Chen Xing Development Holdings Limited

辰興發展控股有限公司

(Incorporated in Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock code: 2286
股份代號：2286

誠以致遠，
信達天下

2016

ANNUAL REPORT
年度報告

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Bai Xuankui *(Chairman)*
Mr. Bai Wukui *(Chief executive officer)*
Mr. Bai Guohua
Mr. Dong Shiguang

Independent Non-executive Directors

Mr. Gu Jiong
Mr. Qiu Yongqing
Mr. Tian Hua

COMPANY SECRETARY

Ms. Ng Wing Shan

AUTHORIZED REPRESENTATIVES

Mr. Bai Guohua
Ms. Ng Wing Shan

AUDIT COMMITTEE

Mr. Gu Jiong *(Chairman)*
Mr. Tian Hua
Mr. Qiu Yongqing

REMUNERATION COMMITTEE

Mr. Tian Hua *(Chairman)*
Mr. Gu Jiong
Mr. Bai Xuankui

NOMINATION COMMITTEE

Mr. Bai Xuankui *(Chairman)*
Mr. Qiu Yongqing
Mr. Gu Jiong

AUDITOR

Ernst & Young

COMPLIANCE ADVISOR

TC Capital International Limited

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Bank of Communications Co., Ltd.
China Construction Bank Corporation
Bank of China Limited
Jinzhong Economic and Technological Development Zone Rural Credit Union

CORPORATE INFORMATION

LEGAL ADVISORS

As to Hong Kong law
Mayer Brown JSM

As to PRC law
Jingtian & Gongcheng

REGISTERED OFFICE

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KY1-1111, Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

2286

COMPANY WEBSITE

www.chen-xing.cn

FINANCIAL HIGHLIGHTS

— For the year ended 31 December 2016 (the "**Reporting Period**"), contracted sales amounted to RMB1,689.1 million and the corresponding contracted gross floor area ("**GFA**") of the Group amounted to approximately 326,957 square meters ("**sq.m.**"), representing an increase of 31.5% and 31.1% comparing with the same period last year, respectively;

— Revenue of the Group for the Reporting Period amounted to RMB1,082.0 million, of which RMB1,073.9 million was revenue from property development;

— Gross profit of the Group for the Reporting Period amounted to RMB336.7 million, of which RMB329.1 million was gross profit from property development;

— Net profit of the Group for the Reporting Period amounted to RMB147.0 million, of which RMB151.8 million was net profit attributable to equity holders of the Company;

— Total GFA of land bank of the Group amounted to 2,296,143 sq.m. and the average cost of land bank was RMB627.8 per sq.m. for the Reporting Period;

— Contracted average sales price (the "**Average Sales Price**") of the Group for the Reporting Period was RMB5,166.1 per sq.m.;

— Basic earnings per share of the Group for the Reporting Period was RMB0.30; and

— The Board proposed a final dividend of HK$0.3 per share.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Chen Xing Development Holdings Limited (the "**Company**"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2016.

REVIEW OF ANNUAL RESULTS FOR 2016

The year 2016 is the first full financial year after the listing of the Company, throughout which the Company has strictly complied with the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Satisfactory results was achieved as a result of good corporate governance.

In 2016, both de-stocking policy and tightening policies for certain cities with overheated real estate markets were implemented in China. In particular, a series of de-stocking measures such as adjusting down payment percentage and easing monetary policy were introduced in the first half year. By September, the control policies, including restrictions on housing purchases and loans, were reinstated in more than 20 cities across China, in order to curb the bubbles in the property market. Leveraging on the industry trend on a prudent basis, the Group focused on the development of products for home upgraders' demand and for rigid demand, achieving a significant growth in sales performance and revenue from its main businesses.

For the year ended 31 December 2016, the Group achieved contracted sales of approximately RMB1,689.1 million, representing an increase of approximately 31.5% as compared with RMB1,284.0 million in the same period last year, exceeding the contracted sales target of RMB1,465.0 million for the year by 15.3%. Contracted GFA amounted to approximately 326,957 sq.m., an increase of approximately 31.1% as compared with 249,484 sq.m. in the same period of last year.

For the year ended 31 December 2016, the Group recorded sales revenue of approximately RMB1,082.0 million, representing an increase of 12% as compared with RMB966.2 million in the same period last year. Revenue from property development was approximately RMB1,073.9 million, an increase of approximately 12% as compared with RMB958.2 million in the same period last year.

For the year ended 31 December 2016, the profit for the year attributable to owners of the parent of the Group amounted to approximately RMB151.8 million, representing a decrease of 48% as compared with approximately RMB290.1 million in the same period last year, mainly due to the substantial reduction of government grants for the year.

In respect of land bank, the Group was able to take advantage of an ideal land acquisition opportunity. On 25 October 2016, the Group successfully bid a parcel of land in Jinzhong Economic and Technology Development Zone with a site area of 28,296.2 sq.m. at a land cost of RMB2,251.12 per sq.m.

As at 31 December 2016, the Group had a land bank with a total GFA of approximately 2.3 million sq.m..

FINAL DIVIDEND

The Board recommended the payment of a final dividend for the year ended 31 December 2016 of HK$0.3 per share (the "**Final Dividend**"). The Final Dividend will be paid subject to the approval of shareholder of the Company at the annual general meeting of the Company to be convened on 31 May 2017. The dividend yield for the year is approximately 88% of the profit attributable to owners of the parent for the year.

PROSPECT FOR 2017

At the Central Economic Work Conference in December 2016, it was proposed that the development of real estate should be steady and healthy, the position that "properties are for accommodation but not for speculation" should be adhered to, as well as new urbanization as a policy in the industry should be continuously promoted. It is foreseeable that the regulations and controls on real estates in cities of real estate hotspots will continue in 2017. Meanwhile, for the continued progress of urbanization, coexistence of policies to support owners' occupation rather than investment, stimulate urbanization and curb asset bubbles will continue for a long period of time.

In 2017, the Group will continue to focus on the development of residential projects for buyers of rigid demand as well as for home upgrades. Efforts were made to strengthen the Group's profitability and competitiveness, and strive for excellence in terms of product positioning, quality and service, so as to bring the best products to our customers and realise the value of the Group.

In respect of land bank, as at 20 January 2017, the Group had successfully bid four parcels of land in Jinzhong Economic and Technology Development Zone with a total site area of 197,285.28 sq.m. at an average land acquisition cost of RMB1,787.26 per sq.m.. In 2017, the Group will continue with its prudent strategy of land acquisition and project sites selection and endeavor to acquire premium land parcels with cost competitive advantage, in order to maintain a premium quality land bank for the Group.

According to the current situation of China's real estate market and our judgement on future development trend, the Group will continue to focus on its principal business of residential properties development, and enlarge its market share with premium quality products and service. Meanwhile, the Group will also explore new development ideas, continue to improve the coverage of industry chain and seek for opportunities in other industries. In addition, the Group will look for a win-win cooperative development model and will actively seek for strategic cooperation partners. Through in-depth and comprehensive cooperation with enterprises with competitive advantage, we look forward to sharing our financial commitments and complementing each other, with an aim to achieve accelerated growth and create greater benefits for the shareholders.

CHAIRMAN'S STATEMENT

ACKNOWLEDGEMENT

Finally, I would like to express my sincerest gratitude on behalf of the Board to the Company's management and our staff for their dedication and hard work. At the same time, I would also like to thank our investors, customers and business partners for their great support and trust on the Group.

Bai Xuankui
Chairman

Jinzhong, Shanxi, the PRC
24 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2016, the amount of the Group's contracted sales were RMB1,689.1 million, representing an increase of 31.5% as compared with the same period last year. For the year ended 31 December 2016, the Group's revenue was RMB1,082.0 million, representing an increase of 12.0% as compared with the same period last year. Revenue derived from property development was RMB1,073.9 million, representing an increase of 12.0% as compared with the same period last year. For the year ended 31 December 2016, the Group's net profit was RMB147.0 million, of which net profit attributable to equity holders of the Company was RMB151.8 million.

CONTRACTED SALES

For the years ended 31 December 2015 and 2016, the amount of the Group's contracted sales were approximately RMB1,284.0 million and approximately RMB1,689.1 million, respectively, representing a growth of 31.5%. The Group's contracted total GFA for the years ended 31 December 2015 and 2016 were approximately 249,484 sq.m. and approximately 326,957 sq.m., respectively, representing a growth of 31.1% as compared with the same period last year. The Group's contracted sales from Jinzhong, Taiyuan and Mianyang by geographic location were approximately RMB48.8 million, RMB1,008.6 million and RMB631.7 million respectively, accounting for approximately 2.9%, 59.7% and 37.4% of the Group's total contracted sales respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the Group's contracted sales for the year ended 31 December 2016 by geographic location:

	Contracted Sales for 2016 (RMB million)	Contracted Sales for 2015 (RMB million)	Contracted GFA for 2016 (sq.m.)	Contracted GFA for 2015 (sq.m.)	Contracted Average Sales Price for 2016 (RMB/sq.m.)	Contracted Average Sales Price for 2015 (RMB/sq.m.)
Jinzhong						
Riverside Gardens-Heshun （和順濱河小區）	1.6	–	833	–	1,920.7	–
Upper East Gardens （上東庭院） Phase II	4.2	–	894	–	4,698.7	–
Grand International Apartments （君豪公寓）	6.0	13.1	1,401	2,727	4,272.2	4,806.8
Grand International Mall （君豪商城）	–	0.8	–	81	–	10,221.8
Shuncheng Street Underground Space （順城街地下空間）	–	11.4	–	897	–	12,682.4
Xin Xing International Cultural Town （新興國際文教城） (Phases III, IV and V)	37.0	155.6	9,428	32,084	3,926.2	4,850.7
Taiyuan						
Yosemite Valley Town – Taiyuan （龍城優山美郡） (Phase I)	477.9	809.4	84,247	145,494	5,673.1	5,660.9
Yosemite Valley Town – Taiyuan （龍城優山美郡） (Phase II)	530.7	–	90,235	–	5,881.5	–
Mianyang						
Yosemite Valley Town – Mianyang （綿陽優山美郡）	78.3	43.7	19,786	10,806	3,956.4	4,047.9
Elite Gardens （綿陽天禦）	50.3	61.8	12,825	15,101	3,919.0	4,093.0
Chang Xing Star Gardens （綿陽長興星城）	503.1	188.2	107,308	42,294	4,688.2	4,448.6
Total	1,689.1	1,284.0	326,957	249,484	5,166.1	5,146.6

Note:

Contracted sales, total contracted GFA and contracted Average Sales Price in the above table also include car parking spaces sold, if applicable.

Property Projects

The Group's property projects are divided into three categories depending on their development stage: completed properties, properties under development and properties held for future development. As some of our projects are developed successively in several phases, a single project may involve different development stages like completed, under development and held for future development.

As at 31 December 2016, the Group had a completed total GFA of 2,189,407 sq.m. and a land bank with a total GFA of 2,296,143 sq.m. comprising (i) a total GFA of 343,171 sq.m. which were completed but unsold; (ii) a total GFA of 1,277,776 sq.m. which were under development; and (iii) a total planned GFA of 675,196 sq.m. which were held for future development.

The Group selectively retains the ownership of substantially all self-developed commercial properties with a strategic value to generate sustainable and stable revenue. As at 31 December 2016, the Group had investment properties with a total GFA of 21,613 sq.m..

MANAGEMENT DISCUSSION AND ANALYSIS

Property Portfolio Summary

Intended use[1]	Completed Total GFA (sq.m.)	Under development Total GFA (sq.m.)	Held for future development Total GFA (sq.m.)
Mid-rise	786,168	—	145,023
High-rise	652,479	747,186	209,547
Townhouses	27,619	—	—
Multi-storey garden apartments	576,757	21,735	54,452
Retail Outlets	118,731	196,905	128,909
SOHO apartments	6,931	—	15,791
Hotels	—	—	22,119
Parking Spaces	17,156	304,914	84,732
Ancillary[2]	3,566	7,036	14,623
Total GFA	2,189,407	1,277,776	675,196
Attributable GFA[3]	2,150,218	1,009,721	572,004

Notes:

(1) Includes the portion of GFA held by the Group as utilities not saleable or leasable.

(2) Comprises primarily utilities which are not available for sale.

(3) Comprises the portion of the total GFA attributable to the Group based on the Group's effective interest in the relevant projects or project phases.

