 |
| | | 8,462,842 | 6,970,789 |
| **Net current assets** | | 5,795,615 | 10,694,312 |
| **Total assets less current liabilities** | | 12,075,489 | 15,108,735 |

# Consolidated Statement of Financial Position

At 31 December 2016

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank and other loans | 26 | 1,716,975 | 2,817,516 |
| Related party loans | 26 | 3,380,348 | 5,283,346 |
| Deferred tax liabilities | 29(a) | 211,464 | 234,948 |
| | | 5,308,787 | 8,335,810 |
| **NET ASSETS** | | 6,766,702 | 6,772,925 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 30(d) | 67,337 | 67,337 |
| Reserves | 30(e) | 2,959,611 | 2,968,518 |
| Equity attributable to owners of the Company | | 3,026,948 | 3,035,855 |
| Non-controlling interests | | 3,739,754 | 3,737,070 |
| **TOTAL EQUITY** | | 6,766,702 | 6,772,925 |

Approved by the Board of Directors on 30 March 2017 and are signed on its behalf by:

**Yao Jun**
*Director*

**Xie Mei**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

| | Note | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital RMB'000 | Share premium RMB'000 | Contributed surplus RMB'000 | Merger reserve RMB'000 | Capital reserve RMB'000 | Exchange reserve RMB'000 | General reserve fund RMB'000 | Enterprise expansion fund RMB'000 | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| | | (note 30(d)) | (note 30(e)(i)) | (note 30(e)(i)) | (note 30(e)(ii)) | (note 30(e)(iii)) | (note 30(e)(iv)) | (note 30(e)(v)) | (note 30(e)(vi)) | | | | |
| At 1 January 2015 | | 67,134 | 28,117 | 147,711 | 24,757 | 53,354 | 5,850 | 235,593 | 5,366 | 2,430,175 | 2,998,057 | 3,385,606 | 6,383,663 |
| Total comprehensive income for the year | | – | – | – | – | – | (146,260) | – | – | 273,042 | 126,782 | 388,901 | 515,683 |
| Transfer between reserves | | – | – | – | – | – | – | 86,965 | – | (86,965) | – | – | – |
| Shares issued under share option scheme | 30(d) | 203 | 8,767 | – | – | (761) | – | – | – | – | 8,209 | – | 8,209 |
| Equity settled share-based transaction | 28 | – | – | – | – | 684 | – | – | – | – | 684 | – | 684 |
| Capital injection in a subsidiary by non-controlling interests | | – | – | – | – | – | – | – | – | – | – | 265,000 | 265,000 |
| Dividend approved and paid in respect of previous year | 30(c) | – | – | – | – | – | – | – | – | (97,877) | (97,877) | (302,437) | (400,314) |
| Changes in equity for the year | | 203 | 8,767 | – | – | (77) | (146,260) | 86,965 | – | 88,200 | 37,798 | 351,464 | 389,262 |
| At 31 December 2015 | | 67,337 | 36,884 | 147,711 | 24,757 | 53,277 | (140,410) | 322,558 | 5,366 | 2,518,375 | 3,035,855 | 3,737,070 | 6,772,925 |
| At 1 January 2016 | | 67,337 | 36,884 | 147,711 | 24,757 | 53,277 | (140,410) | 322,558 | 5,366 | 2,518,375 | 3,035,855 | 3,737,070 | 6,772,925 |
| Total comprehensive income for the year | | – | – | – | – | – | (300,871) | – | – | 385,511 | 84,640 | 231,147 | 315,787 |
| Transfer between reserves | | – | – | – | – | – | – | 58,657 | – | (58,657) | – | – | – |
| Dividend approved and paid in respect of previous year | 30(c) | – | – | – | – | – | – | – | – | (93,547) | (93,547) | (228,463) | (322,010) |
| Changes in equity for the year | | – | – | – | – | – | (300,871) | 58,657 | – | 233,307 | (8,907) | 2,684 | (6,223) |
| At 31 December 2016 | | 67,337 | 36,884 | 147,711 | 24,757 | 53,277 | (441,281) | 381,215 | 5,366 | 2,751,682 | 3,026,948 | 3,739,754 | 6,766,702 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 23(d) | 5,511,217 | 3,340,151 |
| Tax paid: | | | |
| – PRC tax paid | | (1,027,603) | (645,864) |
| Interest paid | | (428,763) | (590,674) |
| **Net cash generated from operating activities** | | 4,054,851 | 2,103,613 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payment for purchase of fixed assets and intangible assets | | (1,431,123) | (354,614) |
| Deposits paid for acquisition of long-term assets | | – | (310,000) |
| Deposits paid for acquisition of an associate | | – | (797,843) |
| Proceeds from disposals of fixed assets | | 679 | 5,879 |
| Acquisition of an associate | | – | (265,250) |
| Acquisition of a joint venture | | (25,000) | – |
| Dividends received from unlisted equity investments | | – | 632 |
| Dividend received from an associate | | 25,000 | 165,000 |
| Interest received | | 39,204 | 42,566 |
| **Net cash used in investing activities** | | (1,391,240) | (1,513,630) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Acquisition of other financial assets | | (1,402,700) | – |
| Proceeds from issue of shares | | – | 8,209 |
| Capital injection in a subsidiary by non-controlling interests | | – | 265,000 |
| Proceeds from new borrowings | | 3,116,862 | 1,974,580 |
| Dividends paid to owners of the Company | | (93,547) | (97,877) |
| Dividends paid to non-controlling interests | | (228,463) | (302,437) |
| Repayment of borrowings | | (5,035,629) | (2,692,390) |
| **Net cash used in financing activities** | | (3,643,477) | (844,915) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | (979,866) | (254,932) |
| Effect of foreign exchange rate changes | | (316,532) | (134,830) |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | 3,374,156 | 3,763,918 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 23(a) | 2,077,758 | 3,374,156 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 1. GENERAL INFORMATION

Overseas Chinese Town (Asia) Holdings Limited ("the Company") was incorporated in the Cayman Islands with limited liability. The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, Cayman Islands. The address of its principal place of business is Suites 3203-3204, Tower 6, The Gateway, Harbour City, Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 16 to the consolidated financial statements.

In the opinion of the directors of the Company, Pacific Climax Limited, a company incorporated in the British Virgin Islands, is the immediate parent; 深圳華僑城股份有限公司 (Shenzhen Overseas Chinese Town Company Limited) ("OCT Ltd"), a company incorporated in the People's Republic of China (the "PRC") which shares listed on the Shenzhen Stock Exchange and Overseas Chinese Town (HK) Company Limited, a company incorporated in Hong Kong, are the intermediate parents and 華僑城集團公司 (Overseas Chinese Town Enterprises Corporation) ("OCT Group"), a state-owned enterprise incorporated in the PRC, is the ultimate parent of the Company. Significant accounting policies adopted by the Group are disclosed below.

## 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

### (a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2016. Of these, the following new or revised HKFRSs are relevant to the Group:

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

### (a) Application of new and revised HKFRSs *(continued)*

***Amendments to HKAS 1 Presentation of Financial Statements: Disclosure Initiative***

The amendments to HKAS 1 clarify, rather than significantly change, existing HKAS 1 requirements. The amendments clarify various presentation issues relating to:

- Assessment of materiality versus minimum disclosure requirements of a standard.
- Disaggregation of specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position. There is also new guidance on the use of subtotals.
- Confirmation that the notes do not need to be presented in a particular order.
- Presentation of other comprehensive income items arising from equity-accounted associates and joint ventures.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

### (b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2016. These new and revised HKFRSs include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to HKAS 7 Statement of Cash Flows: Disclosure initiative | 1 January 2017 |
| Amendments to HKAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses | 1 January 2017 |
| HKFRS 9 Financial Instruments | 1 January 2018 |
| HKFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| Amendments to HKFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions | 1 January 2018 |
| Amendments to HKFRS 4: Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts | 1 January 2018 |
| HKFRS 16 Leases | 1 January 2019 |
| Amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures: Sale or contribution of assets between an investor and its associates or joint venture | To be determined |

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

### (b) New and revised HKFRSs in issue but not yet effective *(continued)*

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

***HKFRS 9 Financial Instruments***

The standard replaces HKAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from HKAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

HKFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in HKAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

### (b) New and revised HKFRSs in issue but not yet effective *(continued)*

***HKFRS 9 Financial Instruments*** *(continued)*

The de-recognition requirements in HKAS 39 are carried forward largely unchanged.

HKFRS 9 substantially overhauls the hedge accounting requirements in HKAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The Group's financial assets that are currently classified as available-for-sale include certain unlisted equity securities. The Group expects to irrevocably designate these equity securities as fair value through other comprehensive income. This will give rise to a change in accounting policy. Under HKFRS 9 recycling of the fair value gains and losses is not permitted. The unlisted equity securities are currently measured at cost less impairment with any impairment losses recognised in profit or loss. HKFRS 9 requires fair value measurement with fair value changes recognised in other comprehensive income without recycling.

The new expected credit loss impairment model in HKFRS 9 may result in the earlier recognition of impairment losses on the Group's trade receivables and other financial assets. The Group is unable to quantify the impact until a more detailed assessment is completed.

***HKFRS 15 Revenue from Contracts with Customers***

HKFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group is unable to estimate the impact of the new standard on the consolidated financial statements until a more detailed analysis is completed.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

### (b) New and revised HKFRSs in issue but not yet effective *(continued)*

***HKFRS 16 Leases***

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

The Group's property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 32, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to RMB27,356,000 as at 31 December 2016. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in HKFRS 16 and the effects of discounting.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated exchange reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### (c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Associates *(continued)*

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated exchange reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (d) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. 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. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group has assessed the type of each of its joint arrangements and determined them to all be joint ventures.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (d) Joint arrangements *(continued)*

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a joint venture's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's entire carrying amount of that joint venture (including goodwill) and any related accumulated exchange reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (e) Foreign currency translation

#### *(i) Functional and presentation currency*

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (e) Foreign currency translation *(continued)*

#### *(ii) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

#### *(iii) Translation on consolidation*

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

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (f) Fixed assets

Fixed assets including buildings and leasehold land (classified as finance leases), held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of fixed assets is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

| | |
|---|---|
| Buildings | 20 years |
| Plant and machinery | 5 to 10 years |
| Motor vehicles | 4 to 5 years |
| Other property, plant and equipment | 3 to 5 years |
| Interests in leasehold land held for own use | The shorter of the lease terms and 50 years |

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

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

### (g) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at cost less accumulated depreciation and impairment losses. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life ranging from 25 years to 38 years.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | |
|---|---|
| Software | 5 to 10 years |
| Copyright | 2 years |

Both the period and method of amortisation are reviewed annually.

### (i) Leases

***The Group as lessee***

*(i) Operating leases*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

***The Group as lessor***

*(i) Operating leases*

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### (j) Properties for sale under development

Properties for sale under development are stated at the lower of cost and net realisable value. Costs include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

On completion, the properties are reclassified to properties held for sale at the then carrying amount.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Costs of properties include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### (l) Other inventories

Other inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### (m) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

### (n) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an financial assets is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (n) Financial assets *(continued)*

#### *(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

#### *(ii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss. Interest calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

### (o) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

### (p) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (q) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### (r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

### (s) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (t) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### (u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Revenue arising from the sale of properties held for sale is recognised upon the earlier of handover or the completion of the legal transfer of the properties which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under forward sales deposits and instalments received.

Revenue from the sales of tickets of theme park is recognised when the services are rendered and the ticket proceeds have been received. Revenue from the sales of tickets excludes business tax or other sales related tax and is after deduction of any discounts.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (u) Revenue recognition *(continued)*

Rental income is recognised on a straight-line basis over the lease term.

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

Dividend income is recognised when the shareholders' rights to receive payment are established.

### (v) Employee benefits

#### *(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### *(ii) Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

#### *(iii) Termination benefits*

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

### (w) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or, if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (x) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

### (y) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

### (z) Taxation

Income tax represents the sum of the current tax and deferred tax.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (z) Taxation *(continued)*

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangements except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (aa) PRC land appreciation tax ("LAT")

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures. PRC LAT is recognised as an income tax expense. PRC LAT paid is a deductible expense for PRC enterprise income tax purposes.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (ab) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount 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. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the CGU.

Value in use is the present value of the estimated future cash flows of the asset/CGU. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGU whose impairment is being measured.

Impairment losses for CGUs are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

### (ac) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (ad) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### (ae) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. KEY ESTIMATES

### Key sources of 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 discussed below.

#### *(i) Impairment loss for bad and doubtful debts*

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts, in particular of a loss event, requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

As at 31 December 2016, accumulated impairment loss for bad and doubtful debts amounted to approximately RMB9,142,000 (2015: RMB10,753,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 5. KEY ESTIMATES *(continued)*

### Key sources of estimation uncertainty *(continued)*

#### *(ii) Depreciation and impairment loss for fixed assets*

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives and residual values of fixed assets of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The Group makes impairment provision for fixed assets taking into account the Group's estimates of the recoverable amount from such properties. The recoverable amounts have been determined based on value-in-use calculations, taking into account the latest market information and past experience. These calculation and valuations require the use of judgement and estimates. Uncertainty exists in these estimations.