Completed Projects

The following table sets forth a summary of information on the Group's completed projects and corresponding project phases, if any, as at 31 December 2016:

Project	Project type	Actual completion date	Site area (sq.m.)	Completed GFA (sq.m.)	Saleable/ Leasable GFA remaining unsold (sq.m.)	GFA held for investment (sq.m.)	GFA sold (sq.m.)	Other GFA[1] (sq.m.)	Ownership interest[2] (%)
Jinzhong									
1. East Lake Mall（東湖井）	Retail outlet	July 2000	1,330	17,886	–	10,610	7,276	–	100
2. Grand International Mall & Apartments（君豪國際）	Residential/ Commercial	June 2007	7,465	65,543	10,614	8,241	46,688	–	100
3. Blossom Gardens（錦綉新城）	Residential	April 2007	5,261	39,080	–	–	39,080	–	100
4. Xin Xing International Cultural Town（新興國際文教城）									
Phase I	Residential	December 2005	5,600	24,602	–	–	24,602	–	100
Phase II	Residential/ Commercial	April 2012	17,968	93,060	161	–	92,748	151	100
Phase III	Residential/ Commercial	December 2009	255,918	545,046	3,582	–	541,464	–	100
Phase IV	Residential/ Commercial	July 2016	30,987	71,106	5,839	–	65,267	–	100
Phase V	Residential/ Commercial	July 2016	22,578	50,370	7,358	–	41,977	1,035	100
5. Upper East Gardens（上東庭院）									
Phase I	Residential/ Commercial	November 2006	19,361	47,926	–	–	47,926	–	100
Phase II	Residential/ Commercial	December 2011	24,343	75,889	1,863	–	74,026	–	100
6. Riverside Gardens – Zuoquan（左權濱河嘉園）	Residential/ Commercial	December 2007	73,035	98,545	–	–	97,990	555	100

MANAGEMENT DISCUSSION AND ANALYSIS

Project	Project type	Actual completion date	Site area (sq.m.)	Completed GFA (sq.m.)	Saleable/ Leasable GFA remaining unsold (sq.m.)	GFA held for investment (sq.m.)	GFA sold (sq.m.)	Other GFA[1] (sq.m.)	Ownership interest[2] (%)
7. SOLO Apartments (尚座公寓)	Commercial/ Complex	September 2009	2,411	9,783	312	–	9,471	–	100
8. Riverside Gardens – Heshun (和順濱河小區)									
Phase I	Residential	June 2008	60,100	62,507	–	–	62,167	340	100
Phase II	Residential	October 2012	5,898	51,217	–	–	51,217	–	100
9. Mandarin Gardens – Taigu (太谷文華庭院)	Residential/ Commercial	May 2011	30,690	51,525	–	–	51,525	–	100
10. Shuncheng Street Underground Space (順城街地下空間)	Retail outlet	August 2015	–	897	–	–	897	–	100
Taiyuan									
1. Yosemite Valley Town – Taiyuan Phase I (Southern District) (龍城優山美郡一期南區)	Residential/ Commercial	December 2014	115,050	340,099	55,934	–	284,165	–	100
2. Yosemite Valley Town – Taiyuan Phase I (Northern District) (龍城優山美郡一期北區)	Residential	November 2016	83,279	301,078	201,618	–	99,460	–	100
Mianyang									
1. Yosemite Valley Town – Mianyang (綿陽優山美郡)	Residential/ Commercial	May 2012	74,124	126,372	28,686	–	95,841	1,845	83.89
2. Elite Gardens (綿陽天璽)	Residential/ Commercial	September 2014	68,529	116,876	27,204	–	88,985	687	83.89
Total			**903,927**	**2,189,407**	**343,171**	**18,851**	**1,822,772**	**4,613**	
Total Attributable GFA[3]			**880,946**	**2,150,218**	**334,167**	**18,851**	**1,792,997**	**4,205**	

Notes:

(1) Includes the portion of GFA held by the Group as utilities not saleable or leasable.

(2) Calculated based on the Group's effective ownership interest in the respective project companies.

(3) Comprises the portion of the total GFA attributable to the Group based on the Group's effective interest in the relevant projects or project phases.

Properties under Development and Properties Held for Future Development

The following table sets forth a summary of information on the Group's projects under development and their corresponding project stages, if any, and properties held for future development as at 31 December 2016:

Project	Project Type	Site area (sq.m.)	Actual/ Estimated completion date	Under development: GFA under development (sq.m.)	Under development: Saleable/ Leasable GFA (sq.m.)	Under development: GFA pre-sold (sq.m.)	Held for future development: Planned GFA (sq.m.)	Held for future development: GFA with the land use right certificate not yet obtained (sq.m.)	Ownership interest[1] (%)
Jinzhong									
1. Phase I of Longtian Project (龍田項目一期)		**129,049**		**449,634**	**428,000**	**4,188**	**–**	**–**	**51**
Stage I	Residential/ Commercial/ Parking space	14,346	May 2017	78,954	74,203	4,188	–	–	51
Stage II	Residential/ Commercial/ Parking space	24,367	May 2017	110,725	101,386	–	–	–	51
Stage III	Residential/ Commercial/ Parking space	26,682	December 2018	126,120	121,061	–	–	–	51
Stage IV	Commercial/ Parking space	13,422	October 2017	28,819	28,819	–	–	–	51
Stage V	Commercial/ Parking space	50,232	October 2017	105,016	102,531	–	–	–	51
2. Beiliubao (北六堡)		**63,173**		**–**	**–**	**–**	**161,196**	**–**	**51**
Phase I	Residential	46,763	December 2018	–	–	–	117,039	–	51
Phase II	Commercial	16,410	December 2019	–	–	–	44,157	–	51
Taiyuan									
1. Yosemite Valley Town — Taiyuan (龍城優山美郡)		**220,161**		**531,838**	**447,674**	**109,098**	**232,693**	**–**	**100**
Phase I (Southern District)	Commercial/ Parking space	2,078	June 2017	72,399	72,325	18,863	–	–	100
Phase I (Northern District)	Commercial/ Parking space	24,726	December 2017	90,855	20,173	–	–	–	100
Phase II	Residential/Commercial	111,477	December 2018	368,584	355,176	90,235	8,893	–	100
Phase III	Residential/Commercial	60,080	December 2019	–	–	–	212,400	–	100
Phase IV	Primary school	21,800	December 2017	–	–	–	11,400	–	100

MANAGEMENT DISCUSSION AND ANALYSIS

Project	Project Type	Site area (sq.m.)	Actual/ Estimated completion date	Under development: GFA under development (sq.m.)	Saleable/ Leasable GFA (sq.m.)	GFA pre-sold (sq.m.)	Held for future development: Planned GFA (sq.m.)	GFA with the land use right certificate not yet obtained (sq.m.)	Ownership interest[1] (%)
Mianyang									
1. Chang Xing Star Gardens (綿陽長興星城)		**104,308**		**296,304**	**291,754**	**148,557**	**150,250**	**–**	**83.89**
Phase I	Residential/ Commercial	68,150	June 2017	296,304	291,754	148,557	–	–	83.89
Phase II	Residential/ Commercial	36,158	May 2019	–	–	–	150,250	–	83.89
Wuzhishan		**92,522**		**–**	**–**	**–**	**131,057**	**–**	**100**
Phase I	Commercial	28,745	December 2018	–	–	–	48,013	–	100
Phase II	Residential	23,827	October 2019	–	–	–	28,592	–	100
Phase III	Residential	18,244	October 2019	–	–	–	21,893	–	100
Phase IV	Residential	21,706	October 2020	–	–	–	32,559	–	100
Total		**609,213**		**1,277,776**	**1,167,428**	**261,843**	**675,196**	**–**	
Total Attributable GFA[2]				**1,009,721**	**910,706**	**235,859**	**572,004**	**–**	

Notes:

(1) Calculated based on the Group's effective ownership interest in the respective project companies.

(2) Comprises the portion of the total GFA attributable to the Group based on the Group's effective interest in the relevant projects or project phases.

The table below sets forth a summary of information on the Group's investment properties as at 31 December 2016:

Project	Type of property	Total GFA held for Investment (sq.m.)	Effective leased GFA (sq.m.)	Occupancy rate (%)	Rental income for the year ended 31 December 2016 (RMB million)	2015
Grand International Mall & Apartments（君豪國際）	Retail outlet	8,241	4,234	87.4	3.2	4.3
East Lake Mall（東湖井）	Retail outlet	10,610	9,584	100	1.5	1.8
Office Building of West Yingbin Street（迎賓西街辦公樓）	Retail outlet	2,762	2,762	100	3.4	2
Total		**21,613**	**16,580**	**—**	**8.1**	**8.1**

The table below sets forth a summary of the Group's land bank as at 31 December 2016 by geographical location:

	Completed	Under development	Future development	Total land bank[1]	% of total land bank	Average land cost
	saleable/leasable GFA remaining unsold (sq.m.)	GFA under development (sq.m.)	Planned GFA (sq.m.)	Total GFA (sq.m.)	(%)	(RMB/sq.m.)
Jinzhong	29,729	449,634	161,196	640,559	27.9	817.3
Taiyuan	257,552	531,838	232,693	1,022,083	44.5	393.5
Mianyang	55,890	296,304	150,250	502,444	21.9	643.5
Wuzhishan	—	—	131,057	131,057	5.7	1,192.1
Total	**343,171**	**1,277,776**	**675,196**	**2,296,143**	**100.0**	**627.8**

Note:

(1) Land bank equals the sum of (i) saleable/leasable GFA remaining unsold, (ii) total GFA under development and (iii) total planned GFA held for future development.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth a summary of the Group's land bank as at 31 December 2016 by type of property:

	Completed	Under development	Future development	Total land bank[1]	% of total land bank
	saleable/ leasable GFA remaining unsold (sq.m.)	GFA under development (sq.m.)	Planned GFA (sq.m.)	Total GFA (sq.m.)	(%)
Mid-rise	9,462	—	145,023	154,485	6.7
High-rise	237,423	747,186	209,547	1,194,156	52.0
Townhouses	2,361	—	—	2,361	0.1
Multi-storey garden apartments	38,208	21,735	54,452	114,395	5.0
Retail Outlets	39,783	196,905	128,909	365,597	15.9
SOHO apartments	113	—	15,791	15,904	0.7
Hotels	—	—	22,119	22,119	1.0
Parking spaces	15,821	304,914	84,732	405,467	17.7
Ancillary[2]	—	7,036	14,623	21,659	0.9
Total	**343,171**	**1,277,776**	**675,196**	**2,296,143**	**100.0**

Notes:

(1) Land bank equals the sum of (i) saleable/leasable GFA remaining unsold, (ii) total GFA under development and (iii) total planned GFA held for future development.

(2) Comprises primarily utilities which are not available for sale.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, the Group's revenue was RMB1,082.0 million, representing an increase of 12% as compared with RMB966.2 million for the same period last year. The increase was mainly due to the completion of phase V of Xin Xing International Cultural Town and Northern District of Phase I of Yosemite Valley Town — Taiyuan which generated a substantial increase in revenue.

The Group's Revenue from property development for the year ended 31 December 2016 was RMB1,073.9 million, representing an increase of 12% as compared with the same period last year. The increase was primarily due to an increase in revenue from property development of the Company in relation to phase V of Xin Xing International Cultural Town and Northern District of Phase I of Yosemite Valley Town — Taiyuan.

Sales and Services Cost

The Group's sales and services cost increased by 9% as compared with approximately RMB684.8 million for the year ended 31 December 2015 to approximately RMB745.3 million for the year ended 31 December 2016, which was mainly due to a corresponding increase in services cost with the increase in the sales for the year.

Gross Profit

For the year ended 31 December 2016, the Group's gross profit was RMB336.7 million, representing an increase of 20% as compared with RMB281.4 million for the year ended 31 December 2015. The Group's gross profit margin was 31% for the year ended 31 December 2016, as compared to 29% for the year ended 31 December 2015.

For the year ended 31 December 2016, the Group's gross profit of property development was RMB329.1 million, representing an increase of 20% from RMB273.3 million for the year ended 31 December 2015. The increase in the gross profit of property development of the Group was mainly due to the increase in the gross profit of property development of the projects of phase V of Xin Xing International Cultural Town and Northern District of Phase I of Yosemite Valley Town — Taiyuan for the year ended 31 December 2016.

For the years ended 31 December 2015 and 2016, the gross profit margin of property development of the Group was 29% and 31%, respectively.

Other Income and Gains

The Group's other income and gains were RMB10.2 million for the year ended 31 December 2016, as compared with RMB292.9 million for the year ended 31 December 2015, which was primarily due to a substantial reduction of government grants for the year. For the details of government grants, please refer to page 303 to 304 of the Company's prospectus dated 22 June 2015 (the "**Prospectus**").

MANAGEMENT DISCUSSION AND ANALYSIS

Net Profit Attributable to Owners of the Company

For the year ended 31 December 2016, net profit attributable to owners of the Company was RMB151.8 million, representing a decrease of 48% as compared with RMB290.1 million for the year ended 31 December 2015. The decrease in net profit attributable to owners of the Company was primarily due to the decrease in net profit of the Group as a result of substantial reduction of government grants for the year.

Change in Fair Value of Investment Properties

The Group's change in fair value of investment properties resulted from the increase in investment properties from RMB161.0 million for the year ended 31 December 2015 to RMB164.0 million for the year ended 31 December 2016, which was primarily due to the increased fair values of various investment properties.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 24% from RMB47.4 million for the year ended 31 December 2015 to RMB58.9 million for the year ended 31 December 2016, which was primarily due to the fact that more marketing efforts were put on the Group's projects, Yosemite Valley Town — Taiyuan and Chang Xing Star Gardens.

Administrative Expenses

The Group's administrative expenses decreased by 37% from RMB60.8 million for the year ended 31 December 2015 to RMB38.1 million for the year ended 31 December 2016. This was primarily due to the listing costs incurred for the listing process of the Company on the Stock Exchange in 2015.

Finance Costs

The Group's finance costs decreased by 45% from RMB6.9 million for the year ended 31 December 2015 to RMB3.8 million for the year ended 31 December 2016, which was primarily due to the repayment of loans by the Group during the Reporting Period.

Income Tax Expense

The Group's income tax expense decreased from RMB151.6 million for the year ended 31 December 2015 to RMB89.4 million for the year ended 31 December 2016, which was primarily due to the decrease in profit before tax.

Profit and Total Comprehensive Income for the Year

As a result of the foregoing, the Group's profit and total comprehensive income for the year decreased from RMB321.6 million for the year ended 31 December 2015 to RMB150.5 million for the year ended 31 December 2016.

Cash Position

As at 31 December 2016, the Group's cash and cash equivalents were RMB290.6 million, representing a decrease of 53% as compared with RMB617.2 million as at 31 December 2015.

Net Operating Cash Flow

The Group recorded a positive operating cash flow of RMB831.1 million as at 31 December 2016 while the Group recorded a positive operating cash flow of RMB204.1 million as at 31 December 2015.

Borrowings

The Group had outstanding bank borrowings of RMB281.0 million as at 31 December 2016, while the Group had outstanding bank borrowings and borrowings from a related party of RMB662.0 million and RMB80.0 million as at 31 December 2015, respectively.

Pledged Assets

Some of the Group's borrowings were secured by its properties under development, investment properties and property, plant and equipment or combinations of the above. As at 31 December 2016, the assets pledged to secure certain borrowing granted to the Group amounted to RMB1,023.7 million.

Financial Guarantees and Contingent Liabilities

In line with market practice, the Group has entered into schemes of arrangement with various banks for the provision of mortgage financing to its customers. The Group does not conduct any independent credit checks on customers, but relies on credit checks conducted by mortgagee banks. As with other property developers in the PRC, the banks usually require the Group to guarantee its customers' obligation to repay the mortgage loans on the properties. The guarantee period normally lasts until the time when the bank receives the strata-title building ownership certificate (分戶產權證) from the customer as security of the mortgage loan granted. As at 31 December 2016, the Group's outstanding guarantees in respect of the mortgages of its customers amounted to RMB2,454.7 million.

The Group had no other material contingent liabilities as at 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing Ratio

As at 31 December 2016, based on the Group's total debt of approximately RMB281.6 million and total equity of approximately RMB1,062.0 million, the gearing ratio of the Group was 26.5% (31 December 2015: approximately 66.1%). The decrease in gearing ratio was mainly due to an decrease in total debt during the year.

Foreign Currency Risk

The Group operates mainly in the PRC. Most of its revenue and expenses are settled in RMB, which is translated into foreign currencies at the exchange rate fixed by the People's Bank of China. Due to the effects of various factors, such as the changes in the political and economic conditions in the PRC, the exchange rate of RMB against US dollar and HK dollar may fluctuate. The Board expects that the fluctuation of RMB exchange rate will not have material and adverse effects to the Group. The Group does not have hedging policy in respect of the foreign currency risk.

Significant Investments and Material Acquisitions and Disposals

As at 31 December 2016, the Group's investment in financial products amounted to approximately RMB493.81 million, with a gain of approximately RMB2.54 million for the year ended 31 December 2016.

On 25 October 2016, Chenxing Real Estate Development Co., Ltd. (辰興房地產發展有限公司) ("**Chen Xing**"), an indirect subsidiary of the Company, succeeded in the bid for a land parcel located in Jinzhong Economic and Technology Development Zone with an aggregate site area of 28,296.2 sq.m. at the listing-for-sale for an aggregate consideration of RMB63.7 million. Chen Xing had received the confirmation letter of completion in relation to successful bidding for transfer of land use rights on 25 October 2016. The Group is preparing to enter into land transfer contracts for completion of land acquisition.

Save as disclosed in the Prospectus and mentioned above, the Group did not have any material acquisitions and disposals and significant investments during the year ended 31 December 2016.

Future Plans for Material Investments or Capital Assets

The Group will continue to invest in property development projects and acquire suitable land parcels in selected cities, if it thinks fit. It is expected that internal resources and bank borrowings will be sufficient to meet the necessary funding requirements. Save as disclosed in the Prospectus and mentioned above, the Group did not have any future plans for material investments as at the date of this report.

Employees and Remuneration Policies

As at 31 December 2016, the Group had 184 employees. As at 31 December 2016, the Group incurred employee costs of approximately RMB18.4 million. Remuneration for the employees generally includes salary and performance-based quarterly bonuses. As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans of the municipal and provincial governments, including housing provident funds, pension, medical, maternity, occupational injury and unemployment benefit plans.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Bai Xuankui (白選奎), aged 64, is one of the founders and controlling shareholders of the Group. He is also an executive Director, chairman of the Board and chairman of the nomination committee of the Company as well as the chairman of Chen Xing. Mr. Bai Xuankui is also a director of White Empire (PTC) Limited, one of the controlling shareholders of the Company. Mr. Bai Xuankui has over 20 years of experience in property development, management and operation.

Mr. Bai Xuankui founded the Group in 2004 and since then has been leading the Group to engage in property development. Before founding the Group, Mr. Bai Xuankui worked at Xinxing Construction Ltd. (新興建築公司) where he successively served as assistant manager and manager from April 1983 to May 1992. In July 1993, he was appointed as deputy director of Yuci City Enterprise Management Bureau (榆次市城區企業管理局). From April 1998 to October 2001, he was appointed by People's Congress of Yuci City as commissioner of Yuci City Industrial Economic Commission (榆次市工業經濟委員會). From December 2001 to October 2010, he served as the chairman of Jinzhong City Yuci Region Federation of Industry & Commerce (晉中市榆次區工商業聯合會). From June 2007 to January 2015, Mr. Bai Xuankui had also been the vice chairman of Jinzhong City Federation of Industry & Commerce (晉中市工商業聯合會).

Mr. Bai Xuankui obtained a postgraduate certificate in master of business administration (工商管理碩士研究生文憑) issued by Tianjin University of Finance & Economics (天津財經學院), the PRC in November 2000. In December 2008, he obtained the qualification as a senior engineer from Shanxi Township Enterprise Engineering Series Senior Technical Position Evaluation Committee (山西鄉鎮企業工程系列高級技術職務評審委員會).

Mr. Bai Wukui (白武魁), aged 53, is the brother of Mr. Bai Xuankui and an executive Director and the chief executive officer of the Company. He is also the vice chairman and general manager of Chen Xing, executive director and general manager of Wuzhishan Chenxing Real Estate Development Co., Limited. (五指山辰興房地產開發有限公司), an indirect subsidiary of the Company, executive director of Sichuan Chenxing Real Estate Development Co., Limited (四川辰興房地產發展有限公司), an indirect holding company of the Company and the chairman of Jinzhong Development Zone Real Estate Development Co., Ltd. (晉中開發區房地產開發有限公司), an indirect holding company of the Company.

Mr. Bai Wukui is also one of the founders of the Group. He has been the chief executive officer of the Group since December 2004. He was appointed as a director of the Group in February 2015. Mr. Bai Wukui is also a director of White Legend Global Holdings Limited.

Before founding the Group, Mr. Bai Wukui served as director and chief executive officer of Yuci Xinxing Real Estate Development Co., Ltd. (榆次新興房屋開發有限公司) from January 1997 to August 2007.

Mr. Bai Wukui obtained a professional certificate in civil engineering specialty (long distance learning) (工民建專業文憑（函授）) issued by Shanxi Radio & TV University (山西廣播電視大學), the PRC in July 1990 and later obtained a postgraduate certificate in master of business administration (工商管理碩士研究生文憑) issued by Tianjin University of Finance & Economics (天津財經學院), the PRC in November 2000. He obtained the qualification as an engineer from Shanxi Province Engineering Series Intermediate Professional Technical Position Evaluation Committee (山西省工程系列中級專業技術職務評審委員會) and Jinzhong Township (Privately-owned) Enterprise Engineering Series Intermediate Technical Position Evaluation Committee (晉中鄉鎮（民營）企業工程系列中級技術職務評審委員會) in February 2001 and December 2008, respectively. In February 2010, he obtained the qualification as a senior engineer from Shanxi Township Industrial Engineering Series Senior Engineer Evaluation Committee (山西鄉鎮工業工程系列高級工程師職務評審委員會).

Mr. Bai Guohua (白國華), aged 40, is the son of Mr. Bai Xuankui and executive Director and executive vice president of the Company. He is also an executive director of Jinzhong Chenxing Commercial Management Co., Limited (晉中辰興商業管理有限責任公司), an indirect subsidiary of the Company, and executive director and general manager of Shanxi Chenxing Property Services Co., Limited (山西辰興物業服務有限公司), an indirect subsidiary of the Company. Mr. Bai Guohua joined the Group in December 2004 and successively served as associate administration manager, secretary of the board and assistant general manager. Mr. Bai Guohua was appointed as Director of the Company on 3 November 2014 and executive vice president of the Group in February 2016. Mr. Bai Guohua is also a director of White Dynasty Global Holdings Limited, one of the controlling shareholders of the Company.

Mr. Bai Guohua obtained a professional certificate in law (法學專業文憑) issued by Shanxi Politics and Law Institute for Administration (山西政法管理幹部學院), the PRC in July 1998. He then undertook and completed an undergraduate degree in law from Shanxi University (山西大學), the PRC, in June 2001. Mr. Bai Guohua is furthering his studies and is taking an executive master of business administration degree from Arizona State University, the United States.

Mr. Dong Shiguang (董世光), aged 59, is an executive Director of the Company and a director of Chen Xing.

Mr. Dong joined the Group in December 2005 and successively served as manager in branch offices of Chen Xing (Heshun) and Chen Xing (Taigu). He served as the executive director of Sichuan Chenxing Real Estate Development Co., Limited (四川辰興房地產發展有限公司), a majority-owned subsidiary of the Group, from December 2007 to February 2012. Mr. Dong was appointed as a Director of the Group in November 2007. He was appointed as a Director of the Company in February 2015 and later was redesignated as an executive Director in June 2015. Mr. Dong is also a director of Honesty Priority Global Holdings Limited.

Mr. Dong obtained the qualification as an engineer granted by Shanxi Province Engineering Series Intermediate Professional Technical Position Evaluation Committee (山西省工程系列中級專業技術職務評審委員會) in December 2000 and then later as a senior engineer granted by Shanxi Township Enterprise Engineering Series Senior Technical Position Evaluation Committee (山西鄉鎮企業工程系列高級技術職務評審委員會) in February 2010.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gu Jiong (**顧炯**), aged 44, is an independent non-executive Director, the chairman of the audit committee and members of the remuneration committee and the nomination committee of the Company. He was appointed as an independent non-executive Director of the Company on 12 June 2015. From July 1995 to April 2004, Mr. Gu worked at Ernst & Young's Shanghai office and was the senior manager of the audit department when he left the firm. He subsequently joined UT Starcom Inc. (stock code: UTSI), the shares of which are listed on Nasdaq from April 2004 to December 2009. Mr. Gu then served as the chief financial officer of BesTV New Media Co., Ltd. (stock code: 600637), the shares of which are listed on Shanghai Stock Exchange from January 2010 to September 2013. Since September 2013, Mr. Gu has been the chief financial officer of CMC Capital Partners (華人文化基金), an investment fund specialized in media and entertainment investments in China and globally. He has been an independent non-executive director of Xinming China Holdings Limited (stock code: 2699), a company listed on the Stock Exchange since 8 June 2015.

Mr. Gu obtained a bachelor degree in financial management from Fudan University (復旦大學), the PRC in July 1995. He has been a non-practicing member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since April 2004.

Mr. Tian Hua (**田華**), aged 53, is an independent non-executive Director, the chairman of the remuneration committee and a member of the audit committee of the Company.

Mr. Tian joined Shanxi Zhongyu Certified Public Accountants (山西中宇會計事務所) in August 1998 as the chief accountant until December 2008. From December 2008 to present, he has been working at Shanxi He Pu Hua Certified Public Accountants (山西禾譜華會計事務所) as an accountant.

Mr. Tian obtained a professional certificate in accountancy issued by Shanxi Finance & Taxation College (山西財政稅務專科學校), the PRC in July 2001. He has been a practicing member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since May 1999.

Mr. Qiu Yongqing (**裘永清**), aged 51, is an independent non-executive Director and members of the audit committee and the nomination committee of the Company. Mr. Qiu was appointed as the chairman of Shanxi Jintai Venture Capital Co., Ltd. (山西金泰創業投資有限公司) in April 2004 and vice chairman and general manager of Shanxi Small & Medium Enterprises Financing Guarantee Co., Ltd. (山西中小企業發展融資擔保有限公司) in May 2012. He was also appointed as member of the Jinzhong City's Committee of Chinese People's Political Consultative Conference (晉中市政協委員) in April 2005, senior expert jointly appointed by Shanxi and Jinzhong Municipal Committee (山西省及晉中市委) in December 2011 and vice chairman of Taiyuan Professional Manager Association (太原職業經理人協會) in March 2014.

Mr. Qiu obtained a certificate in engineering issued by Shanxi Radio & TV University (山西廣播電視大學), the PRC in July 1989. He then undertook and completed a course in business administration from School of Management of Xian Jiaotong University (西安交通大學管理學院) in July 2000. He obtained a master of business administration degree from Arizona State University, the United State, in May 2011. In April 2013, Mr. Qiu obtained the qualification as a senior economist granted by Department of Human Resources and Social Security of Shanxi Province (山西省人力資源和社會保障廳).

SENIOR MANAGEMENT

Mr. Jiao Wuli (焦悟理), aged 55, is the deputy general manager in engineering of the Group. He joined the Group in March 2008, responsible for managing the design, procurement, bidding and construction cost of the Group's projects. He was later promoted to the deputy general manager in engineering of Chen Xing in January 2011.