Given the volatility of the PRC property market, the actual recoverable amount may be higher or lower than estimated at the end of the reporting period. Any increase or decrease in the provision would affect profit or loss in future years.

The carrying amount of fixed assets as at 31 December 2016 was approximately RMB4,221,933,000 (2015: RMB2,640,860,000).

#### *(iii) Provision for completed properties held for sale and properties held for future development and under development for sale*

The Group's completed properties held for sale and properties held for future development and under development for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion in case for properties under development for sale, and the costs to be incurred in selling the properties based on prevailing market conditions.

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 provision for completed properties held for sale and properties held for future development and under development 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.

The carrying amount of completed properties held for sale and properties held for future development and under development for sale as at 31 December 2016 were approximately RMB5,394,633,000 (2015: RMB3,798,083,000) and RMB5,023,246,000 (2015: RMB9,320,070,000) respectively.

## 5. KEY ESTIMATES *(continued)*

### Key sources of estimation uncertainty *(continued)*

#### *(iv) Recognition of deferred tax assets*

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax asset to be recognised and hence the net profit in future years.

The carrying amount of deferred tax assets as at 31 December 2016 was approximately RMB154,251,000 (2015: RMB160,947,000).

#### *(v) PRC Corporate Income Tax ("CIT") and PRC LAT*

As explained in note 9(a), the Group is subject to PRC CIT and PRC LAT under audited taxation method. Significant judgement is required in determining the level of provision, as the calculations of which depend on the ultimate tax determination and are subject to uncertainty. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

The income tax provision of PRC CIT and PRC LAT charged for the year ended 31 December 2016 were approximately RMB243,346,000 (2015: RMB291,181,000) and RMB445,724,000 (2015: RMB423,266,000) respectively.

#### *(vi) Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was RMB570,000 (2015: RMB103,740,000) after an impairment loss of RMB103,170,000 (2015: RMB119,736,000) was recognised during the year. Details of the impairment loss calculation are provided in note 15 to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 5. KEY ESTIMATES *(continued)*

### Key sources of estimation uncertainty *(continued)*

#### *(vii) Recognition and allocation of construction cost on properties under development*

Development costs of properties are recorded as properties under development during construction stage and will be transferred to profit or loss upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group typically divides the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on gross floor area.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

## 6. REVENUE AND SEGMENT REPORTING

### (a) Revenue

The principal activities of the Group are comprehensive development and paper packaging business.

Revenue represents the sales value of goods or services supplied to customers (net of value-added tax and business tax), including the sales of properties, rental income from investment properties, ticket sales from theme park and sales of paper cartons and products are as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Comprehensive development business | 4,597,075 | 5,596,276 |
| Paper packaging business | 761,099 | 839,834 |
| | 5,358,174 | 6,436,110 |

The Group's customer base is diversified and there was no customer with whom transactions exceeded 10% of the Group's revenue in 2016.

Further details regarding the Group's principal activities are disclosed in note 6(b) to the consolidated financial statements.

## 6. REVENUE AND SEGMENT REPORTING *(continued)*

### (b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the most senior executive management of the Group for the purposes of resource allocation and performance assessment, the Group has the following two reportable segments.

- Comprehensive development business: this segment engaged in the development and operation of tourism theme park, developed and sold residential properties, development and management of properties and property investment.

- Paper packaging business: this segment engaged in the manufacture and sale of paper cartons and products.

#### *(i) Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the senior executive management of the Group monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets. Segment liabilities include trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment result is “net profit”. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Expenses not specifically attributed to individual segments, such as directors’ and auditors’ remuneration and other head office or corporate administration costs, were allocated to each individual segment in proportion to its revenue.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 6. REVENUE AND SEGMENT REPORTING *(continued)*

### (b) Segment reporting *(continued)*

#### *(i) Segment results, assets and liabilities* *(continued)*

Information regarding the Group's reportable segments as provided to the most senior executive management of the Group for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

| | Comprehensive development business | | Paper packaging business | | Total | |
|---|---|---|---|---|---|---|
| | 2016 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2015 RMB'000 |
| **Revenue from external customers** | 4,597,075 | 5,596,276 | 761,099 | 839,834 | 5,358,174 | 6,436,110 |
| **Reportable segment net profit/(loss)** | 399,395 | 254,911 | (13,884) | 18,131 | 385,511 | 273,042 |
| Interest income | 31,126 | 35,234 | 8,078 | 7,332 | 39,204 | 42,566 |
| Interest expense | 250,962 | 217,454 | 3,815 | 5,481 | 254,777 | 222,935 |
| Depreciation and amortisation for the year | 180,812 | 166,518 | 28,949 | 37,028 | 209,761 | 203,546 |
| Share of profits of associates | 480,926 | 188,307 | – | – | 480,926 | 188,307 |
| Share of loss of a joint venture | (5,456) | – | – | – | (5,456) | – |
| Income tax expense | 661,412 | 693,289 | 4,540 | 11,442 | 665,952 | 704,731 |
| Addition to segment non-current assets during the year | 1,409,532 | 1,403,557 | 21,591 | 58,900 | 1,431,123 | 1,462,457 |
| **Reportable segment assets** | 19,010,148 | 20,212,275 | 1,528,183 | 1,867,249 | 20,538,331 | 22,079,524 |
| **Reportable segment liabilities** | 12,885,943 | 14,092,496 | 885,686 | 1,214,103 | 13,771,629 | 15,306,599 |
| **Investments in associates** | 1,634,164 | 394,588 | – | – | 1,634,164 | 394,588 |
| **Investment in a joint venture** | 19,544 | – | – | – | 19,544 | – |

## 6. REVENUE AND SEGMENT REPORTING *(continued)*

### (b) Segment reporting *(continued)*

#### *(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities*

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue | 5,358,174 | 6,436,110 |
| Elimination of inter segment revenue | – | – |
| Consolidated revenue | 5,358,174 | 6,436,110 |
| **Profit** | | |
| Reportable segment profit | 385,511 | 273,042 |
| Elimination of inter segment profits | – | – |
| Reportable segment profit derived from Group's external customers | 385,511 | 273,042 |
| Consolidated net profit attributable to non-controlling interests | 231,147 | 388,901 |
| Consolidated net profit | 616,658 | 661,943 |
| **Assets** | | |
| Reportable segment assets | 20,538,331 | 22,079,524 |
| Consolidated total assets | 20,538,331 | 22,079,524 |
| **Liabilities** | | |
| Reportable segment liabilities | 13,771,629 | 15,306,599 |
| Consolidated total liabilities | 13,771,629 | 15,306,599 |

#### *(iii) Geographical information:*

As at 31 December 2016, the Group's revenue from external customers and its non-current assets are located in the PRC (including Hong Kong) (2015: the PRC (including Hong Kong)).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 7. OTHER REVENUE AND NET GAINS/(LOSSES)

### (a) Other revenue

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Interest income on: | | |
| Bank deposits | 38,214 | 40,631 |
| Amount due from an associate | 990 | 1,935 |
| Total interest income | 39,204 | 42,566 |
| Dividend income from unlisted equity investments | – | 632 |
| Government grants *(Note)* | 2,116 | 1,412 |
| Forfeiture income on receipts in advance on pre-sale of properties | 2,713 | 2,107 |
| | 44,033 | 46,717 |

*Note:* Government grants mainly related to the subsidy received from the local government authority for the achievements of the Group.

### (b) Other net gains/(losses)

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Net (loss)/gain on disposal of fixed assets | (291) | 76 |
| Net exchange gains/(losses) | 9,784 | (10,347) |
| Others | 880 | 602 |
| | 10,373 | (9,669) |

## 8. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **(a) Finance costs:** | | |
| Interest on bank and other loans | 164,530 | 170,189 |
| Interest on related party loans | 264,233 | 420,485 |
| Total borrowing costs | 428,763 | 590,674 |
| Amount capitalised | (173,986) | (367,739) |
| | 254,777 | 222,935 |

The weighted average capitalisation rate of funds borrowed generally is at a rate of 3.96% per annum (2015: 5.30% per annum).

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **(b) Employee benefits expenses:** | | |
| Contributions to defined contribution retirement schemes *(note 27)* | 17,612 | 17,358 |
| Salaries, wages and other benefits | 267,330 | 249,037 |
| Equity-settled share-based payment expenses *(note 28)* | – | 684 |
| | 284,942 | 267,079 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 8. PROFIT BEFORE TAX *(continued)*

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **(c) Other items:** | | |
| Amortisation of intangible assets | 398 | 291 |
| Depreciation | | |
| – investment property | 61,202 | 24,112 |
| – interests in leasehold land held for own use | 20,365 | 20,360 |
| – other assets | 127,796 | 158,783 |
| Impairment losses | | |
| – goodwill | 103,170 | 119,736 |
| – trade and other receivables | 344 | 1,468 |
| Net loss/(gain) on disposal of fixed assets | 291 | (76) |
| Operating lease charges in respect of properties | 30,874 | 34,982 |
| Net exchange (gains)/losses | (9,784) | 10,347 |
| Auditors' remuneration | | |
| – audit services | 1,357 | 1,446 |
| – other services | 624 | 399 |
| Rentals receivable from investment properties less direct outgoings of RMB63,590,000 (2015: RMB24,860,000) | (30,803) | (26,176) |
| Cost of inventories *(note 21(b))* | 3,707,817 | 4,413,701 |
| Reversal of allowance for trade and other receivables | (1,955) | (1,083) |

Cost of inventories included RMB243,450,000 (2015: RMB246,463,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above.

The reversal of allowance for trade and other receivables made in prior years arose due to improvement in the repayment records of certain debtors.

## 9. INCOME TAX EXPENSE

### (a) Income tax has been recognised in profit or loss as following:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Current tax** | | |
| – PRC CIT | | |
| Charge for the year | 243,346 | 291,181 |
| (Over)/under provision in prior years | (6,330) | 53,173 |
| | 237,016 | 344,354 |
| – PRC LAT | 445,724 | 423,266 |
| | 682,740 | 767,620 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences *(note 29(a))* | (16,788) | (62,889) |
| | 665,952 | 704,731 |

*(i) CIT*

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands during the year (2015: RMB Nil).

No provision for Hong Kong Profits Tax has been made in the financial statements since the Group has sufficient tax losses brought forward to set off against current year's assessable profit. No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year ended 31 December 2015.

Pursuant to the income tax rules and regulations of the PRC, taxation for PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant cities in the PRC at 25% (2015: 25%).

Additionally, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and jurisdiction of the foreign investors. According to the tax treaty between Hong Kong Special Administrative Region and PRC for avoidance of double taxation and prevention of tax evasion, dividends declared from PRC subsidiaries to Hong Kong holding companies are subject to 5% withholding income tax from 1 January 2008 and onwards.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 9. INCOME TAX EXPENSE *(continued)*

### (a) Income tax has been recognised in profit or loss as following: *(continued)*

#### *(ii) PRC LAT*

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges of land use rights and all property development expenditures, which is included in the consolidated statement of profit or loss as income tax. The Group has estimated the tax provision for PRC LAT according to the requirements set forth in the relevant PRC tax laws and regulations. The actual PRC LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for PRC LAT is calculated.

### (b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Profit before tax | 1,282,610 | 1,366,674 |
| Tax at the PRC CIT rate of 25% | 320,653 | 341,669 |
| Tax effect of non-deductible expenses | 49,442 | 96,334 |
| Tax effect of non-taxable income | (52,013) | (50,538) |
| (Over)/under provision in prior years | (6,330) | 53,173 |
| Tax effect of recognition of temporary difference not previously recognised | – | (53,356) |
| Temporary difference not included in deferred tax assets | 19,907 | – |
| PRC LAT | 445,724 | 423,266 |
| Tax effect of PRC LAT | (111,431) | (105,817) |
| Income tax expense | 665,952 | 704,731 |

## 10. BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

The remuneration of every director is set out below:

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking | |
|---|---|---|---|---|---|---|---|---|---|
| | Fees | Salaries | Discretionary bonus | *(Note i)* Estimated money value of other benefits | Employer's contribution to a retirement benefit scheme | Remunerations paid or receivable in respect of accepting office as director | Housing allowance | | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Chairman: | | | | | | | | | |
| – Yao Jun *(note (ii))* | – | – | – | – | – | – | – | – | – |
| – Wang Xiaowen *(note (iii))* | – | – | – | – | – | – | – | – | – |
| Executive directors: | | | | | | | | | |
| – Xie Mei | – | 454 | 791 | – | 116 | – | – | – | 1,361 |
| – Lin Kaihua | – | 284 | 555 | – | 83 | – | – | – | 922 |
| Non-executive director: | | | | | | | | | |
| – Zhou Ping *(note (iv))* | – | – | – | – | – | – | – | – | – |
| Independent non-executive directors: | | | | | | | | | |
| – Wong Wai Ling | 129 | – | – | – | – | – | – | – | 129 |
| – Lam Sing Kwong Simon | 129 | – | – | – | – | – | – | – | 129 |
| – Lu Gong | 154 | – | – | – | – | – | – | – | 154 |
| **Total for 2016** | 412 | 738 | 1,346 | – | 199 | – | – | – | 2,695 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 10. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

### (a) Directors' emoluments *(continued)*

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking | |
|---|---|---|---|---|---|---|---|---|---|
| | Fees | Salaries | Discretionary bonus | *(Note i)* Estimated money value of other benefits | Employer's contribution to a retirement benefit scheme | Remunerations paid or receivable in respect of accepting office as director | Housing allowance | | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Chairman: | | | | | | | | | |
| – Wang Xiaowen | – | – | – | – | – | – | – | – | – |
| Executive directors: | | | | | | | | | |
| – Xie Mei | – | 391 | 474 | – | 86 | – | – | – | 951 |
| – Lin Kaihua *(note (v))* | – | 235 | 184 | – | 66 | – | – | – | 485 |
| – Yang Jie *(note (vi))* | – | – | – | – | – | – | – | – | – |
| Non-executive director: | | | | | | | | | |
| – Zhou Ping | – | – | – | – | – | – | – | – | – |
| Independent non-executive directors: | | | | | | | | | |
| – Wong Wai Ling | 121 | – | – | – | – | – | – | – | 121 |
| – Lam Sing Kwong Simon | 121 | – | – | – | – | – | – | – | 121 |
| – Lu Gong | 144 | – | – | – | – | – | – | – | 144 |
| Total for 2015 | 386 | 626 | 658 | – | 152 | – | – | – | 1,822 |

*Note:* (i) Estimated money values of other benefits include rent paid, share options, insurance premium, etc.
(ii) Appointed on 23 May 2016.
(iii) Resigned on 23 May 2016.
(iv) Resigned on 30 March 2017.
(v) Appointed on 12 March 2015.
(vi) Resigned on 12 March 2015.

Neither the chief executive nor any of the directors waived any emoluments during the year (2015: RMB Nil).

## 10. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

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

Save as disclosed in this annual report, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company and other director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals in the Group during the year included Nil (2015: Nil) director whose emolument is reflected in the analysis presented in note 10 to the consolidated financial statements above. The emoluments of all the five highest paid individuals are set out below:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Salaries and other emoluments | 2,432 | 1,235 |
| Discretionary bonuses | 7,198 | 7,829 |
| Retirement schemes contributions | 576 | 574 |
| Equity-settled share-based payment expenses | – | 10 |
| | 10,206 | 9,648 |

The emoluments fell within the following bands:

| | 2016<br>Number of<br>individuals | 2015<br>Number of<br>individuals |
|---|---|---|
| HK$2,000,001 – HK$2,500,000 (RMB1,714,401 – RMB2,143,000) | 3 | 4 |
| HK$2,500,001 – HK$3,000,000 (RMB2,143,001 – RMB2,571,600) | 2 | – |
| HK$3,000,001 – HK$3,500,000 (RMB2,571,601 – RMB3,000,200) | – | 1 |

During the year, no emoluments (2015: RMB Nil) were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Earnings attributable to ordinary equity holders for the purpose of calculating basic earnings per share | 369,312 | 257,675 |
| Preference share dividends saving on conversion of convertible preference shares | 16,199 | 15,367 |
| Earnings attributable to ordinary equity holders for the purpose of calculating diluted earnings per share | 385,511 | 273,042 |

| | 2016 | 2015 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 652,366,000 | 651,359,000 |
| Effect of dilutive potential ordinary shares arising from convertible preference shares | 96,000,000 | 96,000,000 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | 748,366,000 | 747,359,000 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 13. FIXED ASSETS

(a)

| | Buildings RMB'000 | Plant and machinery RMB'000 | Construction in progress RMB'000 | Motor vehicles RMB'000 | Other property, plant and equipment RMB'000 | Sub-total RMB'000 | Investment property RMB'000 | Investment property under development RMB'000 | Interests in leasehold land held for own use RMB'000 | Total fixed assets RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | | |
| At 1 January 2015 | 1,056,814 | 743,999 | 246,844 | 38,260 | 161,235 | 2,247,152 | 618,987 | – | 748,366 | 3,614,505 |
| Exchange adjustment | – | – | – | – | 1 | 1 | 9,485 | – | – | 9,486 |
| Additions | 14,840 | 28,100 | 25,474 | 3,494 | 21,735 | 93,643 | 259,239 | – | – | 352,882 |
| Disposals | – | (9,235) | – | (2,548) | (31,034) | (42,817) | – | – | – | (42,817) |
| Transfer from construction in progress | 47,487 | 8,503 | (56,121) | – | 131 | – | – | – | – | – |
| Transfer to inventories | – | – | (190,469) | – | – | (190,469) | – | – | – | (190,469) |
| At 31 December 2015 and 1 January 2016 | 1,119,141 | 771,367 | 25,728 | 39,206 | 152,068 | 2,107,510 | 887,711 | – | 748,366 | 3,743,587 |
| Exchange adjustment | – | – | – | – | – | – | 16,396 | – | – | 16,396 |
| Additions | 9,577 | 8,952 | 99,894 | 3,245 | 13,557 | 135,225 | 784,437 | 821,096 | – | 1,740,758 |
| Disposals | – | (5,186) | – | (1,742) | (5,237) | (12,165) | – | – | – | (12,165) |
| Transfer from construction in progress | 4,406 | 15 | (16,676) | – | – | (12,255) | 12,255 | – | – | – |
| Transfer from inventories | – | – | – | – | – | – | 34,987 | – | – | 34,987 |
| At 31 December 2016 | 1,133,124 | 775,148 | 108,946 | 40,709 | 160,388 | 2,218,315 | 1,735,786 | 821,096 | 748,366 | 5,523,563 |
| **Accumulated depreciation and impairment loss:** | | | | | | | | | | |
| At 1 January 2015 | 198,477 | 417,193 | 2,924 | 27,336 | 109,886 | 755,816 | 92,849 | – | 90,610 | 939,275 |
| Exchange adjustment | – | – | – | – | – | – | 135 | – | – | 135 |
| Charge for the year | 49,656 | 78,474 | – | 4,237 | 26,416 | 158,783 | 24,112 | – | 20,360 | 203,255 |
| Written back on disposal | – | (4,942) | – | (2,275) | (29,797) | (37,014) | – | – | – | (37,014) |
| Transfer to inventories | – | – | (2,924) | – | – | (2,924) | – | – | – | (2,924) |
| At 31 December 2015 and 1 January 2016 | 248,133 | 490,725 | – | 29,298 | 106,505 | 874,661 | 117,096 | – | 110,970 | 1,102,727 |
| Exchange adjustment | – | – | – | – | – | – | 735 | – | – | 735 |
| Charge for the year | 49,236 | 62,644 | – | 3,425 | 12,491 | 127,796 | 61,202 | – | 20,365 | 209,363 |
| Written back on disposal | – | (5,119) | – | (1,682) | (4,394) | (11,195) | – | – | – | (11,195) |
| At 31 December 2016 | 297,369 | 548,250 | – | 31,041 | 114,602 | 991,262 | 179,033 | – | 131,335 | 1,301,630 |
| **Carrying amount:** | | | | | | | | | | |
| At 31 December 2016 | 835,755 | 226,898 | 108,946 | 9,668 | 45,786 | 1,227,053 | 1,556,753 | 821,096 | 617,031 | 4,221,933 |
| At 31 December 2015 | 871,008 | 280,642 | 25,728 | 9,908 | 45,563 | 1,232,849 | 770,615 | – | 637,396 | 2,640,860 |

# Notes to the Consolidated Financial Statements
For the year ended 31 December 2016

## 13. FIXED ASSETS *(continued)*

(b) According to the State-owned Land Use Rights Grant Contract, leasehold land with carrying amount of RMB544,124,000 (2015: RMB562,465,000) located in the PRC of 成都天府華僑城實業有限公司 (Chengdu Tianfu OCT Industry Development Company Limited) ("Chengdu OCT") as at 31 December 2016 is non-transferable.

### (c) Investment property

The Group leases out investment property. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease after that date at which time all terms are renegotiated. In respect of most of the lessees entered or would enter into a new lease for the same or an equivalent asset with the Group, the directors of the Company are of the opinion that operating lease contracts under investment properties, except those investment properties situated in Hong Kong and Xi'an, are cancellable, and no future minimum lease payments under non-cancellable operating leases were disclosed for these investment properties.

Investment properties in the PRC are located (i) in Chengdu which is part of the Chengdu OCT project and mainly represented retail shops surrounding the theme park operated by Chengdu OCT and (ii) in Xi'an which is part of the 西安華僑城置地有限公司 (Xi'an OCT Real Estate Limited) ("Xi'an OCT Land") project and mainly represented office complex during the year acquired by Xi'an OCT Land. The management considered that there are no markets for comparable properties in the region and the variability in the range of reasonable fair value measurements is great and the probabilities of the various outcomes are difficult to assess, that the usefulness of a single estimate measure of fair value is negated. Based on the above, the management concludes that the fair value of the investment properties in the PRC will not be reliably measurable on a continuing basis.

As at 31 December 2016, the management determines that the fair value of the investment properties located in Hong Kong was approximately RMB259,715,000 (2015: RMB242,962,000). Such fair value measurement was categorised within Level 2 of the fair value hierarchy and was derived using the market comparable approach based on recent market prices as inputs without any significant adjustment being made to the market observable data.

At 31 December 2016, the carrying amount of investment properties pledged as security for the Group's bank loan amounted to approximately RMB250,076,000 (2015: RMB238,827,000).

## 14. INTANGIBLE ASSETS

| | Software and copyright RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January 2015 | 1,260 |
| Additions | 1,732 |
| At 31 December 2015 and 1 January 2016 | 2,992 |
| Additions | 365 |
| At 31 December 2016 | 3,357 |
| **Accumulated amortisation:** | |
| At 1 January 2015 | 576 |
| Charge for the year | 291 |
| At 31 December 2015 and 1 January 2016 | 867 |
| Charge for the year | 398 |
| At 31 December 2016 | 1,265 |
| **Carrying amount:** | |
| At 31 December 2016 | 2,092 |
| At 31 December 2015 | 2,125 |

The average remaining amortisation period of software and copyright are 6 years (2015: 7 years).

## 15. GOODWILL

| | RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | 267,195 |
| **Accumulated impairment losses:** | |
| At 1 January 2015 | 43,719 |
| Impairment losses recognised for the year | 119,736 |
| At 31 December 2015 and 1 January 2016 | 163,455 |
| Impairment losses recognised for the year | 103,170 |
| At 31 December 2016 | 266,625 |
| **Carrying amount:** | |
| At 31 December 2016 | 570 |
| At 31 December 2015 | 103,740 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 15. GOODWILL *(continued)*

### Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the Group's CGU identified according to the operating segment as follows:

| | Note | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| **Paper packaging business** | | | |
| Shanghai | (i) | – | 1,012 |
| Shenzhen and Huizhou | (i) | – | 23,925 |
| **Comprehensive development business** | | | |
| Chengdu | (ii) | – | 78,233 |
| Shanghai | (iii) | 570 | 570 |
| | | 570 | 103,740 |

*(i) Shanghai, Shenzhen and Huizhou*

The goodwill is mainly attributable to the skills and technical talent of Shanghai, Shenzhen and Huizhou work force, and the synergies expected to be achieved from integrating the companies into the Group's existing paper packaging business.

*(ii) Chengdu*

The goodwill is mainly attributable to the opportunities for increasing returns as the Chengdu OCT projects benefit from the rise in urban disposable income and tourism numbers in the Chengdu area, skills and technical talent of Chengdu OCT's work force, and the synergies expected to be achieved from integrating Chengdu OCT into the Group.

*(iii) Shanghai*

The goodwill is mainly attributable to the opportunities for increasing returns as 華僑城（上海）置地有限公司 (Overseas Chinese Town (Shanghai) Land Company Limited) ("OCT Shanghai Land") projects benefit from the rise in urban disposable income and tourism numbers in the Shanghai area, skills and technical talent of OCT Shanghai Land's work force, and the synergies expected to be achieved from integrating OCT Shanghai Land into the Group.