Before joining the Group, Mr. Jiao worked at Shanxi Third Construction Engineering Co., Ltd. (山西省第三建築工程公司) as technical deputy director from February 1990 to January 1994, and deputy manager and chief engineer from January 1994 to March 1996. In March 1996, he joined Shanxi Construction Engineering (Group) Corporation (山西省建築工程（集團）總公司) and worked at its Wuhan Branch as deputy manager and deputy chief engineer.

Mr. Jiao obtained a professional certificate in civil engineering specialty (工業與民用建築專業文憑) from Taiyuan Institute of Technology (太原工業學院), the PRC in December 1981. He obtained the qualification as a senior engineer granted by Shanxi Construction Profession Senior Engineer Technical Position Evaluation Committee (山西省建設工程專業高級工程師技術職務評審委員會) in April 2004.

Mr. Wang Binzhou (王斌周), aged 39, is the deputy general manager in administration of the Group. Mr. Wang joined the Group in March 2009 and later he served as the general counsel from March 2009 to January 2010 and administrative officer of the board and secretary of the chairman from January 2010 to February 2012. He was promoted to the deputy general manager in administration in February 2012.

Before joining the Group, Mr. Wang worked at Shanxi Shenghe Law Offices (山西聖合律師事務所) as a lawyer from May 2007 to March 2009.

Mr. Wang undertook and completed the bachelor degree in law from Tianjin School of Commerce (天津商學院), the PRC in July 1998 and then master degree in law from Tsinghua University (清華大學), the PRC in July 2008. In December 2002, Mr. Wang obtained the qualification as a legal advisor granted by Department of Personnel of Shanxi Province (山西省人事廳) and then was qualified to practice law in the PRC in March 2004.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Bai Aijing (**白皚晶**), aged 39, is nephew of Mr. Bai Xuankui and Mr. Bai Wukui and the chief financial officer of the Group.

Mr. Bai Aijing joined the Group in March 2004 and served as the accounting officer from March 2004 to March 2011 and officer of asset management centre from March 2011 to January 2013. He was later promoted to chief financial officer in January 2013.

Mr. Bai Aijing obtained a professional certificate in enterprise management from Beijing Metallurgy Cadre College (北京冶金幹部學院), the PRC in July 1998. He then obtained a professional certificate in accountancy granted by Finance Commission of Yuci Region (榆次區財政局) in March 2011.

Mr. Zhao Haijun (**趙海軍**), aged 41, is the deputy general manager of operation of the Group.

Mr. Zhao joined the Group in December 2005 as the marketing manager and later he was promoted to the deputy general manager of operation in February 2009.

Mr. Zhao obtained a professional certificate in project cost and management, which is an online learning course, issued by Harbin Institute of Technology (哈爾濱工業大學), the PRC in July 2010. He obtained the qualification as an engineer granted by Jinzhong Township (Private-owned) Enterprise Engineering Series Intermediate Technical Position Evaluation Committee (晉中鄉鎮（民營）企業工程系列中級技術職務評審委員會) in December 2008. He then obtained the qualification as a registered real estate appraiser granted by Finance Department of Shanxi Province (山西省財政廳) in April 2005.

COMPANY SECRETARY

Ms. Ng Wing Shan (**吳詠珊**), is the company secretary of the Company. She was appointed as company secretary of the Company on 6 February 2015.

Ms. Ng is a fellow member of The Hong Kong Institute of Charted Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Ng is the assistant vice president of SW Corporate Services Group Limited, primarily responsible for assisting listed companies in professional company secretarial work. She has over 10 years of professional experience in the company secretarial field.

DIRECTORS' REPORT

The Board is pleased to present the annual report and audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL BUSINESS

The Company is an investment holding company. Its principal subsidiaries are engaging in property development operations in China, and focusing mainly on the development of residential and, to a less extent, commercial property development projects.

An analysis of the revenue generated by the principal business of the Group for the year ended 31 December 2016 is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on page 238.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

For detailed discussions on business review of the year and future developments of the Group, please refer to the chairman's statement on pages 166 to 168. The Group's financial risk management objectives and policies are set out in note 38 to the consolidated financial statements.

The Group's analysis of its annual performance using financial key performance indicators is set out in management discussion and analysis on pages 169 to 183.

PERMITTED INDEMNITY CLAUSE

For the year ended 31 December 2016, pursuant to the Articles of Association of the Company ("**Articles of Association**"), all legal costs, expenses, fees, losses, damages and expenditures incurred during the performance of duties by Directors of the Company may be indemnified by the assets and profits of the Company.

DIRECTORS' REPORT

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group continued to use new environmental construction materials in order to meet or stay ahead of environmental standards. The Group kept on strengthening its management of construction sites of on-going projects by controlling and reducing dust and noise pollutions. The Group has implemented energy saving and water conservation measures persistently in office premises, and continued the internal recycling plans for consumables (such as paper, etc.) to reduce the impact of operations on the environment and natural resources.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group always upholds the importance of understanding and compliance with the requirements of laws and regulations, non-compliance with the relevant laws and regulations may render the Group's normal operation. The Group has a designated legal department to exercise comprehensive management and control over the Company's sustainable and legal operations. Through effective communication, good working relationship has been maintained with various regulatory authorities.

MAJOR RISKS AND UNCERTAINTIES

The Group's businesses are mainly located in Jinzhong and Taiyuan in Shanxi Province, Mianyang in Sichuan Province and Wuzhishan in Hainan Province in China. As the development target of the Group is to further penetrate the markets in Shanxi Province, central and western China and southern China, the operations of the Group are highly dependent on the performance of the real estate markets in these areas.

The real estate market in China has been growing rapidly over the years. However, as the concerns over people's purchasing power and sustainability of growth continue to mount in the market, and the divergence of property markets between ultra-large cities in the eastern region and small— and medium-sized cities in the central and western regions become more intense, there may be uncertainties which impact the business of the Group.

RELATIONSHIP WITH SIGNIFICANT STAKEHOLDERS

The Group's success is also dependent on the support of the employees, customers, suppliers and shareholders of the Group.

EMPLOYEES

The Group's employees are regarded as the most important and most valuable assets of the Group. The most important objective of the Group's human resources management is to reward the employees with outstanding performance through proper compensation and benefits and implementation of a comprehensive appraisal and evaluation system. With proper training and development, the Company's employees are provided with opportunities for career development and promotions.

CUSTOMERS

Most of the Group's customers are home purchasers. The Group strives to develop high quality residential properties for the improvement of the customers' quality of living. In order to fulfill the Group's commitment for enhancing customer satisfaction persistently, the Group ensures to adopt the best concepts and use products of the highest qualities in development projects. In terms of customer service, the Group has always focused on the overall qualities of frontline staff by providing them with regular training to ensure consistently high service quality.

SUPPLIERS

The service providers of the Group are mainly construction companies and suppliers of construction materials. The Group has good cooperation relationship with all the suppliers, and has signed strategic cooperation agreements with a number of high quality suppliers to ensure higher quality in construction work and materials supplied. The Group upholds the win-win principle to achieve common growth together with the suppliers.

SHAREHOLDERS

One of the important corporate objectives of the Group is to maximize the value created for shareholders. The Group continues to promote business developments for the sustainable growth in profits. The Group will strive to deliver stable dividends for the shareholders, after considering the adequacy of capital, liquidity conditions and requirements for business development of the Group.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$0.3 per share, or an aggregate amount of HK$150.0 million (equivalent to RMB134.2 million), for the year ended 31 December 2016 to the shareholders whose names appeared on the register of members of the Company on Thursday, 8 June 2017. Subject to the Company's shareholders' approval at the forthcoming annual general meeting of the Company (the "**AGM**") to be convened on 31 May 2017, the Final Dividend will be paid on or around Monday, 19 June 2017.

DIRECTORS' REPORT

ANNUAL GENERAL MEETING

The AGM will be convened on Wednesday, 31 May 2017, a notice of which will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 25 May 2017 to Wednesday, 31 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all share transfer documents together with relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 24 May 2017 for registration.

To ascertain the shareholders' entitlement to the final dividend, subject to the shareholders' approval at the AGM, the register of members of the Company will be closed from Tuesday, 6 June 2017 to Thursday, 8 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to receive the final dividend, all share transfer documents together with relevant share certificate must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 5 June 2017 for registration.

SHARE CAPITAL

There were no movements in the Company's share capital during the year.

EQUITY-LINKED AGREEMENT

The Company has not entered into any equity-linked agreement.

PROPERTY, PLANT AND EQUIPMENT

The details of changes in property, plant and equipment of the Group for the year ended 31 December 2016 are set out in the note 13 to the consolidated financial statements.

INVESTMENT PROPERTIES

The details of changes in the investment properties of the Group for the year ended 31 December 2016 are set out in the note 14 to the consolidated financial statements.

RESERVES

The details of changes in the reserves of the Group for the year ended 31 December 2016 are set out in the consolidated statement of changes in equity on pages 241 of this annual report.

DISTRIBUTABLE RESERVES

Distributable reserves of the Group amounted to RMB517.6 million for the year ended 31 December 2016 (Distributable reserves amounted to RMB578.8 million for the year ended 31 December 2015).

BANK LOANS AND OTHER BORROWINGS

The details of bank loans and other borrowings of the Group as at 31 December 2016 are set out in the note 27 to the consolidated financial statements.

DIRECTORS AND SERVICE CONTRACTS OF DIRECTORS

The Directors for the year ended 31 December 2016 and up to the date of this annual report are as follows:

Executive Directors

Mr. Bai Xuankui (Chairman)
Mr. Bai Wukui
Mr. Bai Guohua
Mr. Dong Shiguang
Mr. Zhang Yongcheng (resigned on 8 June 2016)

Independent Non-executive Directors

Mr. Gu Jiong
Mr. Tian Hua
Mr. Qiu Yongqing

Mr. Zhang Yongcheng resigned as executive Director with effect from 8 June 2016 due to retirement.

DIRECTORS' REPORT

Biographies of all Directors and senior management are set out in the section headed "Biographies of Directors and Senior Management" herein.

Pursuant to the requirements of Article 84(1) of the Articles of Association, Mr. Bai Wukui, Mr. Dong Shiguang and Mr. Gu Jiong shall retire by rotation at the AGM, and being eligible, will offer themselves for re-election.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual confirmation from each of the independent non-executive Directors on his independence pursuant to Rule 3.13 of the Listing Rules. The Company considered all of the independent non-executive Directors were independent persons during the year ended 31 December 2016.

SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years and may be terminated subject to the relevant terms of the service contracts.

Each of the independent non-executive Directors has entered into appointment letters with the Company for a term of three years and may be terminated subject to the relevant terms of the appointment letters.

None of the Directors has entered into a service contract with the Company which are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the year ended 31 December 2016, none of the Directors or connected entities of the Directors and controlling shareholders had direct or indirect material interest in any transaction, arrangement or contract which was material or significant to the business of the Group and the Company or any of its subsidiary was a party thereof.

USE OF PROCEEDS

The amount of net proceeds received from the offering of new shares in global offering of the Company was approximately HK$239.4 million (after deducting underwriting fees and relevant expenses). For the year ended 31 December 2016, the Company allocated approximately HKD23.9 million for working capital and other general corporate purposes, and approximately RMB101 million for development of Phase I of Longtian Project. For details concerning the Longtian Project, please refer to the section headed "Phase I of Longtian Project" of the Prospectus on pages 171 to 174. The remaining proceeds are utilized for the purposes consistent with those set out in the Prospectus.

MANAGEMENT CONTRACTS

For the year ended 31 December 2016, no contract was or had been signed in relation to the management and administrative matters of the Company's entire business or any material portion thereof.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the amount of purchases from the largest supplier of the Group represented approximately 30.9% of the total purchases of the Group, and the amount of purchases from the five largest suppliers of the Group represented 56.8% of the total amount of purchases of the Group.

For the year ended 31 December 2016, the amount of sales to the largest customer of the Group represented 1.0% of the total sales of the Group, and the amount of sales to the five largest customers of the Group represented 1.6% of the total sales of the Group during the year.

None of the Directors or any of their close associates or any shareholders of the Company has any interest in the five largest customers and suppliers of the Group.

INTERESTS AND/OR SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, the following Directors and chief executives of the Company had interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or required to be entered into the register mentioned under

DIRECTORS' REPORT

Section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") of Appendix 10 to the Listing Rules:

Long Positions in the Shares of the Company

Name of Director/ chief executive	Capacity/ Nature of interest	Number of shares held	Percentage of shareholdings (Note 1)
Mr. Bai Xuankui ("**Mr. Bai**") (Note 2)	Settlor of a discretionary trust	289,120,000	57.82%
Mr. Bai Wukui (Note 3)	Interest of a controlled corporation	54,120,000	10.82%
Mr. Bai Guohua (Note 4)	Beneficiary of a discretionary trust	289,120,000	57.82%
Mr. Dong Shiguang ("**Mr. Dong**") (Note 5)	Interest of a controlled corporation	9,023,117	1.80%

Notes:

1. As at 31 December 2016, the total number of issued shares of the Company was 500,000,000 shares.

2. The shares were held by White Dynasty Global Holdings Limited ("**White Dynasty BVI**") in the capacity of a legal beneficial owner, White Dynasty BVI was a corporate controlling shareholder of the Company, and White Dynasty BVI was owned by White Empire (PTC) Limited ("**White Empire BVI**") in the capacity of a legal beneficial owner. White Empire BVI was the trustee of the family trust established for the benefit of Mr. Bai Guohua, Ms. Cheng Guilian ("**Mrs. Bai**", the spouse of Mr. Bai), and other beneficiaries to be nominated by the trustee from time to time. Since Mr. Bai was the settlor of the family trust, Mr. Bai was deemed to be interested in the shares held by White Dynasty BVI under the SFO.