The recoverable amounts of the CGUs above are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the period are extrapolated using an estimated weighted average growth rate, which and the discount rates are presented as below. The estimated weighted average growth rate is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the businesses in which the CGU operates. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

## 15. GOODWILL *(continued)*

### Impairment test for cash-generating units containing goodwill *(continued)*

| | Discount rate | | Terminal value growth rate | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | % | % | % | % |
| **Paper packaging business** | | | | |
| Shanghai, Shenzhen and Huizhou | 12.0 | 10.0 | 3.00 | 5.00 |
| **Comprehensive development business** | | | | |
| Chengdu | 11.6 | 8.0 | 4.50 | 4.00 |
| Shanghai | 11.6 | 8.0 | 4.50 | 4.00 |

At 31 December 2016, before impairment testing, goodwill of RMB78,233,000 was allocated to Chengdu within the comprehensive development business segment. As the development project proceeded as planned, the Group has revised its cash flow forecasts for this CGU. The CGU has been reduced to its recoverable amount of approximately RMB2.2 billion (2015: RMB2.3 billion) and an impairment loss of RMB78,233,000 (2015: RMB119,736,000) recognised on goodwill.

At 31 December 2016, before impairment testing, goodwill of RMB24,937,000 was allocated to paper packaging business segment. As changing in the rules and regulations related to environmental protection during the year, the Group required investing additional capital expenditure to improve/replace the existing plant and machinery and additional operating cost to be incurred to meet the requirement. Hence, the Group has revised its cash flow forecasts for this CGU and reduced its recoverable amount to approximately RMB344 million. Impairment loss of RMB24,937,000 (2015: RMB Nil) recognised on goodwill.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 16. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2016 are as follows:

| Name of company | Place of incorporation/ establishment and operation | Particular of registered, paid-up and issued capital | Percentage of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| 深圳華力包裝貿易有限公司 (Shenzhen Huali Packing & Trading. Co., Ltd.) *(note (i) & (ii))* | PRC | Paid-up capital of HK$180,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |
| 上海華勵包裝有限公司 (Shanghai Huali Packaging Co., Ltd.) *(note (i) & (ii))* | PRC | Paid-up capital of RMB125,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |
| 中山華力包裝有限公司 (Zhongshan Huali Packaging Co., Ltd.) *(note (i) & (ii))* | PRC | Paid-up capital of HK$88,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |
| 中山華勵包裝有限公司 (Zhongshan Huali Packing Co., Ltd.) *(note (i) & (ii))* | PRC | Paid-up capital of RMB1,160,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |
| 安徽華力包裝有限公司 (Anhui Huali Packaging Co., Ltd.) *(note (i) & (ii))* | PRC | Paid-up capital of HK$40,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |
| 深圳華友投資有限公司 (Shenzhen Huayou Investment Co., Ltd.) ("Huayou Investment") *(note (ii) & (iv))* | PRC | Paid-up capital of RMB3,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |
| 惠州華力包裝有限公司 (Huizhou Huali Packaging Co., Ltd.) *(note (i) & (ii))* | PRC | Paid-up capital of HK$168,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2016 are as follows: *(continued)*

| Name of company | Place of incorporation/ establishment and operation | Particular of registered, paid-up and issued capital | Percentage of ownership interest: Group's effective interest | Percentage of ownership interest: Held by the Company | Percentage of ownership interest: Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| 華勵包裝（惠州）有限公司 (Huali Packaging (Huizhou) Co., Ltd.) *(note (i) & (ii))* | PRC | Paid-up capital of HK$68,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |
| Max Surplus Limited | British Virgin Islands ("BVI") | 1 share of US$1 each | 100% | 100% | – | Investment holding |
| Forever Galaxies Limited | BVI | 1 share of US$1 each | 100% | 100% | – | Investment holding |
| Fortune Crown International Limited | BVI | 1 share of US$1 each | 100% | – | 100% | Investment holding |
| Miracle Stone Development Limited | BVI | 1 share of US$1 each | 100% | – | 100% | Investment holding |
| Grand Signal Limited | BVI | 1 share of US$1 each | 100% | – | 100% | Investment holding |
| Huali Holdings Company Limited | Hong Kong | 1,000,000 shares | 100% | – | 100% | Trading and property investment |
| OCT Investments Limited | BVI | 100 shares of US$1 each | 100% | 100% | – | Investment holding |
| Power Shiny Development Limited | Hong Kong | 1 share | 100% | – | 100% | Investment holding |
| Bantix International Limited | Hong Kong | 1 share | 100% | – | 100% | Investment holding |
| Wantex Investment Limited | Hong Kong | 1 share | 100% | – | 100% | Investment holding |
| Barwin Development Limited | Hong Kong | 1 share | 100% | – | 100% | Investment holding |
| Excel Founder Limited | Hong Kong | 1 share | 100% | – | 100% | Investment holding |
| Hanmax Investment Limited | Hong Kong | 100 shares | 100% | – | 100% | Investment holding |
| Great Tec Investment Limited | Hong Kong | 1 share | 100% | – | 100% | Investment holding |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2016 are as follows: *(continued)*

| Name of company | Place of incorporation/ establishment and operation | Particular of registered, paid-up and issued capital | Percentage of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| Verdant Forever Limited | BVI | 1 share of US$1 each | 100% | 100% | – | Investment holding |
| Regal China Enterprises Limited | Hong Kong | 1 share | 100% | – | 100% | Investment holding |
| Capital Converge Holdings Limited | BVI | 1 share of US$1 each | 100% | 100% | – | Investment holding |
| Honour Ray Limited | Hong Kong | 1 share | 100% | – | 100% | Investment holding |
| 華秦發展有限公司 Phoenix Ocean Developments Limited | BVI | 1 share of US$1 each | 100% | 100% | – | Investment holding |
| 華昌國際有限公司 City Legend International Limited ("City Legend") | Hong Kong | 1 share | 100% | – | 100% | Investment holding |
| 成都天府華僑城萬匯商城管理有限公司 (Chengdu Tianfu OCT Wanhui Management Co., Ltd.) *(note (ii) & (iii))* | PRC | Paid-up capital of RMB10,000,000 | 51% | – | 51% | Consulting and management of entertainment project |
| 成都天府華僑城公園廣場管理有限公司 (Chengdu Tianfu OCT Park Plaza Management Co., Ltd.) *(note (ii) & (iii))* | PRC | Paid-up capital of RMB10,000,000 | 51% | – | 51% | Consulting and management of entertainment project |
| 成都天府華僑城創展商業區管理有限公司 (Chengdu Tianfu OCT Chuangzhan Business District Management Co., Ltd.) *(note (ii) & (iii))* | PRC | Paid-up capital of RMB10,000,000 | 51% | – | 51% | Consulting and management of entertainment project |

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2016 are as follows: *(continued)*

| Name of company | Place of incorporation/ establishment and operation | Particular of registered, paid-up and issued capital | Percentage of ownership interest: Group's effective interest | Percentage of ownership interest: Held by the Company | Percentage of ownership interest: Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| 成都天府華僑城商業廣場管理有限公司 (Chengdu Tianfu OCT Commercial Plaza Management Co., Ltd.) *(note (ii) & (iii))* | PRC | Paid-up capital of RMB10,000,000 | 51% | – | 51% | Consulting and management of entertainment project |
| 成都天府華僑城大劇院管理有限公司 (Chengdu Tianfu OCT Theater Management Co., Ltd.) *(note (ii) & (iii))* | PRC | Paid-up capital of RMB10,000,000 | 51% | – | 51% | Venue rental, management of entertainment project |
| 成都天府華僑城湖濱商業管理有限公司 (Chengdu Tianfu OCT Lakeside Business Management Co. Ltd.) *(note (ii) & (iii))* | PRC | Paid-up capital of RMB10,000,000 | 51% | – | 51% | Consulting and management of entertainment project |
| 成都天府華僑城純水岸商業管理有限公司 (Chengdu Tianfu OCT Riverside Business Management Co., Ltd.) *(note (ii) & (iii))* | PRC | Paid-up capital of RMB10,000,000 | 51% | – | 51% | Consulting and management of entertainment project |
| 成都天府華僑城都市娛樂有限公司 (Chengdu Tianfu OCT Urban Entertainment Co., Ltd.) *(note (ii) & (iii))* | PRC | Paid-up capital of RMB10,000,000 | 51% | – | 51% | Consulting and management of entertainment project |
| 成都天府華僑城酒店管理有限公司 (Chengdu Tianfu OCT Hotel Management Co., Ltd.) *(note (ii) & (iii))* | PRC | Paid-up capital of RMB10,000,000 | 51% | – | 51% | Hotel management of entertainment project |
| Chengdu OCT *(Note (iv))* | PRC | Paid-up capital of RMB1,500,000,000 | 51% | – | 51% | Tourism and real estate development |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2016 are as follows: *(continued)*

| Name of company | Place of incorporation/ establishment and operation | Particular of registered, paid-up and issued capital | Percentage of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| 成都華僑城創盈企業管理有限公司 (Chengdu OCT Chuang Ying Enterprise Management Company Limited) ("Chengdu Chuang Ying") *(note (ii) & (iii))* | PRC | Paid-up capital of RMB10,000,000 | 51% | – | 51% | Investment holding |
| 成都市華鑫環城實業有限公司 (Chengdu Shi Huaxin Huan Cheng Enterprises Co. Ltd.) *(note (ii) & (iii))* | PRC | Paid-up capital of RMB100,000,000 | 40.80% | – | 51% | Project investment |
| OCT Shanghai Land *(note (iv))* | PRC | Paid-up capital of RMB3,030,000,000 | 50.50% | – | 50.50% | Real estate development |
| 深圳市華京投資有限公司 (Shenzhen Huajing Investment Limited) *(note (ii) & (iii))* | PRC | Paid-up capital of RMB1,000,000 | 100% | – | 100% | Investment holding and real estate development |
| 蘇州華力環保包裝科技有限公司 (Suzhou Huali Environmental Packaging Technology Co., Ltd) *(note (i) & (ii))* | PRC | Paid-up capital of US$22,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |
| 重慶華僑城置地有限公司 (Chongqing OCT Real Estate Limited) *(note (i) & (ii))* | PRC | Paid-up capital of US$200,000,000 | 100% | – | 100% | Real estate development |
| Xi'an OCT Land *(note (i) & (ii))* | PRC | Paid-up capital of US$270,000,000 | 100% | – | 100% | Property investment |

*Notes:*

(i) These companies are wholly foreign-owned enterprises established in the PRC.

(ii) The English translation of the above subsidiaries' names is for reference only. The official name of these companies is in Chinese.

(iii) These companies are limited companies established in the PRC.

(iv) The company is a sino-foreign joint venture with limited liability established in the PRC.

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

The following table shows information on the subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

| Name | Chengdu OCT | | OCT Shanghai Land | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Principal place of business | PRC | | PRC | |
| % of ownership interests/voting rights held by NCI | 49%/49% | 49%/49% | 49.5%/49.5% | 49.5%/49.5% |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 31 December:** | | | | |
| Non-current assets | 3,302,854 | 2,525,371 | 27,104 | 12,384 |
| Current assets | 1,817,760 | 3,143,986 | 8,465,328 | 11,228,535 |
| Non-current liabilities | (800,000) | (1,156,065) | (2,060,700) | (4,330,680) |
| Current liabilities | (1,580,602) | (1,874,206) | (2,079,815) | (2,590,732) |
| Net assets | 2,740,012 | 2,639,086 | 4,351,917 | 4,319,507 |
| Accumulated NCI | 1,352,288 | 1,303,976 | 2,387,466 | 2,433,094 |
| **Year ended 31 December:** | | | | |
| Revenue | 1,122,444 | 2,286,943 | 3,517,371 | 3,309,333 |
| Profit | 101,326 | 344,734 | 493,952 | 512,824 |
| Total comprehensive income | 101,326 | 344,734 | 493,952 | 512,824 |
| Profit allocated to NCI | 48,312 | 165,614 | 182,835 | 223,287 |
| Dividends paid to NCI | – | 39,783 | 228,463 | 262,654 |
| Net cash generated from operating activities | 966,112 | 515,464 | 3,136,775 | 3,075,359 |
| Net cash used in investing activities | (178,264) | (1,257,308) | (334) | (83) |
| Net cash (used in)/generated from financing activities | (420,797) | 369,248 | (3,595,941) | (2,449,122) |
| Net increase/(decrease) in cash and cash equivalents | 367,051 | (372,596) | (459,500) | 626,154 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

As at 31 December 2016, the bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to RMB1,862,830,000 (2015: RMB2,474,049,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 17. INVESTMENTS IN ASSOCIATES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Unlisted investments: | | |
| Share of net assets | 1,623,784 | 384,208 |
| Goodwill | 10,380 | 10,380 |
| | 1,634,164 | 394,588 |

Details of the Group's associates at 31 December 2016 are as follows:

| Name of associate | Place of incorporation and operation | Particulars of issued and paid up capital | Percentage of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| 西安華僑城實業有限公司 (Xi'an OCT Investment Ltd.) ("Xi'an OCT") | PRC | RMB200,000,000 | 25% | – | 25% | Property investment and property development for sale or lease |
| 北京廣盈房地產開發有限公司 (Beijing Guangying Residential Property Development Limited) ("Beijing Guangying") | PRC | RMB15,151,600 | 33% | – | 33% | Property management, interior design and construction, property development, leasing of commercial premises and project investment |
| 成都文化旅遊發展股份有限公司 (Chengdu Culture & Tourism Development Company Limited) ("CDCT Development") | PRC | RMB75,000,000 | 17% | – | 33.33% | Tourism |
| 成都體育產業有限責任公司 (Chengdu Sports Industry Co., Ltd.) ("CSI Company") | PRC | RMB75,000,000 | 25% | – | 49% | Stadium operation and management |

The following table shows information on the associates that are material to the Group. These associates are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associates.

## 17. INVESTMENTS IN ASSOCIATES *(continued)*

| Name | Xi'an OCT | | Beijing Guangying | | CDCT Development | | CSI Company |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 |
| Principal place of business | PRC | | PRC | | PRC | | PRC |
| Principal activities | Property investment and property development for sale or lease | | Property management, interior design and construction, property development, leasing of commercial premises and project investment | | Tourism | | Stadium operation and management |
| % of ownership interests/voting rights held by the Group | 25%/25% | | 33%/33% | | 33.33%/33.33% | | 49%/49% |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 31 December:** | | | | | | | |
| Non-current assets | 15,338 | 13,919 | 38,151 | 38,261 | 584,671 | 586,491 | 858,487 |
| Current assets | 692,682 | 960,055 | 3,348,411 | 5,292,569 | 184,884 | 219,377 | 789,425 |
| Non-current liabilities | – | – | (2,434) | (19,061) | (23,697) | (24,336) | (7,986) |
| Current liabilities | (387,730) | (625,013) | (1,864,148) | (5,179,770) | (23,579) | (21,231) | (4,450) |
| Net assets | 320,290 | 348,961 | 1,519,980 | 131,999 | 722,279 | 760,301 | 1,635,476 |
| Group's share of net assets | 80,072 | 87,240 | 501,593 | 43,560 | 240,735 | 253,408 | 801,384 |
| Goodwill | – | – | – | – | 10,380 | 10,380 | – |
| Group's share of carrying amount of interests | 80,072 | 87,240 | 501,593 | 43,560 | 251,115 | 263,788 | 801,384 |

| | For the year ended 31 December | | | | | For the period from 1 June 2015 to 31 December 2015 | For the period from 14 January 2016 to 31 December 2016 |
|---|---|---|---|---|---|---|---|
| | 2016 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | RMB'000 | RMB'000 |
| Revenue | 409,063 | 345,901 | 5,117,873 | 3,134,715 | 139,237 | 46,229 | 21,570 |
| Profit/(loss) | 28,099 | 6,020 | 1,387,980 | 570,495 | 36,986 | (4,386) | 7,226 |
| Other comprehensive income | – | – | – | – | – | – | – |
| Total comprehensive income | 28,099 | 6,020 | 1,387,980 | 570,495 | 36,986 | (4,386) | 7,226 |
| Dividends receivables/received from associates | 14,193 | 49,580 | – | 165,000 | 25,000 | – | – |
| Group's share of profit/(loss) | 7,025 | 1,505 | 458,033 | 188,264 | 12,327 | (1,462) | 3,541 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 17. INVESTMENTS IN ASSOCIATES *(continued)*

As at 31 December 2016, the bank and cash balances of the Group' associates in the PRC denominated in RMB amounted to RMB1,386,976,000 (2015: RMB1,334,411,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 18. INVESTMENT IN A JOINT VENTURE

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Unlisted investment: | | |
| Share of net assets | 19,544 | – |

Details of the Group's joint venture at 31 December 2016 are as follows:

| Name | Place of incorproation/ registration | Issued and paid up capital | Percentage of ownership interest/ voting power/profit sharing | Principal activities |
|---|---|---|---|---|
| 成都保鑫泉盛房地產開發有限公司 (Chengdu Baoxin Quansheng Real Estate Development Company Limited) ("Chengdu Baoxin Quansheng") | PRC | Paid-in RMB50,000,000 | 50% | Property investment and property development for sales or lease |

## 18. INVESTMENT IN A JOINT VENTURE *(continued)*

The following tables show information on the joint venture that are material to the Group. The joint venture is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the joint venture.

| Name | Chengdu Baoxin Quansheng |
|---|---|
| | 2016 |
| Principal place of business/country of incorporation | PRC/PRC |
| Principal activities | Property investment and property development for sales and lease |
| % of ownership interests/voting rights held by the Group | 50%/50% |
| | RMB'000 |
| **At 31 December:** | |
| Non-current assets | 3,662 |
| Current assets | 1,035,355 |
| Non-current liabilities | – |
| Current liabilities | (999,929) |
| Net assets | 39,088 |
| Group's share of net assets | 19,544 |
| Goodwill | – |
| Group's share of carrying amount of interests | 19,544 |
| Cash and cash equivalents included in current assets | 158,018 |
| Current financial liabilities (excluding trade and other payables and provisions) included in current liabilities | 839,741 |
| Non-current financial liabilities (excluding trade and other payables and provisions) included in non-current liabilities | – |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 18. INVESTMENT IN A JOINT VENTURE *(continued)*

| Name | Chengdu Baoxin Quansheng |
|---|---|
| | Period from 7 March 2016 to 31 December 2016 |
| | RMB'000 |
| Revenue | – |
| Depreciation and amortisation | – |
| Interest income | 133 |
| Interest expense | – |
| Income tax credit | 3,612 |
| Loss | (10,912) |
| Other comprehensive income | – |
| Total comprehensive income | (10,912) |
| Dividends received from joint ventures | – |

As at 31 December 2016, the bank and cash balances of the Group' joint venture in the PRC denominated in RMB amounted to RMB158,018,000. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 19. OTHER FINANCIAL ASSETS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Unlisted equity securities and investment funds – in the PRC | 247,320 | 4,320 |
| Financial products – in the PRC | 1,159,700 | – |
| | 1,407,020 | 4,320 |
| Analysed as: | | |
| Current assets | 1,159,700 | – |
| Non-current assets | 247,320 | 4,320 |
| | 1,407,020 | 4,320 |

Unlisted equity securities and investment funds and financial products were classified as available-for-sale financial assets and were stated at cost less impairment as they do not have a quoted market price in active market and their fair value cannot be reliably measured.

The financial products represent performance linked non-equity products issued by bank. These performance linked non-equity products will mature within one year with variable return rates indexed to the performance of underlying assets. The accrued and unpaid interest will be received upon redemption of the investment from the bank. The directors of the Company consider that the carrying value of these investments approximates their fair value at the end of the reporting period. The financial products were matured/redeemed subsequent to the end of the reporting period.

The unlisted equity securities and investment fund and financial products were denominated in RMB.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 20. OTHER LONG-TERM DEPOSITS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Deposits paid for: | | |
| – acquisition of long-term assets *(note 1)* | – | 310,000 |
| – acquisition of an associate *(note 2)* | – | 797,843 |
| | – | 1,107,843 |

*Notes:*

(1) On 9 October 2015, a wholly-owned subsidiary of the Company entered into agreements to purchase certain commercial properties situated at Xi'an, the PRC, for a total maximum consideration of approximately RMB1,590,364,000. A circular related to the transaction has been published by the Company on 25 November 2015.

As at 31 December 2015, RMB310,000,000 has been paid by the Group according to the payment terms of the agreements.

(2) On 25 December 2015, Chengdu Chuang Ying entered into an equity interest transfer and subscription agreement with 成都文化旅遊發展集團有限責任公司 (Chengdu Culture & Tourism Development Group Limited Liability Company) ("Chengdu Culture & Tourism") and CSI Company, for the acquisition of the 15% equity interests held in CSI Company by Chengdu Culture & Tourism and the capital injection of RMB651,300,000 into CSI Company at the total consideration of RMB797,842,500. Upon completion, CSI Company will be owned as to 49% by Chengdu Chuang Ying and 51% by Chengdu Culture & Tourism. As at the end of reporting period, the consideration has been fully paid according to the terms of the agreement. A circular related to the transaction has been published by the Company on 22 January 2016.

The transaction was completed on 14 January 2016.

The carrying amounts of other long-term deposits are denominated in RMB.

## 21. INVENTORIES

### (a) Inventories in the consolidated statement of financial position comprise:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Paper packaging business** | | |
| Raw materials | 48,849 | 41,261 |
| Work-in-progress | 3,492 | 1,111 |
| Finished goods | 20,583 | 22,563 |
| | 72,924 | 64,935 |
| **Comprehensive development business** | | |
| Properties held for future development and under development for sale | 5,023,246 | 9,320,070 |
| Completed properties held for sale | 5,394,633 | 3,798,083 |
| | 10,417,879 | 13,118,153 |
| | 10,490,803 | 13,183,088 |

## 21. INVENTORIES *(continued)*

**(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:**

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Carrying amount of inventories sold | 3,708,241 | 4,414,518 |
| Write down of inventories | 708 | 933 |
| Reversal of write-down of inventories | (1,132) | (1,750) |
| | 3,707,817 | 4,413,701 |

The reversal of write-down of inventories made in prior years arose due to an increase of the estimated net realisable value of certain goods as a result of a change in consumer preferences.

(c) The amount of properties held for future development and under development for sale expected to be recovered after more than one year is RMB2,569,113,000 (2015: RMB2,600,103,000). All of the other inventories are expected to be recovered within one year.

(d) As at 31 December 2016, the carrying amount of completed properties held for sale that are under floating charge for banking facilities granted to a subsidiary of the Group amounted to approximately RMB2,400,963,000 (2015: RMB242,460,000). According to the floating charge agreement, if the subsidiary does not breach the terms of the agreement, such floating charge arrangement would allow the subsidiary to sell those completed properties held for sale under its normal operating activities at reasonable consideration.

As at 31 December 2016, the carrying amount of properties held for future development and under development for sales pledged as security for banking facilities granted to a subsidiary of the Group amounted to approximately RMB921,834,000 (2015: RMB633,161,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 22. TRADE AND OTHER RECEIVABLES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Trade receivables and bills receivable: | | |
| Amounts due from fellow subsidiaries *(note 34(b))* | 29,366 | 20,548 |
| Amounts due from third parties | 272,464 | 260,632 |
| Less: allowance for doubtful debts | (9,142) | (10,753) |
| | 292,688 | 270,427 |
| Prepayments, deposits and other receivables: | | |
| Amounts due from fellow subsidiaries *(note 34(b))* | 2,590 | 6,448 |
| Amounts due from associates *(note 34(b))* | 18,489 | 83,459 |
| Amount due from an intermediate parent *(note 34(b))* | 1,213 | 1,197 |
| Amounts due from third parties | 215,216 | 746,326 |
| | 237,508 | 837,430 |
| | 530,196 | 1,107,857 |

The amounts due from an intermediate parent and fellow subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

Apart from rental deposits of RMB13,268,000 (2015: RMB13,607,000) which are expected to be recovered after one year, all of the trade and other receivables, net of impairment losses for bad and doubtful debts, are expected to be recovered within one year.

### (a) Ageing analysis

Included in trade and other receivables are trade and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period.

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Current | 282,219 | 259,291 |
| Less than 3 months past due | 9,063 | 7,861 |
| More than 3 months but less than 12 months past due | 970 | 2,022 |
| More than 12 months past due | 436 | 1,253 |
| Amount past due | 10,469 | 11,136 |
| | 292,688 | 270,427 |

Further details on the Group's credit policy are set out in note 31(a) to the consolidated financial statements.

## 22. TRADE AND OTHER RECEIVABLES *(continued)*

### (b) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Hong Kong dollars | 11,899 | 12,670 |
| US dollars | 2,080 | 1,498 |
| RMB | 516,217 | 1,093,689 |
| Total | 530,196 | 1,107,857 |

### (c) Allowance for doubtful debts of trade receivables

Allowance for doubtful debts in respect of trade receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the doubtful debt is written off against trade receivable directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| At 1 January | 10,753 | 10,368 |
| Allowance for the year | 344 | 1,468 |
| Reversal of allowance | (1,955) | (1,083) |
| At 31 December | 9,142 | 10,753 |

### (d) Trade receivable and bills receivable that are not impaired

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance 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. The Group does not hold any collateral over these balances.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 23. CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents comprise:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Cash at banks and in hand | 2,056,017 | 3,329,537 |
| Cash at bank restricted for secure the issuance of bills payable | 21,741 | 44,619 |
| | 2,077,758 | 3,374,156 |

### (b) The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| RMB | 1,866,635 | 2,637,444 |
| Hong Kong dollar | 162,232 | 649,445 |
| US dollars | 48,891 | 87,267 |
| | 2,077,758 | 3,374,156 |

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

(c) Two bank accounts of a subsidiary were charged to secure banking facilities granted to the Group.