3. The shares were held by White Legend Global Holdings Limited ("**White Legend BVI**") in the capacity of a legal beneficial owner, White Legend BVI was wholly-owned by Mr. Bai Wukui in the capacity of a legal beneficial owner. Since Mr. Bai Wukui held the entire issued share capital of White Legend BVI, Mr. Bai Wukui was deemed to be interested in the shares held by White Legend BVI under the SFO.

4. The shares were held by White Dynasty BVI in the capacity of a legal beneficial owner. Since (i) Mr. Bai Guohua was a beneficiary of the family trust; and (ii) Mr. Bai Guohua was a person acting in accordance with the instructions from Mr. Bai, the settlor of the family trust, at all times, hence Mr. Bai Guohua was deemed to be interested in the shares held by White Dynasty BVI under the SFO.

5. The shares were held by Honesty Priority Global Holdings Limited ("**Honesty Priority BVI**") in the capacity of a legal beneficial owner. Since Mr. Dong owned 34.87% shares in Honesty Priority BVI, Mr. Dong was deemed to be interested in the shares held by Honesty Priority BVI under the SFO.

Long Positions in the Shares of Associated Corporations of the Company

Name of Director/ chief executive	Name of associated corporation	Capacity/ Nature of interest	Number of shares held	Percentage of shareholdings
Mr. Bai	White Dynasty BVI (Note 1)	Settlor of a discretionary trust	10,000	100%
Mr. Bai	White Empire BVI (Note 1)	Settlor of a discretionary trust		100%
Mr. Bai Guohua	White Dynasty BVI (Note 1)	Beneficiary of a discretionary trust	10,000	100%
Mr. Bai Guohua	White Empire BVI (Note 1)	Beneficiary of a discretionary trust		100%

Note:

1. White Dynasty BVI was a corporate controlling shareholder of the Company and was wholly-owned by White Empire BVI in the capacity of a legal beneficial owner. White Empire BVI was a company limited by guarantee incorporated in the British Virgin Islands and the trustee of the family trust which was held for the benefits of Mr. Bai Guohua, Mrs. Bai and other beneficiaries to be nominated by the trustee from time to time, and Mr. Bai was the settlor of the family trust.

As at 31 December 2016, save as disclosed above, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or required to be recorded in the register mentioned under Section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At any time during the year or as at the end of the year, none of the Company, its holding company or any of their subsidiaries or fellow subsidiaries had participated in any arrangement which enabled the Directors to gain benefits through the purchasing of shares or debentures of the Company or any other corporations.

DIRECTORS' REPORT

INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY HELD BY SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, to the best knowledge of the Company and the Directors, the following persons (not being Directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company, which were required to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered into the register mentioned under Section 336 of the SFO:

Name of shareholder	Capacity/Nature of interest	Number of shares held	Percentage of shareholdings (Note 1)
White Dynasty BVI (Note 2)	Beneficial owner	289,120,000	57.82%
White Empire BVI (Note 2)	Interest of a controlled corporation	289,120,000	57.82%
White Legend BVI (Note 3)	Beneficial owner	54,120,000	10.82%
Mrs. Bai (Note 4)	Beneficiary of a discretionary trust	289,120,000	57.82%
Ms. Zhang Lindi (Note 5)	Interest of spouse	289,120,000	57.82%
Ms. Gan Xuelin (Note 6)	Interest of spouse	54,120,000	10.82%
Hwabao Trust Co., Ltd.	Trustee	51,800,000	10.36%

Notes:

1. As at 31 December 2016, the Company had a total number of 500,000,000 shares in issue.

2. White Dynasty BVI was wholly-owned by White Empire BVI, hence White Empire BVI was deemed to be interested in the shares owned by White Dynasty BVI under the SFO. White Empire BVI was the trustee for the family trust established for the benefit of Mr. Bai Guohua, Mrs. Bai and other beneficiaries to be nominated by the trustee from time to time. Mr. Bai was the settlor of the family trust.

3. White Legend BVI was wholly-owned by Mr. Bai Wukui in the capacity of a legal beneficial owner. Since Mr. Bai Wukui had a controlling interest in White Legend BVI, Mr. Bai Wukui was deemed to be interested in the shares held by White Legend BVI under the SFO.

4. Mrs. Bai was the wife of Mr. Bai. Since Mrs. Bai was a beneficiary of the family trust, Mr. Bai was deemed to be interested in the shares held by White Dynasty BVI under the SFO.

5. Ms. Zhang Lindi was the wife of Mr. Bai Guohua. Since Mr. Bai Guohua was a beneficiary of the family trust, Mr. Bai Guohua was deemed to be interested in the shares held by White Dynasty BVI under the SFO, therefore, Ms. Zhang Lindi was deemed to be interested in the shares held by White Dynasty BVI under the SFO.

6. Ms. Gan Xuelin was the wife of Mr. Bai Wukui. Since Mr. Bai Wukui was deemed to be interested in the shares held by White Legend BVI under the SFO, therefore, Ms. Gan Xuelin was deemed to be interested in the shares held by White Legend BVI under the SFO.

As at 31 December 2016, save as disclosed above, the Company was not aware of any other persons (other than Directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company, which were required to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered into the register mentioned under Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

The details of related party transactions of the Group for the year ended 31 December 2016 are set out in the note 35 to the consolidated financial statements. These transactions do not constitute connected transactions or continuing connected transactions with in the meaning of Chapter 14A of the Listing Rules or are fully exempt from complying with the requirements of approval by shareholders, annual review and all disclosure requirements.

NON-COMPETITION UNDERTAKING

Each of Mr. Bai Xuankui, Mr. Bai Guohua, Ms. Cheng Guilian, White Dynasty Holdings Limited and White Empire (PTC) Limited (the "**Controlling Shareholders**") had entered into a Deed of Non-competition in favour of the Company. During the period from the date of signing the Deed of Non-competition until 31 December 2016, the Company or the Controlling Shareholders did not make any recommendation for any project or new business opportunity related to the Restricted Business. For definitions of "**Deed of Non-competition**", "**Restricted Business**" and "**New Business Opportunity**", please refer to the Prospectus.

All the Controlling Shareholders have confirmed in writing with the Company that they have complied with the undertakings under the Deed of Non-competition during the year ended 31 December 2016.

The independent non-executive Directors have also reviewed the compliance with the undertakings under the Deed of Non-competition by the Controlling Shareholders during the year ended 31 December 2016 and confirmed that there was no breach of undertakings in the Deed of Non-competition by any of the Controlling Shareholders.

DIRECTORS' REPORT

ANNUAL REVIEW AND DISCLOSURE REQUIREMENT OF DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in this annual report, for the year ended 31 December 2016, none of the Directors or their respective associates engaged in or had any interest in any business which was or might be in competition with the business of the Group.

REMUNERATION POLICY

The Group has established the Remuneration Committee to review the remuneration policy and structure of the Group for the remuneration of all Directors and the senior management of the Group after considering the operating results of the Group, individual performance and contribution, time commitment and responsibilities of the Directors and senior management as well as the remuneration paid by comparable companies.

The Group has formulated and implemented remuneration policies to motivate employees and, in turn, support the long-term development of the Group. Such policies are consistent with the business strategies and development objectives of the Group, which will be helpful in attracting and retaining professional employees with the relevant knowledge and skills.

SHARE OPTION SCHEME

The Company has adopted a share option scheme ("**Share Option Scheme**") on 12 June 2015. Since the adoption of the Share Option Scheme, the Company has not granted any share options under the Share Option Scheme.

A summary of the key terms of the Share Option Scheme is set out below. The terms of the Share Option Scheme have complied with the requirements of Chapter 17 of the Listing Rules.

(a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Share Option Scheme will provide Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives: (i) motivate Eligible Participants to optimize their performance efficiency for the benefit of the Group; and (ii) attract and retain or otherwise maintain on-going business relationship with Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) Eligible Participants

The Board may, at its discretion and subject to such conditions as it thinks fit, offer to grant share options to the following persons (collectively, the "**Eligible Participants**"):

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any Directors (including executive, non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries;

(iii) any advisers (professional or otherwise), consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and

(iv) related entities who, in the sole opinion of the Board, will contribute or have contributed to the Company or any of its subsidiaries.

(c) Total number of shares that may be issued

The maximum number of shares that may be issued pursuant to the Share Option Scheme is 50,000,000 shares, equivalent to 10% of the issued shares of the Company after completion of the global offering and 10% of the issued shares of the Company as at the date of this annual report.

(d) Maximum number of options granted to any individual

The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) to each Eligible Participant in any 12-month period shall not exceed 1% of the shares in issue of the Company.

Any further grant of options in excess of the above limit shall be subject to separate approval by the shareholders in a general meeting (such Eligible Participants and their associates are required to abstain from voting), and shall comply with other requirements prescribed under the Listing Rules and/or other applicable statutory regulations or rules.

(e) Maximum number of options granted to connected persons

Any grant of options to a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

DIRECTORS' REPORT

If the Board determines to grant options to a substantial shareholder or any independent non-executive Director or any of their respective associates, the maximum number of shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each substantial shareholder or any independent non-executive Director or any of their respective associates in any 12-month period shall not exceed 0.1% of the shares in issue of the Company or such other percentage as may be from time to time provided under the Listing Rules, and the aggregate value calculated based on the closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange as at each date of grant shall not exceed HK$5,000,000 or such other amount as may be from time to time provided under the Listing Rules.

If any further grant will exceed the above limit on options, such further grant shall be subject to a separate approval by the shareholders in a general meeting (such Eligible Participants and their associates shall abstain from voting), and shall comply with other requirements prescribed under the Listing Rules and/or other applicable statutory regulations or rules.

(f) When the options may be exercised

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date.

The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

(g) Required minimum holding period before the exercise of an option

There is no minimum holding period required before an option may be exercised.

(h) Acceptance of offer

Upon acceptance of an option, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

(i) Basis for the determination of the exercise price

The share subscription price in respect of any specific option granted under the Share Option Scheme shall be determined at the sole discretion of the Board on the relevant price, but such price shall not be less than the highest of the following:

(i) the official closing market price of the shares as stated in the daily quotation sheet of the Stock Exchange as at the date of grant (must be on a day when the Stock Exchange is open for dealings in securities trading business);

(ii) the average official closing market price of the shares as stated in the daily quotation sheets of the Stock Exchange on five business days immediately before the date of grant; and

(iii) par value of the shares.

(j) Residual term of the Share Option Scheme

The Share Option Scheme shall remain valid until 11 June 2025. Unless its early termination is approved by the general meeting of shareholders or by the Board of the Company, the Share Option Scheme shall remain valid and effective for a period of 10 years from the date when it was adopted.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2016, the Company or any of its subsidiaries did not conduct any purchase, sale or redemption of any listed securities of the Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of Cayman Islands that will oblige the Company to offer new shares to existing shareholders on a pro-rata basis.

CORPORATE GOVERNANCE

The Company is dedicated to maintain a high standard in corporate governance practice. For year ended 31 December 2016, the Company has complied with the code provisions under the Corporate Governance Code contained in Appendix 14 to the Listing Rules. Information about the corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 205 to 219 of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors have confirmed that as at the date of this annual report, the Company has maintained a sufficient public float of our shares as required under the Listing Rules.

DIRECTORS' REPORT

SUBSEQUENT EVENT

On 20 January 2017, Chen Xing succeeded in the bid at the listing-for-sale for four land parcels located in Jinzhong Economic and Technology Development Zone with an aggregate site area of 197,285,.28 sq.m. for an aggregate consideration of RMB352.6 million. Chen Xing had received confirmation of completion in relation to successful bidding for transfer of land use rights on 20 January 2017. The Group is preparing to enter into land transfer contracts for the completion of land acquisition.

Save as disclosed in this annual report, no disclosable material event has occurred in the Company or the Group subsequent to 31 December 2016.

AUDITOR

The Group's consolidated financial statements for the year ended 31 December 2016 have been audited by Ernst & Young Certified Public Accountants.

Ernst & Young Certified Public Accountants will retire and be eligible for re-appointment at the Annual General Meeting. The resolution on the re-appointment of Ernst & Young Certified Public Accountants as the auditor of the Company will be submitted to the Annual General Meeting for approval. There has not been any change of auditors since the listing of the Company.

RECOMMENDATION TO CONSULT PROFESSIONAL TAX ADVICE

If the shareholders of the Company are not sure about the tax effect on the purchase, holding, sale, trading or exercise of any rights attached to the relevant shares of the Company, they are recommended to consult independent experts for advice.

By Order of the Board
Chen Xing Development Holdings Limited
Bai Xuankui
Chairman

Jinzhong, Shanxi, China, 24 March 2017

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICE

The Company is always committed to maintain high standard of corporate governance with a view to assuring the conduct of management of the Company and protecting the interests of the shareholders. The Company is fully aware that transparency and accountability in corporate governance are crucially important to the shareholders. The Board considers that sound corporate governance can maximize shareholders' interests.