## 23. CASH AND CASH EQUIVALENTS *(continued)*

### (d) Reconciliation of profit before tax to cash generated from operations:

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Profit before tax | | 1,282,610 | 1,366,674 |
| Adjustments for: | | | |
| Depreciation and amortisation | 8(c) | 209,761 | 203,546 |
| Interest income | 7(a) | (39,204) | (42,566) |
| Net loss/(gain) on disposal of fixed assets | 8(c) | 291 | (76) |
| Dividend income from unlisted equity investments | | – | (632) |
| Interest expense | 8(a) | 254,777 | 222,935 |
| Allowance for trade and other receivables | | 344 | 1,468 |
| Reversal of allowance for trade and other receivables | | (1,955) | (1,083) |
| Impairment losses on goodwill | | 103,170 | 119,736 |
| Share of profits of associates | | (480,926) | (188,307) |
| Share of loss of a joint venture | | 5,456 | – |
| Equity-settled share-based payment expenses | 28 | – | 684 |
| Operating profit before working capital changes | | 1,334,324 | 1,682,379 |
| Decrease in inventories | | 2,831,284 | 1,071,506 |
| Decrease in trade and other receivables | | 593,465 | 154,752 |
| Increase/(decrease) in receipts in advance | | 818,651 | (115,021) |
| (Decrease)/increase in trade and other payables | | (66,507) | 546,535 |
| Cash generated from operations | | 5,511,217 | 3,340,151 |

## 24. TRADE AND OTHER PAYABLES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Trade payables and bills payables: | | |
| Amounts due to fellow subsidiaries *(note 34(b))* | 5,382 | 4,820 |
| Amounts due to third parties | 627,992 | 1,018,533 |
| | 633,374 | 1,023,353 |
| Other payables and accruals: | | |
| Amounts due to ultimate parent *(note 34(b))* | 4 | 4 |
| Amounts due to intermediate parents *(note 34(b))* | 275,134 | 212,920 |
| Amounts due to fellow subsidiaries *(note 34(b))* | 35,139 | 27,169 |
| Amounts due to associates *(note 34(b))* | 759,169 | 379,500 |
| Amounts due to third parties | 1,142,830 | 1,269,211 |
| | 2,845,650 | 2,912,157 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 24. TRADE AND OTHER PAYABLES *(continued)*

(a) The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 31 to the consolidated financial statements.

Included in trade and other payables are trade payables and bills payable with the following ageing analysis as of the end of the reporting period:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Due within 3 months or on demand | 633,374 | 1,023,353 |

(b) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Hong Kong dollars | 277,467 | 183,888 |
| US dollars | 13,302 | 26,565 |
| RMB | 2,554,881 | 2,701,704 |
| Total | 2,845,650 | 2,912,157 |

(c) Chengdu OCT received advances amounting to RMB550,000,000 for construction of infrastructure facilities in previous years. As at 31 December 2016, the balance of the advances received deducting the carrying amount of the related infrastructure facilities was RMB167,818,000 (2015: RMB196,036,000), which was included in other payables.

## 25. RECEIPTS IN ADVANCE

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Pre-sale of properties | 1,418,278 | 603,473 |
| Others | 5,633 | 1,787 |
| | 1,423,911 | 605,260 |

## 26. BORROWINGS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Current liabilities** | | |
| Current portion of bank and other loans | 2,467,921 | 1,223,185 |
| Non-current portion of bank loans repayable on demand | 91,742 | 89,954 |
| Loans from related parties *(note 34(b))* | 1,212,000 | 1,373,752 |
| | 3,771,663 | 2,686,891 |
| **Non-current liabilities** | | |
| Bank and other loans | 1,716,975 | 2,817,516 |
| Loans from related parties *(note 34(b))* | 3,380,348 | 5,283,346 |
| | 5,097,323 | 8,100,862 |

At 31 December, the borrowings were repayable as follows:

**Bank and other loans**

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Within 1 year or on demand | 2,467,921 | 1,223,185 |
| After 1 year but within 2 years | 669,384 | 2,141,960 |
| After 2 years but within 5 years | 915,454 | 372,671 |
| After 5 years | 223,879 | 392,839 |
| | 1,808,717 | 2,907,470 |
| | 4,276,638 | 4,130,655 |

**Related party loans**

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Within 1 year or on demand | 1,212,000 | 1,373,752 |
| After 1 year but within 2 years | 1,770,248 | 1,363,923 |
| After 2 years but within 5 years | 1,610,100 | 3,919,423 |
| | 3,380,348 | 5,283,346 |
| | 4,592,348 | 6,657,098 |

The above amounts due are based on the scheduled repayment dates set out in the loan agreements and ignored the effect of any repayment on demand clause.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 26. BORROWINGS *(continued)*

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| RMB | 4,072,700 | 6,700,680 |
| Hong Kong dollars | 4,158,496 | 2,970,563 |
| US dollars | 637,790 | 1,116,510 |
| | 8,868,986 | 10,787,753 |

The average interest rates at 31 December were as follows:

| | 2016 | 2015 |
|---|---|---|
| Bank loans | 1 month HIBOR* + 0.55% to 4.75% | 1 month HIBOR* + 1.90% to 6.64% |
| Other loans | 6.38% | 6.38% |
| Related party loans | Nil to 4.75% | Nil to 5.25% |

* Hong Kong Interbank Offer Rate

Related party loans are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The bank and other loans of the Group at 31 December 2016 were secured by charge on two bank accounts of a subsidiary of the Company, pledge of certain investment properties of a subsidiary of the Company, floating charge on certain inventories classified as properties held for future development and under development for sale and completed properties held for sale and guarantees provided by the Company, certain subsidiaries and intermediate parents of the Company. Except for the above, the Group did not have secured or guaranteed bank loans at 31 December 2016.

All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 31(b) to the consolidated financial statements.

## 27. EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Shenzhen, Zhongshan, Huizhou, Shanghai, Chongqing, Anhui, Xi'an and Chengdu where the Group is required to make contributions to the Schemes at a rate ranging from 11% to 22% (2015: 11% to 22%) of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

The Group also operates a mandatory provident fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contribution to the MPF scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,500 per employee and vest fully with employees when contributed into the MPF Scheme.

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

## 28. EQUITY SETTLED SHARE-BASED TRANSACTION

### Share options granted on 3 March 2011

The Company operates a share option scheme (the "Scheme") for the purpose of providing appropriate incentives and rewards to eligible participants for their contributions or potential contributions to the Group. Eligible participants include the full-time and part-time employees, directors, consultants and advisers of the Group. The Scheme adopted by the Company on 15 February 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% 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 shares options in excess of this limit is subject to shareholders' approval in 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. 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 and 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 in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the 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 commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 28. EQUITY SETTLED SHARE-BASED TRANSACTION *(continued)*

### Share options granted on 3 March 2011 *(continued)*

The exercise price of the share options is determinable by the directors, but shall be at least the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's quotation sheet on the date of the offer of the share options; (ii) the average of the closing price of the Company's shares as stated in the 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 on the date of the offer.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

Options are forfeited if the employee ceases to be an employee of the Group.

On 3 March 2011, 2,700,000 and 27,400,000 share options were granted to directors and employees of the Group respectively under the Scheme. Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company which will be settled by physical delivery of shares. The share options shall be exercisable during a period of 5 years from the date of acceptance of the offer of the grant up to 5 years from the date of grant subject to the following vesting terms.

| **Maximum percentage of share options exercisable including the percentage of share options previously exercised** | **Period for exercise of the relevant percentage of the share options** |
|---|---|
| 30% | at any time after the expiry of 2 years from the date of grant up to 3 years from the date of grant |
| 60% | at any time after the expiry of 3 years from the date of grant up to 4 years from the date of grant |
| 100% | at any time after the expiry of 4 years from the date of grant up to 5 years from the date of grant |

The exercise price of the option granted on 3 March 2011 is HK$4.04.

## 28. EQUITY SETTLED SHARE-BASED TRANSACTION *(continued)*

### Share options granted on 3 March 2011 *(continued)*

The number and weighted average exercise prices of share options are follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Weighted average exercise price per share HK$ | Number of options '000 | Weighted average exercise price per share HK$ | Number of options '000 |
| Outstanding at the beginning of the year | 4.04 | 26,424 | 4.04 | 29,700 |
| Exercised during the year | – | – | 4.04 | (2,576) |
| Lapsed during the year | 4.04 | (26,424) | 4.04 | (700) |
| Outstanding at the end of the year | – | – | 4.04 | 26,424 |
| Exercisable at the end of the year | – | – | 4.04 | 26,424 |

The fair value of services received in return for share options granted above are measured by reference to the fair value of share options granted. The estimate of the fair value of the service received is measured based on Black-Scholes option pricing model.

#### *Inputs for measurement of grant date fair values*

The following inputs were used in the measurement of the fair values at grant date of the share-based payment plan on 3 March 2011.

| **Expected vesting date** | 3 March 2013 | 3 March 2014 | 3 March 2015 |
|---|---|---|---|
| Fair value at grant date | 1.04 | 1.51 | 1.71 |
| Share price at grant date | 4.04 | 4.04 | 4.04 |
| Exercise price | 4.04 | 4.04 | 4.04 |
| Expected volatility | 46.76% | 56.81% | 55.71% |
| Option life | 2 years | 3 years | 4 years |
| Expected dividends | 0.74% | 0.74% | 0.74% |
| Risk-free interest rate | 0.69% | 1.06% | 1.51% |

Expected volatility is estimated taking into account historic average share price volatility. Expected dividends are based on management's best estimation. The risk-free rate is referenced to the yields of Hong Kong Exchange Fund Notes. Changes in the subjective input assumptions could materially affect the fair value estimate. There was no market conditions associated with the share option granted on 3 March 2011.

The total expense recognised for the year ended 31 December 2015 and 2016 arising from the share option granted on 3 March 2011 was RMB684,000 and RMB Nil respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 29. DEFERRED TAX ASSETS/(LIABILITIES)

### (a) Deferred tax assets and (liabilities) recognised:

*(i) The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:*

| | Accounting depreciation in excess of depreciation allowances RMB'000 | Allowances RMB'000 | Accrued expenses RMB'000 | Unrealised profit RMB'000 | Tax losses RMB'000 | Receipts in advance of pre-sale of properties RMB'000 | Undistributed profits of subsidiaries and associates RMB'000 | Fair value adjustment of inventories RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Deferred tax arising from:** | | | | | | | | | |
| At 1 January 2015 | 1,518 | 5,392 | 46,409 | 39,280 | 6,000 | 23,448 | (23,625) | (235,312) | (136,890) |
| Credited/(charged) to profit or loss | 715 | 198 | 64,209 | 346 | (3,560) | (23,008) | - | 23,989 | 62,889 |
| At 31 December 2015 | 2,233 | 5,590 | 110,618 | 39,626 | 2,440 | 440 | (23,625) | (211,323) | (74,001) |
| **Deferred tax arising from:** | | | | | | | | | |
| At 1 January 2016 | 2,233 | 5,590 | 110,618 | 39,626 | 2,440 | 440 | (23,625) | (211,323) | (74,001) |
| (Charged)/credited to profit or loss | (182) | 570 | (31,765) | (15,215) | 2,393 | 37,503 | - | 23,484 | 16,788 |
| At 31 December 2016 | 2,051 | 6,160 | 78,853 | 24,411 | 4,833 | 37,943 | (23,625) | (187,839) | (57,213) |

*(ii) Reconciliation to the consolidated statement of financial position*

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Net deferred tax asset recognised in the consolidated statement of financial position | 154,251 | 160,947 |
| Net deferred tax liability recognised in the consolidated statement of financial position | (211,464) | (234,948) |
| | (57,213) | (74,001) |

### (b) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 4(z) to the consolidated financial statements, the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB8,246,000 (2015: RMB8,336,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. These tax losses may be carried forward indefinitely under current tax regulations.