The Company has adopted the code provisions under the CG Code as set out in Appendix 14 to the Listing Rules as its corporate governance code of practices. For the year ended 31 December 2016, the Company has complied with the CG Code.

The Company shall review and strengthen its corporate governance practice from time to time, and strengthen internal control with the help of its PRC and Hong Kong legal advisor and compliance advisor, so as to ensure compliance with the Corporate Governance Code.

THE BOARD

Duties

The Board is responsible for the operation and planning of the Group's development. It oversees the business, strategic decision-making and performance of the Group and timely understand all relevant information of the Group's business. The Board has delegated the day-to-day management and operation powers and duties to the senior management. For overseeing particular areas of affairs of the Company, the Company has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee (together, the "**Board Committees**"). The Board has delegated to the Board Committees duties as set out in their terms of reference. Some of the independent non-executive Directors have certain qualifications and relevant management experience on financial accounting and corporate governance aspects and provide professional opinions to the Board.

All the Board members should ensure that they shall exercise their duties with integrity and comply with applicable laws and regulations, which is all times in the interests of the Company and its shareholders.

CORPORATE GOVERNANCE REPORT

Composition of the Board

The Board comprises of four executive Directors (namely Mr. Bai Xuankui, Mr. Bai Wukui, Mr. Bai Guohua, and Mr. Dong Shiguang) and three independent non-executive Directors (namely Mr. Gu Jiong, Mr. Tian Hua and Mr. Qiu Yongqing). The biographical details of each Director are set out in the "Biographical Details of Directors and Senior Management" section of this annual report.

Save as disclosed in this annual report, to the best knowledge of the Company, none of the Board members have any financial, business, family, or any other substantial relationships.

For the year ended 31 December 2016, the Board has complied with the requirements under Rule 3.10(1) and Rule 3.10(2) of the Listing Rules that at least three independent non-executive Directors must be appointed and at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. In addition, the number of independent non-executive Directors amounts to one-third of the Board members, which complies with the requirement under Rule 3.10A of the Listing Rules.

The Company has received confirmations from the independent non-executive Directors of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considered all the independent non-executive Directors as independent.

All the Directors (including the independent non-executive Directors) have broad and valuable business experience, expertise and professional skills for the effective operation of the Board. The independent non-executive Directors are appointed as members of the Audit Committee, Remuneration Committee, and Nomination Committee.

Pursuant to code provision A.6.6 of the Corporate Governance Code, each Director should disclose to the issuer at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. The identity of the public companies or organisations and an indication of the time involved should also be disclosed. All Directors have consented to disclose to the Company for the above provision on a timely basis.

Chairman and Chief Executive Officer

The chairman and chief executive officer of the Company are Mr. Bai Xuankui and Mr. Bai Wukui, both being executive Directors, respectively. The separation of roles of Chairman and chief executive officer enables balance of power and delegations, preventing the job responsibilities be concentrated on either one of them. The chairman is responsible for leadership work and the effective operation of the Board, whilst the chief executive officer is delegated for the effective management of business of the Group. The separation of responsibilities between the chairman and the chief executive officer is clearly defined and set out in written form.

Directors' Training and Continuous Professional Development

All the Board members understand the responsibilities as directors and the operation and business activities of the Company. The Company is responsible for arranging induction programmes, continuous training and professional development for the Directors, and providing funding of such. Accordingly, the Company shall arrange induction programmes for any newly appointed Director before formal appointment, ensuring that he/she has certain understanding on the business and operations of the Group and be fully aware of the responsibilities and obligations set out in the Listing Rules and relevant laws and regulations.

The Company arranges seminars regularly, providing the Directors with the development and amendment updates of the Listing Rules and other relevant laws and regulations. The Directors also regularly receive updates on the performance, conditions and outlook of the Company to enable the Board to work as a whole and the Directors to exercise each of their own duties. The Company updates and provides written training materials about Directors' roles, functions and duties from time to time, and encourages Directors to read such materials. Each Director has to submit a training record each year.

During the year, all Directors (namely Mr. Bai Xuankui, Mr. Bai Wukui, Mr. Bai Guohua, Mr. Dong Shiguang, Mr. Gu Jiong, Mr. Tian Hua and Mr. Qiu Yongqing) attended formal and all-rounded training. The Company has received each Director's training record for the year.

CORPORATE GOVERNANCE REPORT

Appointment and Re-election of Directors

Nomination Committee is responsible for reviewing Board composition and monitoring the appointment, re-election and succession planning of Directors. Procedures and process for the appointment, re-election and removal of Directors are set out in the Articles of Association.

Each executive Director entered into service contract with the Company for a term of three years. The service contract can be terminated according to its terms.

Each independent non-executive Director entered into a letter of appointment with the Company for a term of three years. The service contract can be terminated according to its terms.

None of the Directors has entered into a service contract with the Group which is not terminable within one year without compensation (other than statutory compensation).

Pursuant to Article 84(1) of the Articles of Association, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

According to the requirement under Article 84(1) of the Articles of Association, Mr. Bai Wukui, Mr. Dong Shiguang and Mr. Gu Jiong shall retire by rotation at the Annual General Meeting and are eligible and offer themselves for re-election.

Board Meetings

The Company has adopted the practice of holding at least four regular Board meetings each year (approximately once in a quarter). Notice of regular Board meetings shall be distributed to all the Directors at least fourteen days before the meeting. Discussion matters shall be set out in the agenda of each meeting. Notices of other Board committee meetings shall normally be delivered according to the requirements of the terms of reference. Meeting agenda and relevant meeting papers shall be sent to the Directors and Board committee members at least 3 days before the meeting to ensure that they have adequate time for the review of the documents. If the Directors and the Board committee members are unable to attend the meetings, they shall be notified of the discussion matters and provide their views to the chairman of meeting before the meeting. Minutes of Board meetings and Board committee meetings shall be kept by the Company, a copy of which shall be circulated to the Directors and relevant Board committee members for reference and for records.

Minutes of Board meetings and Board committee meetings shall record the matters considered and the decisions reached in the meetings, including the questions raised by the Directors and the Board committee members. Draft of the minutes of Board meetings and Board committee meetings shall be provided to Directors and relevant Board committee members in reasonable time for consideration and comments. The Directors are entitled to inspect the minutes of Board meetings and Board committee meetings.

During the year, the Company held four Board meetings and one general meeting. Attendance of Directors at such meetings is set out in the following table:

Director	Number of Board meetings attended/held during his tenure	Number of general meetings attended/held during his tenure
Mr. Bai Xuankui	4/4	1/1
Mr. Bai Wukui	4/4	1/1
Mr. Bai Guohua	4/4	1/1
Mr. Dong Shiguang	4/4	1/1
Mr. Zhang Yongcheng [Note]	1/1	1/1
Mr. Gu Jiong	4/4	1/1
Mr. Tian Hua	4/4	1/1
Mr. Qiu Yongqing	4/4	1/1

Note: Mr. Zhang Yongcheng resigned as executive Director on 8 June 2016.

The Chairman of the Board convened a meeting with the independent non-executive Directors without the presence of the executive Directors during the year.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, all Directors confirmed that they have complied with the Model Code for the year ended 31 December 2016.

CORPORATE GOVERNANCE REPORT

DELEGATION OF THE BOARD

The Board retains the decision making rights for major affairs of the Company, including approving and monitoring all policy affairs, overall strategy and budget, internal control and risk management systems, major transactions (especially those with possible conflict of interests), financial information, appointment of directors and other major financial and operational matters. The Directors may seek independent professional advice when exercising their duties, the cost of which is borne by the Company. The Directors are also encouraged to conduct independent consultation with the senior management of the Company.

The Group's day-to-day management, administration and operation are delegated to the senior management of the Company. The Board regularly reviews the functions and duties delegated to the senior management of the Company.

CORPORATE GOVERNANCE FUNCTIONS

The Board understands that corporate governance is a shared responsibility among all Directors. The Board has delegated the corporate governance functions to the Audit Committee, including:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

During the year, the Audit Committee has exercised the aforementioned corporate governance functions, and has reported to the Board.

BOARD COMMITTEES

Nomination Committee

The Nomination Committee comprises of three members, including one executive Director, Mr. Bai Xuankui (chairman), and two independent non-executive Directors, Mr. Qiu Yongqing and Mr. Gu Jiong. Therefore, the majority of members are independent non-executive Directors. The major duties of the Nomination Committee include:

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

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

(iii) make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors; and

(iv) assess the independence of independent non-executive Directors.

The Nomination Committee shall assess the candidates or the current candidates according to standards, including integrity, experience, skills, time commitment and dedication, and ability to exercise duties and responsibilities.

The terms of reference of the Nomination Committee is posted on the websites of the Stock Exchange and the Company.

In order to enhance the effectiveness of the Board and corporate governance standards, the Board shall maintain a balance of composition of executive and non-executive Directors (including independent non-executive Directors) to enable high level independence of the Board for effective demonstration of independent judgment. During the year, the Nomination Committee held one meeting. Attendance of Nomination Committee members at such meeting is set out in the following table:

Committee members	Number of meetings attended/held during his tenure
Mr. Bai Xuankui	1/1
Mr. Qiu Yongqing	1/1
Mr. Gu Jiong	1/1

CORPORATE GOVERNANCE REPORT

During the year, the Nomination Committee has reviewed the structure, size and composition of the Board, made recommendation to the Board on the appointment of Directors, and assessed independence of the independent non-executive Directors.

The Company has adopted a board diversity policy and set measurable objectives. The Nomination Committee evaluates the balance and composition of the Board members' skills, experience and diverse points of views. In selection of candidates, the Nomination Committees considers different points of views, including but not limited to age, cultural and educational background, professional and industrial experience, skills, knowledge, ethnicity, other criteria which is crucial to the business of the Company, and the candidate's strengths and contributions to the Board. The Board shall review such measurable objectives from time to time, so as to ensure its appropriateness and the progress towards such objectives.

Remuneration Committee

The Remuneration Committee comprises of three members, including two independent non-executive Directors, Mr. Tian Hua (chairman) and Mr. Gu Jiong, and one executive Director, Mr. Bai Xuankui. Therefore, the majority of members are independent non-executive Directors. Major duties of the Remuneration Committee include:

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

(ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(iii) to make recommendations to the Board on the remuneration of non-executive Directors;

(iv) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(v) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group.

The terms of reference of the Remuneration Committee is posted on the websites of the Stock Exchange and the Company.

During the year, the Remuneration Committee held one meeting. Attendance of Remuneration Committee members at such meeting is set out in the following table:

Committee members	Number of meetings attended/held during his tenure
Mr. Tian Hua	1/1
Mr. Gu Jiong	1/1
Mr. Bai Xuankui	1/1

The Remuneration Committee has reviewed the remuneration policy and structure for all Directors and senior management of the Company, reviewed the remuneration of individual Directors and senior management and made recommendations to the Board.

Audit Committee

The Audit Committee comprises of three independent non-executive Directors, including Mr. Gu Jiong (chairman), Mr. Tian Hua and Mr. Qiu Yongqing.

The major duties of the Audit Committee include:

(i) to monitor and review financial statements, annual report and account, interim report and quarterly report (if any)), and review material comments regarding financial reporting as set out therein, and consider any material or unusual items put forward by the internal control department or the external auditor before presenting relevant documents to the Board;

(ii) to review the relationship with the external auditor according to the duties of the auditor, their fees and engagement terms, and to make recommendations to the Board on the appointment, re-appointment and removal of auditor; and

(iii) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and relevant procedures, including resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions.

The terms of reference of the Audit Committee is posted on the websites of the Stock Exchange and the Company.

CORPORATE GOVERNANCE REPORT

For the year, the Audit Committee held two meetings. Attendance of Audit Committee members at such meeting is set out in the following table:

Committee members	Number of meetings attended/held during his tenure
Mr. Gu Jiong	2/2
Mr. Tian Hua	2/2
Mr. Qiu Yongqing	2/2

During the year, the Audit Committee reviewed the annual results of the Group for the year ended 31 December 2015, the interim results of the Group for the six months ended 30 June 2016, the financial reporting systems, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programmes and budget for accounting and financial reporting functions), risk management systems and process. The Board has not deviated from the proposals of the Audit Committee on selection, appointment, resignation and removal of external auditor.

The Audit Committee also reviewed the annual results of the Group for the year ended 31 December 2016, and the audit report prepared by the external auditor related to accounting issues and material findings during the audit process.

REMUNERATION OF DIRECTORS AND FIVE EMPLOYEES WITH HIGHEST REMUNERATION

Details of the remuneration of the Directors and five employees with the highest remuneration for the year are set out in note 8 and note 9 to the consolidated financial statements, respectively.

REMUNERATION OF SENIOR MANAGEMENT

During the year, the remuneration of senior management of the Group fell within the following bands:

	Number of individuals
HK$500,000 or below	4
HK$500,001 to HK$1,000,000	0
HK$1,000,001 to HK$2,000,000	0

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2016, which gives a true and fair view of the financial position of the Group.

The Board is supplied with sufficient explanation and information by the management to enable the Board to make an informed assessment of financial and other information put before it for approval.

The Board is not aware of any material uncertainties relating to events or factors that may cast significant doubt upon the Group's ability to operate as a going concern.

The statement by the Company's auditors about their reporting responsibilities on the financial statements is set out in Independent Auditor's Report on page 231 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for monitoring the risk management and internal control systems, and ensuring the proper maintenance and effectiveness of the risk management and internal control systems. The Board also oversees the management in the design, implementation and monitoring of the risk management and internal systems, and the management provides the Board with confirmation on the effectiveness of the relevant systems. The Board considers that such systems aim at managing, instead of eliminating, the risk of failure in performing business objectives, and merely giving reasonable but not absolute guarantee to the absence of unmaterial fact, statement or loss.

The Board is responsible for the risk management and internal control system. It performs a review on the effectiveness of the risk management and internal control systems at least once a year. The Company has established an internal control department, which plays an important role in monitoring the risk management and internal control systems of the Group. Through the Audit Committee, the Board will continuously review the effectiveness of the risk management and internal control systems, including monitoring procedures for finance, operations, compliance, risk identification and assessment, and implementation of risk response measures. The audit procedures include:

(1) the internal audit department of the Group assessing the relevant systems;

(2) the management ensuring the maintenance of effective risk management and internal control systems; and

(3) the external auditors discovering internal control problems when carrying out statutory audits.

CORPORATE GOVERNANCE REPORT

The management and internal control department, supported by the Board, are responsible for the design, implementation and monitoring of the risk management and internal systems, as well as reporting to the Board and the Audit Committee.

During the year, the management and internal control department reported to the Board and the Audit Committee periodically in relation to the adequacy and effectiveness of internal controls, including but not limited to any indications of failings or material weaknesses in the control procedures.

The following key processes are used to identify, evaluate and manage the Group's significant risks:

(1) the Board and the Audit Committee establish the targets for risk management;

(2) internal control department identifies the risks, which may potentially impact the normal operation of the Company, and analyses the and evaluates the significance of such risks;

(3) the management, internal control and various departments assess the adequacy of existing controls, determine and adopt plans to mitigate the risks;

(4) the management monitors the risk mitigation activities; and

(5) reports regularly to the Board and the Audit Committee.

The Company has adopted policies and procedures for assessing the effectiveness of the risk management and internal control systems, and requiring the management to provide confirmation to the Board periodically on the effectiveness of the systems. The Board has also established a set of reporting procedures, whereby employees, customers, suppliers and other cooperative partners can report any actual or suspected occurrence of improper conduct involving the Group, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner.

The Company strictly regulates the handling and dissemination of inside information to ensure such information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

During 2016, the management and internal control department have performed extensive assessments on special risks faced by the Group and conducted a review on the effectiveness of the risk management and internal control systems of the Group. The Board and the Audit Committee were not aware of any areas of concern that would have material impact on the Group's financial position or operating results, and considered the risk management and internal control systems to be generally effective and adequate, including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting and financial reporting functions.

NON-COMPETITION UNDERTAKING

The Controlling Shareholders being Mr. Bai Xuankui, Mr. Bai Guohua, Ms. Cheng Guilian, White Dynasty Holdings Limited and White Empire (PTC) Limited have confirmed in writing with the Company that they have complied with the undertakings under the Deed of Non-competition during the period from the date of signing the Deed of Non-Competition until 31 December 2016.

The independent non-executive Directors have also reviewed the compliance with the undertakings under the Deed of Non-competition by the Controlling Shareholders during the year ended 31 December 2016. The independent non-executive Directors confirmed that there was no breach of undertakings in the Deed of Non-competition by any of the Controlling Shareholders.

AUDITOR'S FEES

For the year ended 31 December 2016, the audit services fees payable to its external auditor, Ernst & Young, amounted to RMB1.7 million. No non-audit services fee was incurred.

COMPANY SECRETARY

To maintain sound corporate governance and ensure the compliance with the Listing Rules and applicable Hong Kong laws, the Company engaged Ms. Ng Wing Shan, the assistant vice president of SW Corporate Services Group Limited (company secretarial services provider), to act as the company secretary of the Company, and her primary contact person at the Company is Mr. Bai Guohua, an executive Director.

According to the requirements of Rule 3.29 of the Listing Rules, Ms. Ng Wing Shan took no less than 15 hours of relevant professional training during the year.

SHAREHOLDERS' COMMUNICATIONS AND INVESTOR RELATIONS

The Company believes that effective communication with shareholders is very important for strengthening investor relations and allowing investors to understand the Group's business, performance and strategy. The Company is also convinced of the importance of timely and non-selective disclosure of Company information for shareholders and investors to make informed investment decisions.

The annual general meeting of the Company provides opportunities for shareholders to communicate with the Directors directly. Chairman of the Board and chairmen of each Board committee will attend the annual general meeting and answer questions raised by the shareholders. The external auditor will also attend the annual general meeting and answer questions regarding audit work, preparation of auditor's report and its content, accounting policies and independence of auditor.

CORPORATE GOVERNANCE REPORT

To promote effective communication, the Company has adopted the shareholders' communication policy, with a view to establishing relationship and communication between the Company and its shareholders. A website (www. chen-xing.cn) is also established. The Company shall post on its website updated information related to its business operations and development, financial information, corporate governance practices and other information for the review of the public.

SHAREHOLDERS' RIGHTS

For the protection of shareholders' benefits and rights, the Company shall propose separate resolutions for each question (including the election of each Director) at the annual general meeting.

All resolutions proposed at a general meeting shall be voted on by poll according to the Listing Rules, the results of which shall be posted on the websites of the Stock Exchange and the Company after the date of the general meeting in due course.

CONVENING OF EXTRAORDINARY GENERAL MEETING AND THE PROPOSAL OF RESOLUTIONS

Pursuant to Article 58 of the Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) 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 Board shall be reimbursed to the requisitionist(s) by the Company. The procedures for shareholders to convene an extraordinary general meeting are set out in the document entitled "Procedures for Shareholders to Convene a General Meeting", which is posted on the Company's website.

The Articles of Association and the laws of the Cayman Islands do not stipulate the procedures for shareholders to propose resolutions at annual general meetings. Should the shareholders wish to propose resolutions, they may refer to the "Procedures for Shareholders to Convene a General Meeting".

Regarding the procedures for nomination of Directors, please refer to "Procedures for Shareholders to Nominate Candidates for Directors" posted on the website of the Company.

ENQUIRY TO THE BOARD

Shareholders may send by email to the Company's email address (cxfz@chen-xing.cn) or by post to the Hong Kong principal place of business (18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong) to raise enquiries regarding the Company to the Board.

AMENDMENT TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

The Company has not made any amendments to the memorandum and articles of association during the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. About ESG report

This is the first Environmental, Social and Governance Report (the "**ESG Report**") for the Group. As a cooperate citizen, the Group fully implemented the concept of sustainable development. The Group highly values social responsibilities and prioritizes the needs of stakeholder. The ESG Report elaborates on the various works undertaken by the Group in fulfilling the principle of sustainable development and its social and governance performance in 2016.

1.1. Scope of ESG Report

The ESG report mainly covers the core business of the Group in mainland China. The ESG report presents our performance in the environmental and social aspects of our businesses in the reporting period from 1 January to 31 December 2016. For the information on our corporate governance, please refer to the Corporate Governance Report of this annual report.

1.2. Reporting Guidelines

The ESG report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange.

1.3. Stakeholder Engagement

Our staff from different divisions of the Group was involved in helping us recognize our current performance in the environmental and social aspects. The data collected highlight not only the Group's sustainable initiatives in the environmental and social aspects during 2016, but also the basis of the Group's short-term and long-term sustainability strategies.

1.4. Information and Feedback

For detailed information about environmental, social and corporate governance, please refer to the official website of the Group (http://www.chen-xing.cn) and the annual report. Your opinions will be highly valued by the Group. If you have any advice or suggestions, please send your correspondence to the following address: cxfz@chen-xing.cn.

2. About Us

The Group was established in 1997 and was listed in the main board of the Hong Kong Stock Exchange in 2015 (Stock code: 2286). Over these years, the Group has been devoted to the development of residential and commercial properties and its business has been expanded to business management, manufacturing and installation of doors and windows and property service. We believe in our business philosophy of "Customer Oriented Business, Honest Business Operation, Responsible Property Development, Harmonious Society Contribution" and provide high quality products and services. We are persistent to maintain a high standard of business administration and to pursue stable and sustainable development.

The Group is persistent in maintaining responsibility and commitment to the environment and the society. We insist to preserve the environment and to develop at the same pace as our staff and the society. Within the operation process, we put environment protection and safety at the top of our list. We expect we would be able to take the leading role in environment protection among the whole industry. The development of the Group relies very much on our staff, which is the biggest asset we have. We are striving for building up corporate culture by creating the atmosphere of "Sincerity, Credibility, Effort-making, Responsibility, Harmony and Integration" at work place. At the same time, we are persistent in maintaining responsibility and commitment to the society as well. We constantly focus on the residential development and we are devoted to providing more residence of high quality. We are determined to contribute to our community to make it a better place.

3. Green Operations

3.1. Environmental Management System

The Group strictly complies with the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) and Regulations on Environmental Protection Management of Construction Projects (《建設項目環境保護管理條例》). We make effort to prevent our construction projects from causing pollutions or environmental disruption. Also, we take up the responsibility to maintain the environmental quality during development management and to protect the living environment of our construction projects. We, therefore, set up the environment management system with a leading group, and implement the system to individuals. We regularly conduct full supervision, inspection, assessment and evaluation to the comprehensive environmental improvement and protection work done by different departments, so as to ensure that the environmental protection policies of the Group are well-applied in our construction sites, residential properties and commercial properties.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is fully involved in the environmental management of each construction project. During feasibility study, we hire qualified third-party companies to assess the impact to the environment from our construction projects. During construction period, it is required to follow the rules on comprehensive environmental improvement and protection at the construction sites. Upon the completion of the projects, we check the environmental protection facilities according to the Measures for the Inspection and Acceptance of Environmental Protection of Construction Projects (《建設項目竣工環境保護驗收管理辦法》). The environmental management of the Group does not end with the completion of the construction projects. The concept of environmental protection is also reflected in our property management after construction.

3.2. Air Pollutants Control

The major air pollutants emit from the Group's construction projects include dust, transportation dust and vehicle exhaust gas. The Group follows the laws and regulations regarding the air pollutants emission. For dust control, the contractors are asked to store all powder materials in bags and cover them or put them in sheds. Besides powder materials, we also take relevant measures on materials piling up outdoors, including coal, slag, construction waste and cement. Measures include setting up fences, spraying water regularly and cleaning up promptly to prevent dust from spreading with wind. During the process of excavation, loading and unloading soil or dusty materials, we use water to remove dust and spray water to solidify the dust temporarily, so as to control the dust pollution. On the other hand, we sprinkle water for cleaning purpose in most of the construction area. For transportation dust control, we do not only spray water on roads regularly, but also require all vehicles entering or leaving the construction sites cover or seal with tarpaulin sheets. In order to purify the workplace and construction sites, we grow plants in the green area as well. For vehicle exhaust gas, we use petroleum of higher quality as far as we can, so as to reduce emission of exhaust gas. We require the contractors of the construction projects to follow these rules. We also hire project supervision companies to do regular on-site inspection and supervision.

3.3. Water Quality Control

The major wastewater discharged during the Group's operation includes domestic sewage and construction wastewater. We strictly comply with the laws and regulations and discharge the domestic wastewater to the municipal drainage pipe system instead of the unauthorized way. Before starting any construction work, we report to the local environment authorities and apply for the wastewater discharge permission according to the regulations. We require the contractors to control the wastewater produced in the construction sites. In order to minimize the water pollution, the contractors are asked to set up drainage system and discharge only processed wastewater in accordance with the regulations. For instance, wastewater with sediment must be settled to precipitate before discharging to the municipal drainage pip system; wastewater produced by cleaning mixers is reused after sedimentation.

3.4. Noise Control

The Group strives to reduce the noise produced during the construction work in progress. We strictly control the noise produced during different construction stages in accordance with the Law of the People's Republic of China on the Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》). In order to achieve this, our mechanical equipments are of good environmental protection performance with low noise production. We also carry out maintenance and regular checkup for different devices and vehicles so as to ensure they are in good condition and to lower the noise produced from the mechanical devices. For construction work process with the use of steel tools, we require the contractors not to throw the steel tools during setting up, removing, handling or repairing. The contractors should use the machines for repairing steel moulds and steel pipe straighteners so as to reduce the noise produced by manual labours. For the design of the construction sites, we put up construction hoarding sheets around the sites before the projects begin and place the mechanical devices producing loud noise together. All fixed devices producing noise will be equipped with sound proof facilities in order to lower the construction noise. We understand that noise pollution control is the responsibility of both the contractors and subcontractors. Therefore, we require the subcontractors to implement noise control measures, like maintenance of tanker trucks and concrete pumps, holding training for the operators, etc.