## 30. STATEMENT OF FINANCIAL POSITION, CAPITAL, RESERVES AND DIVIDENDS

### (a) Statement of financial position of the Company

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | 23 | 20 |
| Investments in subsidiaries | | 417,898 | 417,898 |
| | | 417,921 | 417,918 |
| **Current assets** | | | |
| Other receivables | | 7,715,447 | 6,136,638 |
| Cash and cash equivalents | | 89,558 | 674,302 |
| | | 7,805,005 | 6,810,940 |
| **Current liabilities** | | | |
| Other payables | | 416,231 | 311,911 |
| Bank loans | | 2,004,186 | 1,135,438 |
| Related party loans | | 612,000 | 773,752 |
| | | 3,032,417 | 2,221,101 |
| **Net current assets** | | 4,772,588 | 4,589,839 |
| **Total assets less current liabilities** | | 5,190,509 | 5,007,757 |
| **Non-current liabilities** | | | |
| Bank loans | | 491,975 | 1,217,536 |
| Related party loans | | 2,114,648 | 1,288,723 |
| | | 2,606,623 | 2,506,259 |
| **NET ASSETS** | | 2,583,886 | 2,501,498 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 30(d) | 67,337 | 67,337 |
| Reserves | 30(b) | 2,516,549 | 2,434,161 |
| **TOTAL EQUITY** | | 2,583,886 | 2,501,498 |

Approved by the Board of Directors on 30 March 2017 and are signed on its behalf by:

**Yao Jun**
*Director*

**Xie Mei**
*Director*

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 30. STATEMENT OF FINANCIAL POSITION, CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (b) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | Note | Share premium RMB'000 | Contributed surplus RMB'000 | Capital reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2015 | | 28,117 | 248,970 | 32,526 | 1,585,576 | 1,895,189 |
| Shares issued under share option scheme | | 8,767 | – | (761) | – | 8,006 |
| Equity settled share-based transactions | 28 | – | – | 684 | – | 684 |
| Profit for the year | | – | – | – | 628,159 | 628,159 |
| Dividend approved and paid in respect of the previous year | 30(c) | – | – | – | (97,877) | (97,877) |
| At 31 December 2015 | | 36,884 | 248,970 | 32,449 | 2,115,858 | 2,434,161 |
| At 1 January 2016 | | 36,884 | 248,970 | 32,449 | 2,115,858 | 2,434,161 |
| Profit for the year | | – | – | – | 175,935 | 175,935 |
| Dividend approved and paid in respect of the previous year | 30(c) | – | – | – | (93,547) | (93,547) |
| At 31 December 2016 | | 36,884 | 248,970 | 32,449 | 2,198,246 | 2,516,549 |

## 30. STATEMENT OF FINANCIAL POSITION, CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (c) Dividends

*(i) Dividends payable to owners of the Company attributable to the year:*

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Final dividend proposed after the end of the reporting period of HK16.00 cents per ordinary share (equivalent RMB14.31 cents per ordinary share) (2015: HK14.00 cents per ordinary share (equivalent RMB11.73 cents per ordinary share)) | 93,354 | 76,522 |
| Final dividend proposed after the end of the reporting period of HK20.25 cents per convertible preference share (equivalent RMB18.11 cents per convertible preference share) (2015: HK20.25 cents per convertible preference share (equivalent RMB16.97 cents per convertible preference share)) | 17,386 | 16,291 |
| | 110,740 | 92,813 |

*(ii) Dividends payables to owners of the Company attributable to the previous financial year, approved and paid during the year:*

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK14.00 cents per ordinary share (equivalent RMB11.86 cents per ordinary share) (2015: HK16.00 cents per ordinary share (equivalent RMB12.65 cents per ordinary share)) | 77,348 | 82,510 |
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK20.25 cents per convertible preference share (equivalent RMB16.87 cents per convertible preference share) (2015: HK20.25 cents per convertible preference share (equivalent RMB16.01 cents per convertible preference share)) | 16,199 | 15,367 |
| | 93,547 | 97,877 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 30. STATEMENT OF FINANCIAL POSITION, CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (d) Share capital

*Authorised and issued share capital*

Authorised:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Convertible preference shares of HK$0.1 each No. of shares '000 *(note)* | Ordinary shares of HK$0.1 each No. of shares '000 | Share capital HK$'000 | Convertible preference shares of HK$0.1 each No. of shares '000 *(note)* | Ordinary shares of HK$0.1 each No. of shares '000 | Share capital HK$'000 |
| At 1 January and 31 December | 96,000 | 2,000,000 | 209,600 | 96,000 | 2,000,000 | 209,600 |

Issued and fully paid:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Convertible preference shares of HK$0.1 each No. of shares '000 *(note)* | Ordinary shares of HK$0.1 each No. of shares '000 | Share capital RMB'000 | Convertible preference shares of HK$0.1 each No. of shares '000 *(note)* | Ordinary shares of HK$0.1 each No. of shares '000 | Share capital RMB'000 |
| At 1 January | 96,000 | 652,366 | 67,337 | 96,000 | 649,790 | 67,134 |
| Shares issued under share option scheme | – | – | – | – | 2,576 | 203 |
| At 31 December | 96,000 | 652,366 | 67,337 | 96,000 | 652,366 | 67,337 |

## 30. STATEMENT OF FINANCIAL POSITION, CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (d) Share capital *(continued)*

***Authorised and issued share capital*** *(continued)*

*Note:*

Convertible preference shares of HK$0.1 each ("CPS") are non-voting shares and shall not carry any right or preference save as set out herein the Articles of Association of the Company.

According to the terms of the CPS, the CPS shall be non-redeemable, each CPS holder is entitled to a preferential dividend at a rate of 5 per cent per annum on HK$4.05, being the price at which each CPS would be initially issued ("the Preferential Dividend") pari passu with other shares ranking pari passu as regards income with the CPS but otherwise in priority to any other class of shares in the capital of the Company from time to time in issue (including the ordinary shares of the Company). The board of directors of the Company may, in its sole discretion, elect not to pay any Preferential Dividend in any given year. In the event that the Company elects not pay the Preferential Dividend in any given year, the Preferential Dividend not paid shall be extinguished and not be carried forward. The CPS shall not entitle the shareholders of the CPS thereof to any further or other right of participation in the profits of the Company.

During the period of existence of the CPS, subject to some conversion restriction, each holder of the CPS shall have the right to convert all or part of any CPSs into new ordinary shares at any time at the initial conversion price of HK$4.05 per CPS.

### (e) Nature and purpose of reserves

***(i) Share premium and contributed surplus***

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The excess of the issued price net of any issuance expenses over the par value of the shares issued has been credited to the share premium account of the Company.

***(ii) Merger reserve***

Merger reserve arose from the recognition of the remaining goodwill arising on the original acquisition of the subsidiaries as recorded in the controlling party's financial statements in the consolidated financial statements.

***(iii) Capital reserve***

Capital reserve comprises the following:

– difference between the total amount of registered capital and the amount of contributions from the owners of a subsidiary; and

– the portion of the grant date fair value of unexercised share options granted to employees, directors and consultants of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 4(w) to the consolidated financial statements.

## 30. STATEMENT OF FINANCIAL POSITION, CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (e) Nature and purpose of reserves *(continued)*

#### *(iv) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(e) to the consolidated financial statements.

#### *(v) General reserve fund*

Transfers from retained earnings to general reserve fund were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

The subsidiaries in the PRC are required to transfer 10% of their net profits, as determined in accordance with the PRC accounting rules and regulations, to general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this fund must be made before distribution of dividends to the owners.

General reserve fund can be used to make good previous years' losses, if any, and may be converted into paid up capital provided that the balance of the general reserve fund after such conversion is not less than 25% of the registered capital.

#### *(vi) Enterprise expansion fund*

The subsidiaries in the PRC are required to transfer a certain percentage of their net profits, as determined in accordance with the PRC accounting rules and regulations, to the enterprise expansion fund. The percentage of this appropriation is decided by the directors of the subsidiaries.

The enterprise expansion fund can be used for the subsidiaries' business development purposes and for working capital purposes. This fund can also be used to increase capital of the subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distribution of dividends to the owners.

## 30. STATEMENT OF FINANCIAL POSITION, CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt to capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings and trade and other payables) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2016, the Group's strategy, which was unchanged from 2015 was to maintain the adjusted net debt-to-capital ratio at a level of industry average. In order to maintain or adjust the ratio, the Group may issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The externally imposed capital requirements for the Group are: (i) in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares; and (ii) to meet financial covenants attached to the interest-bearing borrowings.

The Group receives a report from the share registrars on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year.

Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches in the financial covenants of any interest-bearing borrowing for the years ended 31 December 2016 and 2015.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business, The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below:

### (a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of receivables of mortgage sales, no credit terms will be granted to the purchasers. In addition, the Group did not provide any guarantee to the banks to secure repayment obligations of such purchasers. In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 60-120 days from the date of billing. Debtors with balances that are more than 1 month past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 1% (2015: 1%) and 1% (2015: 1%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22 to the consolidated financial statements.

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Further quantitative disclosures in respect of the Group's exposure to liquidity risk arising from trade and other receivables, trade and other payables, and borrowings are set out in notes 22, 24 and 26 respectively.

## 31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

### (b) Liquidity risk *(continued)*

For term loans subject to repayment on demand clauses which can be exercised at the bank's sole discretion, note 26 shows the cash outflow based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

The maturity analysis of the Group's financial liabilities based on the scheduled repayment dates is as follows:

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| **At 31 December 2016** | | | | |
| Trade and other payables | **2,845,650** | **–** | **–** | **–** |
| Bank and other loans | **2,602,605** | **858,479** | **918,239** | **264,655** |
| Related party loans | **1,359,312** | **1,875,255** | **1,647,132** | **–** |
| At 31 December 2015 | | | | |
| Trade and other payables | 2,912,157 | – | – | – |
| Bank and loans | 1,387,381 | 2,294,704 | 488,006 | 435,461 |
| Related party loans | 1,639,127 | 1,582,480 | 4,111,821 | – |

### (c) Interest rate risk

The Group's interest rate risk arises primarily from cash and cash equivalents and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The effective interest rate of cash and cash equivalents is 1.20% per annum (2015: 1.16% per annum). The effective interest rate of bank loans and related party loans is 4.36% per annum (2015: 5.30% per annum). The interest rates and terms of repayment of the Group's interest-bearing borrowings are disclosed in notes 26 and 34 to the consolidated financial statements.

At 31 December 2016, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB11,681,000 (2015: RMB14,137,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2015.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

### (d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars and Hong Kong dollars. The Group manages this risk as follows:

*Sensitivity analysis*

A 5 per cent weakening of the Hong Kong dollars and United States dollars against the above RMB at 31 December 2016 would have increased profit by RMB140,122,000 (2015: RMB66,027,000). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

A 5 per cent strengthening of the Hong Kong dollars and United States dollars against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Results of the analysis as presented above represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

### (e) Categories of financial instruments at 31 December 2016

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Financial assets:** | | |
| Loans and receivables (including cash and cash equivalents) | 2,588,289 | 4,473,750 |
| Available-for-sale financial assets | 1,407,020 | 4,320 |
| **Financial liabilities:** | | |
| Financial liabilities at amortised cost | 11,714,636 | 13,699,910 |

## 31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

### (f) Fair values

Except as disclosed in note 19 to the consolidated financial statements, all financial instruments are carried at amounts not materially different from their fair values as at 31 December 2016 and 2015 due to their nature of short-term maturities or floating interest rate for the long-term bank loans.

## 32. COMMITMENTS

### (a) Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Property, plant and equipment | 121,496 | 310,011 |
| Investment property | – | 1,280,364 |
| Inventories | 1,231,807 | 1,232,235 |
| | 1,353,303 | 2,822,610 |

The capital commitments in 2016 and 2015 mainly represented the commitments in connection with the planned development projects of Chengdu OCT and OCT Shanghai Land and with the remaining balance of the planned development projects of commercial properties by Xi'an OCT Land.

### (b) Lease commitments

*The Group as lessee*

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases in respect of land and properties were payable as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Within one year | 10,481 | 8,431 |
| After one year but within five years | 16,134 | 8,141 |
| After five years | 741 | 741 |
| | 27,356 | 17,313 |

The Group leases a number of land and properties under operating leases. The leases run for period from one to twenty-six years and certain leases have an option to renew at which time all the terms are renegotiated. None of the leases includes contingent rentals.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 32. COMMITMENTS *(continued)*

### (b) Lease commitments *(continued)*

*The Group as lessor*

All of the Group's investment properties are held for rental purposes. All of the properties held have committed tenants for the next 1 to 3 years.

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are receivable for commercial properties in Hong Kong and Xi'an as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Within one year | 54,965 | 5,290 |
| In the second to fifth years inclusive | 44,676 | 2,204 |
| | 99,641 | 7,494 |

## 33. CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities (2015: RMB Nil).

## 34. MATERIAL RELATED PARTY TRANSACTIONS

### (a) Transactions with other state-controlled entities:

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Transactions with other state-controlled entities include but are not limited to the following:

– Purchase of service;

– Utility supplies; and

– Financial services arrangement.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

## 34. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (a) Transactions with other state-controlled entities: *(continued)*

Having considered the potential for transactions to be impacted by related party relationships, the Group's pricing strategy, buying and approval processes and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other state-controlled entities require disclosure:

*(i) Transactions and balances with other state-controlled banks in the PRC:*

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Interest income | 11,642 | 3,989 |
| Interest expense | 71,796 | 40,003 |

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Cash at bank | 1,133,079 | 1,707,411 |
| Bank loans | 2,682,395 | 1,822,096 |

*(ii) Transactions and balances with other state-controlled entities in the PRC:*

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Sale of products | 28,190 | – |
| Purchase of services | 296,565 | 173,825 |

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Trade and other receivables | 20,430 | 10,836 |
| Trade and other payables | 63,938 | 14,029 |

For the year ended 31 December 2016 and 2015, the Group's significant transactions with other state-controlled entities being purchase of service for the development of comprehensive development business.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 34. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (b) The Group has a related party relationship with the following parties:

| Name of party | Relationship with the Group |
|---|---|
| OCT Group | Ultimate parent |
| OCT Ltd | Intermediate parent |
| Overseas Chinese Town (HK) Company Limited | Intermediate parent |
| Konka Group Company Limited, its subsidiaries and associates ("Konka Group") | Fellow subsidiary |
| Shenzhen Overseas Chinese Town Water and Electricity Co., Ltd. | Fellow subsidiary |
| Shenzhen Overseas Chinese Town Property Services Co., Ltd. | Fellow subsidiary |
| Shenzhen Overseas Chinese Town Creative Culture Hotel Co., Ltd. | Fellow subsidiary |
| Shenzhen Overseas Chinese Town International Media and Performance Co., Ltd. | Fellow subsidiary |
| Overseas Chinese Town Culture Tourism and Technology Co., Ltd. | Fellow subsidiary |
| Shenzhen OCT Hake Culture Company Limited | Fellow subsidiary |
| Shenzhen Overseas Chinese Town Entertainment Investment Company Limited | Fellow subsidiary |

## 34. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (b) The Group has a related party relationship with the following parties: *(continued)*

*Recurring transactions*

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| *Sales of goods to:* | | |
| OCT Group, its subsidiaries and associates | 55,608 | 61,735 |
| *Purchase of goods from:* | | |
| OCT Group, its subsidiaries and associates | 10,284 | 243 |
| *Interest expense and related charges paid:* | | |
| OCT Group, its subsidiaries and associates | 264,233 | 420,485 |
| *Rental received from:* | | |
| OCT Group, its subsidiaries and associates | 2,717 | 2,903 |
| *Rental paid (including management fee) to:* | | |
| OCT Group, its subsidiaries and associates | 3,815 | 2,761 |
| *Purchase of service (including entertainment facilities and service) from:* | | |
| OCT Group, its subsidiaries and associates | 36,823 | 23,612 |
| *Repayment of loans to:* | | |
| OCT Group, its subsidiaries and associates | 4,017,674 | 2,133,780 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 34. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (b) The Group has a related party relationship with the following parties: *(continued)*

***Balances with related parties***

Amounts due from/(to) related parties are as follows:

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Trade receivables from fellow subsidiaries *(note 22)* | (i) | 29,366 | 20,548 |
| Trade payables to fellow subsidiaries *(note 24)* | (ii) | (5,382) | (4,820) |
| Other receivables from associates *(note 22)* | (iii) | 18,489 | 83,459 |
| Other receivables from an intermediate parent and fellow subsidiaries *(note 22)* | (iv) | 3,803 | 7,645 |
| Other payables to ultimate parent *(note 24)* | (iv) | (4) | (4) |
| Other payables to associates *(note 24)* | (iv) | (759,169) | (379,500) |
| Other payables to intermediate parents and fellow subsidiaries *(note 24)* | (iv) | (310,273) | (240,089) |
| Loans from a fellow subsidiary *(note 26)* | (v) | (1,265,700) | (3,530,700) |
| Loans from intermediate parents *(note 26)* | (vi) | (3,326,648) | (3,126,398) |

*Notes:*

(i) The trade receivable balances are unsecured, non-interest bearing and are expected to be recovered within six months. These refer to receivables in respect of sale of paper cartons and paper boxes to related parties.

(ii) The trade payable balances are unsecured, non-interest bearing and are expected to be settled within three months. These refer to payables in respect of purchases of raw material from related parties.

(iii) Other receivables from associates included RMB33,500,000 as at 31 December 2015 are unsecured, interest bearing at 5.775% and repayable within one year and which was fully repaid during the year. The remaining amounts are unsecured, non-interest bearing, and repayable on demand.

(iv) Other receivables and payables from/to ultimate parent, intermediate parents and fellow subsidiaries, and other payables to associates are unsecured, non-interest bearing, and repayable on demand.

(v) Loan from a fellow subsidiary of RMB1,265,700,000 is bearing an interest at 4.75%.

(vi) Loans from intermediate parents of HK$600,000,000 is bearing an interest at 2.80%, RMB550,000,000 is bearing at 3.62%, USD17,140,000 is bearing at 2.50%, HK$331,132,000 is bearing at 2.50%, HK$100,000,000 is bearing at 2.10%, HK$1,200,000,000 is bearing at 3.00%, RMB600,000,000 is bearing at 4.75% and RMB62,000,000 is non-interest bearing.

## 34. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (c) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 10 to the consolidated financial statements and certain of the highest paid employees as disclosed in note 11 to the consolidated financial statements, is as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Short term employee benefits | 12,126 | 10,734 |
| Post employment benefits | 775 | 726 |
| Equity settled share option payment expenses | – | 10 |
| | 12,901 | 11,470 |

Total remuneration is included in "staff costs" (see note 8(b)).

### (d) Contributions to post-employment benefits plans

The Group participates in various defined contribution post-employment benefit plans for its employees. Further details of these plans are disclosed in note 27 to the consolidated financial statements.

## 35. NON-ADJUSTING POST STATEMENT OF FINANCIAL POSITION EVENTS

(i) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 30(c) to the consolidated financial statements.

(ii) On 28 December 2016, City Legend applied for investing in the a segregated Portfolio of New China Innovation Fund SPC in respect of invest in equity securities in a high technology company whose operation is based in the PRC and proposes to make initial public offering of its securities, an exempted segregated portfolio company incorporated in the Cayman Islands, pursuant to which City Legend subscribed 500,000 fund units of US$100 each at a consideration of US$50,000,000. On 26 January 2017, the Group received the confirmation to confirm the subscription of 500,000 fund units at a consideration of US$50,000,000.

(iii) On 6 March 2017, City Legend entered into the cornerstone investment agreement with Minsheng Education Group Company Limited ("Minsheng Education"), Citigroup Global Markets Asia Limited and Macquarie Capital Limited ("Cornerstone Investment Agreement"), pursuant to which City Legend has agreed to subscribe 332,000,000 shares of Minsheng Education at a consideration will not exceed approximately HK$509,725,257. An announcement related to the transaction has been published by the Company on 6 March 2017. On 21 March 2017, Minsheng Education announced that pursuant to the Cornerstone Investment Agreement, Minsheng Education has determined 332,000,000 shares of Minsheng Education allotted to City Legend.

(iv) On 17 March 2017, Huayou Investment entered into the limited partnership agreement with several independent third parties ("Limited Partnership Agreement") to establish a limited partnership ("Limited Partnership"), 上海利保華辰投資中心（有限合夥） (Shanghai Libao Huachen Investment Centre (LLP)), for investing in equity investment in cultural and creative industries. Pursuant to the Limited Partnership Agreement, Huayou Investment will contribute RMB30,000,000 and own as to 7.5% of the contribution in the Limited Partnership. An announcement related to the transaction has been published by the Company on 17 March 2017.

# Five-Year Financial Summary

For the year ended 31 December

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | 2016 RMB'000 | 2015 RMB'000 | 2014 RMB'000 | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|---|---|
| **Revenue** | 5,358,174 | 6,436,110 | 3,796,572 | 4,058,517 | 3,452,883 |
| **Cost of sales** | (3,712,045) | (4,414,956) | (2,550,308) | (2,578,885) | (2,267,153) |
| **Gross profit** | 1,646,129 | 2,021,154 | 1,246,264 | 1,479,632 | 1,185,730 |
| Other revenue | 44,033 | 46,717 | 55,687 | 20,374 | 14,314 |
| Other net gains/(losses) | 10,373 | (9,669) | 15,173 | 52,892 | (7,067) |
| Distribution costs | (285,833) | (284,517) | (221,459) | (206,477) | (224,926) |
| Administrative expenses | (248,930) | (249,613) | (190,093) | (200,658) | (154,420) |
| Other operating expenses | (103,855) | (122,770) | (46,958) | (8,731) | (12,627) |
| **Profit from operations** | 1,061,917 | 1,401,302 | 858,614 | 1,137,032 | 801,004 |
| Finance costs | (254,777) | (222,935) | (189,867) | (159,042) | (102,623) |
| Share of profits/(losses) of associates | 480,926 | 188,307 | (13,217) | 18,316 | 39,687 |
| Excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition of an associate | – | – | – | 5,822 | – |
| Share of loss of a joint venture | (5,456) | – | – | – | – |
| Gain on disposal of a subsidiary | – | – | 335,785 | – | – |
| **Profit before tax** | 1,282,610 | 1,366,674 | 991,315 | 1,002,128 | 738,068 |
| Income tax expenses | (665,952) | (704,731) | (457,737) | (445,731) | (347,611) |
| **Profit for the year** | 616,658 | 661,943 | 533,578 | 556,397 | 390,457 |
| **Attributable to:** | | | | | |
| Owners of the Company | 385,511 | 273,042 | 326,028 | 235,905 | 177,236 |
| Non-controlling interests | 231,147 | 388,901 | 207,550 | 320,492 | 213,221 |
| **Profit for the year** | 616,658 | 661,943 | 533,578 | 556,397 | 390,457 |
| **Earnings per share (RMB)** | | | | | |
| Basic | 0.57 | 0.40 | 0.49 | 0.41 | 0.35 |
| Diluted | 0.52 | 0.37 | 0.44 | 0.38 | 0.35 |

# Five-Year Financial Summary

As at 31 December

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 2016<br>RMB'000 | 2015<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Fixed assets | 4,221,933 | 2,640,860 | 2,675,230 | 2,703,171 | 2,654,320 |
| Intangible assets | 2,092 | 2,125 | 684 | 486 | 410 |
| Goodwill | 570 | 103,740 | 223,476 | 267,195 | 267,195 |
| Investments in associates | 1,634,164 | 394,588 | 155,611 | 186,299 | 120,621 |
| Investment in a joint venture | 19,544 | – | – | – | – |
| Other financial assets | 247,320 | 4,320 | 4,320 | 4,320 | 4,320 |
| Deferred tax assets | 154,251 | 160,947 | 122,047 | 114,579 | 97,290 |
| Other long-term deposits | – | 1,107,843 | – | – | – |
| | 6,279,874 | 4,414,423 | 3,181,368 | 3,276,050 | 3,144,156 |
| **Current assets** | | | | | |
| Inventories | 10,490,803 | 13,183,088 | 13,699,310 | 14,565,322 | 14,198,204 |
| Trade and other receivables | 530,196 | 1,107,857 | 1,213,414 | 1,549,176 | 1,270,214 |
| Other financial assets | 1,159,700 | – | – | – | – |
| Cash and cash equivalents | 2,077,758 | 3,374,156 | 3,763,918 | 1,711,357 | 1,525,861 |
| | 14,258,457 | 17,665,101 | 18,676,642 | 17,825,855 | 16,994,279 |
| **Current liabilities** | | | | | |
| Trade and other payables | 2,845,650 | 2,912,157 | 2,365,622 | 3,051,770 | 3,645,480 |
| Receipts in advance | 1,423,911 | 605,260 | 720,281 | 817,112 | 466,033 |
| Bank and other loans | 2,559,663 | 1,313,139 | 477,835 | 208,699 | 153,302 |
| Related party loans | 1,212,000 | 1,373,752 | 1,301,393 | 671,000 | 3,325,590 |
| Current tax liabilities | 421,618 | 766,481 | 644,725 | 778,130 | 317,637 |
| | 8,462,842 | 6,970,789 | 5,509,856 | 5,526,711 | 7,908,042 |
| **Net current assets** | 5,795,615 | 10,694,312 | 13,166,786 | 12,299,144 | 9,086,237 |
| **Total assets less current liabilities** | 12,075,489 | 15,108,735 | 16,348,154 | 15,575,194 | 12,230,393 |
| **Non-current liabilities** | | | | | |
| Bank and other loans | 1,716,975 | 2,817,516 | 3,044,400 | 952,481 | 964,972 |
| Related party loans | 3,380,348 | 5,283,346 | 6,661,154 | 8,238,876 | 6,140,331 |
| Deferred tax liabilities | 211,464 | 234,948 | 258,937 | 273,542 | 295,016 |
| | 5,308,787 | 8,335,810 | 9,964,491 | 9,464,899 | 7,400,319 |
| **NET ASSETS** | 6,766,702 | 6,772,925 | 6,383,663 | 6,110,295 | 4,830,074 |
| **Equity attributable to owners of the Company** | 3,026,948 | 3,035,855 | 2,998,057 | 2,743,518 | 1,749,567 |
| **Non-controlling interests** | 3,739,754 | 3,737,070 | 3,385,606 | 3,366,777 | 3,080,507 |
| **TOTAL EQUITY** | 6,766,702 | 6,772,925 | 6,383,663 | 6,110,295 | 4,830,074 |