3.5. Waste Disposal

We strictly comply with the laws and regulations regarding waste disposal. Solid waste disposed from office is divided into recyclable and non-recyclable categories. Besides, we collect and handle non-hazardous construction waste produced from construction projects as requested by local environment authorities. We handle the hazardous waste produced through the operations as well. All hazardous waste items are recorded for every project. Contractors are required to separate hazardous waste and general waste and mark the locations and containers for hazardous waste to avoid mixing them up with general waste. On the other hand, by considering the potential risk of storing hazardous waste, it is required to abide strictly by the safety regulations for flammable and explosive substances at all storage locations. Hazardous waste is transported to the hazardous waste storage facilities and anti-pollution process is carried out on the way to prevent environmental contamination. We clean the storage locations and the transportation facilities of the hazardous waste thoroughly as well.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.6. Energy Conservation

Throughout these years, we have actively worked on energy saving. Contractors are required to follow the principle of "Conservation of Electricity, Control the Use of Coal and Oil". Take the urban redevelopment scheme in Nanbeiliubao (南北六堡) as an example. We came up with different energy saving ideas during the design stage. We are choosing energy efficient heating, ventilation and air conditioning (HVAC) facilities and high quality insulating materials to meet up with the energy saving requirement. For lighting system, we are using lights of high efficiency and we have set up automatic lighting devices in the stairway to save electricity. Solar water heating system is used, in replacing fossil fuel, in this project as well.

Our determination of saving energy is not only reflected from the measures we took in different construction projects, but also from the operations. Computers in office are set to energy saving mode when they are not in used. Staffs are reminded to switch off unused computers, electronic devices, lights and electrical appliances. In order to increase the level of energy efficiency, we choose electronic devices and lights with high energy efficiency and clean the lighting system and the filters of air conditioning system regularly. Besides, we design our office to make best use of energy by dividing the office into different areas. Each area is equipped with an independent set of lights so the lights can be controlled separately according to the needs of different employees, so as to avoid waste of energy. We set our air conditioning system in the place where there is no direct sunlight. We install door and window seals to prevent leaking of cool air. We took all these measures to make best use of resources. In order to improve our energy conservation progress continuously, we record our electricity consumption regularly so that we can carry out prompt measures when needed.

3.7. Resources Conservation

We have always been promoting the idea of conserving resources in our projects and operations. We have always been encouraging the contractors to save water. Take the urban redevelopment scheme in Nanbeiliubao (南北六堡) as an example. We took different measures to save water in this project. We have planned to make use of recycled water and rainwater for domestic use, such as using it on the green or washing vehicles, etc. We are planning to use more efficient water saving ways of irrigation such as spray irrigation and micro irrigation. The sanitary ware and showers we are using meet the requirement for Domestic Water Saving Devices (《節水型生活用水器具》), which achieve water saving function.

Moreover, we take various water saving measures in our daily office operation. We put up water conservation signage in washrooms and remind our employees to save water by turning the faucets off after using. We also use dual flush toilets for different needs. To avoid water leakage, we check the water meter regularly, carry out pipeline leak detection and fix the leakage at once. Other than water saving, we strive to reduce the use of paper and to achieve a paperless office. We make good use of the internet, such as Office Automation (OA) system, Numerical Control (NC) system and Wechat enterprise account so as to reduce the paper usage. Our employees can carry out internal management like approving contracts, payments, expenses reimbursement via the OA system. The NC system serves as the platform for sharing data among different departments, like sharing the financial records of buying or selling properties between the finance department and the sales department, which can greatly reduce the use of paper throughout the entire financial process. Our employees can take leave or arrange meetings or other schedules via the administrative program of our Wechat enterprise account.

4. Care for employees

4.1. Employee Rights

The Group standardizes its employment policy by strictly complying with the laws and regulations like the Labour Law of the People's Republic of China (《中華人民共和國勞動法》). During recruitment, we offer interview opportunities to every applicant who meets our entry requirements, regardless of their gender, race, religious view, age, disability, sexual orientation, nationality and racial background. The Group follows strictly to the Provisions on the Prohibition of Using Child Labour (《禁止使用童工的規定》) promulgated by the State Council of the People's Republic of China, which avoid employment of child labour by checking their identity cards. We do not allow forced labour. We do not force our employees to work overtime or restrict them from leaving work on time. The Group sets up standard working hour policy according to the national law. All full-time and part-time employees are working no longer than eight hours a day and less than forty hours a week. Besides the basic wages, we offer employees with performance-related pay after monthly and annual appraisals. We also provide employees with wage for seniority which encourages long term service of the employees. For termination of employment, the employee's wage will be paid on time according to the employment contract and the national law.

4.2. Employee Welfare

Acting in compliance with the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) and other relevant rules and regulations, the Group provides the employees with endowment insurance, medical insurance, work-related injury insurance, unemployment insurance, childbirth insurance and housing provident fund. Employees are entitled to different statutory holidays, including festival holiday, annual leave, wedding leave, compassionate leave and maternity leave to ensure the adequate rest time for employees. We provide not only allowances for working under the high temperature as required by the national rule, but also

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allowances to those employees who work under the low temperature. We offer allowances for Mid-Autumn Festival and New Year, to share the festive joy with the employees. To protect the health of our employees, we arrange regular health check for our employees. In addition, we irregularly organize events for employees, such as outing, outdoor training, new year party, etc. to strengthen employee relationship.

4.3. Career Planning for Employees

We aim at achieving the goal of giving full use of the talents while each doing his utmost at work, satisfying the need of the Group and the individual development of employees, enhancing the core competencies of both the Group and individual employees, improving the business performance. Therefore, we set clear career path for our employees. We respect the will of each employee towards their career development. They can develop along a career ladder or switch to a different ones. When there is a job vacancy, we will first consider internal transfer to give opportunities for all employees. When we are promoting an employee, we consider thoroughly the employee's personal quality, ability and performance at work. Employees are promoted according to a clear career ladder except those who made outstanding contributions to the Group or those who are highly talented may be offered with higher ranking positions. To maintain employees' quality of work, we set up a leadership optimization system to analyze leaders' performance in a fair and scientific way. We carry out monthly and annual appraisals with employees and assess their performance in a scientific way. We concern our employees' needs and development in a long run. We promote or demote an employee according to their assessment result as well.

4.4. Career Development for Employees

In order to strengthen the professional quality and work ethics of our employees, to enhance their service awareness and service level, to raise the cohesion, attractiveness, centripetal force and combatant power of the Group, to reduce errors at work, to increase the efficiency at work, we are cultivating talents for the Group. Along with the development of the Group, we put emphasis on training for new employees. Through new employees training, we promote the history of the Group, the organizational structure, the corporate culture and personnel policies, and increase employees' organization ability, communication skills, teamwork spirit, etc. We help strengthening organizational discipline so that employees can adapt to the new environment and the corporate culture as soon as they can. Each department is asked to hold departmental and positional trainings for new employees so that they can get used to the new working environment as soon as possible and increase their efficiency at work. In order to push the employees' development further and to enhance their professional knowledge, we hold internal trainings according to departmental needs. All external training expenses are taken care of by the Group as well. Other than professional and technical trainings, we also advance the management skill of the middle and senior levels. Trainings include seven habits of highly effective people, executive power, leadership, comprehensive budget management, etc. In order to build up corporate culture and enhance the cohesion and teamwork spirit among the employees, we hold staff development training as well.

5. Protection for Employees' Health and Safety

5.1. Production Safety System

For implementation of the Law of the People's Republic of China on Work Safety (《中華人民共和國安全生產法》) and achieving the Group's project development safety objectives of "Safety First, Precaution Crucial", contractors are requested to investigate and verify all the major hazard installations before construction. They are asked to establish relevant managing plans, safety investigation system and a well-developed production safety responsibility system for the projects. Production safety responsibility is directly linked with economic benefits. With clear reward and punishment scheme, management personnel are motivated to create safe, civilized construction sites. Safety inspection is an important part of the production safety system. Contractors are required to organize daily, professional and seasonal safety inspection on a regular basis, in order to eliminate different potential safety hazards and avoid all kinds of safety incidents. The Group hires supervision companies to supervise production safety during construction work. They constantly inspect the preventive measures of construction sites and report to the construction department promptly for any potential safety risk discovered. The Group organizes monthly safety inspection with the supervision companies and the construction department according to the national mandatory Construction Safety Inspection Standard (《建築施工安全檢查標準》) (JGJ59-99) and the construction site standard as requested by local business managing departments. All safety inspections and safety measures are recorded systematically as the records serve as the major evidence for any safety issues and the reference for the prevention of any safety incidents. In order to make prompt response to any safety issues to avoid casualties and economic loss and to lower corporate production risk, we have an emergency plan to minimize the risk brought by any safety incidents.

5.2. Protective measures

We understand that there are lots of potential hazards in construction sites. We, therefore, provide specific protective measures for our employees. For instance, we take dust removal measures like dust wetting or closed chambers for dust sources. We remove dust by ventilation facilities when the previous two ways do not work in the sites. We strengthen the maintenance and examination of equipments so that the concentration of dust in the sites is lowered. We provide our employees with different protective equipments according to their job natures. To ensure the protective measures are effective to provide our employees with a safe working environment, we run safety tests in the working environment on a regular basis. For example, we constantly monitor the dust concentration in the working environment and set effective measures to lower the concentration after testing. We also provide occupational body check for employees who are exposed to occupational hazards, to ensure their health condition is suitable for their position at work.

5.3. Publicity and Education

We understand that the safety of our employees rely very much on the protective measures we provided and the measures taken to reduce the hazardous factors. On the other hand, knowledge of the employees is also an important point. For development project, contractors are required to organize trainings on basic safety knowledge, code of conduct, special protective measures for different projects, to ensure that all the construction workers on site comply strictly with the related rules and safety policies. Contractors are also responsible for teaching the construction workers how their personal occupational protective equipments are used correctly. They should educate the construction workers about occupational diseases and push the idea of using protective equipment forward. For professional technicians, like electricians, contractors have to make sure the technicians are certified with related license. Besides trainings for the construction workers, contractors are asked to post operating procedures and policies, as well as the safety warning signs, in the construction sites.

6. Commitment to Clients and Suppliers

6.1. Suppliers Management

Development of the Group relies very much on the service provided by the management companies, construction contractors, suppliers of materials, etc. In order to work and develop together with the suppliers, we set strict standards for selection of suppliers. We have clear tendering procedures with fairness, justice and transparency. Besides considering suppliers' qualification, experience and the equipments provided for projects or products, we also consider the suppliers' ability to fulfill their responsibilities according to the laws and regulations. For suppliers of materials, we apply a scientific way in the selection process. We put suppliers certified with ISO9000 Quality Management our first priority and we also take quality control, supply capacity, prices and internal management system into consideration. We do not only evaluate suppliers in the selection process, we also do follow-up evaluation to qualified suppliers regularly and reassess them. For instance, we do quality assurance or on-site inspection to suppliers of materials and evaluate the management standards, quality of supervising engineers and their working condition of the supervision companies.

6.2. Valuing Clients

Product quality is one of our major concerns as we aim at providing the best quality products to our clients. For development projects, in order to ensure the quality of the properties, we carry out inspection at different construction stages, base on the standards like the Code for Acceptance of Construction Quality of Underground Waterproof (《地下防水工程質量驗收規範》) (GB50208-2002), Unified Standard for Constructional Quality Acceptance of Building Engineering (《建築工程施工質量驗收統一標準》) (GB50300-2001) and Steel for the Reinforcement of Concrete (《鋼筋混凝土用鋼》) (GB1499-2007). To ensure that the quality of properties meets the requirement of the clients, members from the Group's customer service department, engineering department, supervision companies and contractors carry out building inspection with the clients. We modify the projects according to the result of the inspection. We care about the quality of the properties as well as the early stage property management. To ensure clients a sustained, nice and comfortable environment, we require the property management companies to set up policies on the use of public facilities and venue, the environmental hygiene, the maintenance of properties, etc. We know that clients' opinions help us improve, so we set up a comprehensive complaints mechanism. Our customer service officers are responsible for handling and follow-up complaints from clients, and to make sure the cases are settled effectively. We take an active role to get clients' opinions through customers satisfaction officers. The officers interview the clients regularly to see whether clients are satisfied with our service. We collect customers' advice and opinions through different channels like Wechat and suggestion boxes as well.

6.3. Maintaining Business Ethics

We aim at providing accurate and clear information to customers through advertisement. We request our partner advertizing agencies to comply strictly with the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and Provisions on the Release of Real Estate Advertisement (《房地產廣告發佈規定》). Besides, in order to protect the privacy of our clients, business partners and employees, the Group follows the related laws and regulations, and sets confidentiality provisions with employees, suppliers and fore period property management companies. We sign the Confidentiality Agreement with employees to ensure the trade secrets and clients' information will not be exposed. Our contract officers are responsible for managing files regarding sales contracts. Moreover, we strengthen the security system of the financial department, which limits the assess right of employees in order to further protect the clients' information. When we are working with a third-party company, we sign the Confidentiality Agreement listing all its obligations. The third-party company is not allowed to expose any information related to the project or the undisclosed information of the product by any means, except when requested by national decree or the authority concerned. For fore period property management companies, we require them to store their property records and information with security management. They are asked to do security check on the rooms storing clients' information constantly as well. The fore period property management company is obliged to handover the property records and information with the Group and the owners' committee, according to the related regulations.

6.4. Anti-corruption

In order to achieve the Group's management goals, to strengthen the probity environment at workplace, to prevent and reduce any kind of illegal economic activities, to comply strictly with the laws and regulations related to anti-corruption, such as, the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the Group strives to prevent corruption activities from different aspects. We start with supervising and educating our employees about anti-corruption and occupational ethics. Employees are prohibited to accept any kind of advantage (including gifts, bribes, sum of money, etc.) offered by any related parties of the Group. Employees, their family and friends are not allowed to attend any kind of entertainment activities (including provision of food or drink, travel, etc.) that may affect the duties of employees. For purchasing and tendering, family and friends of our employees are not allowed to take part in any kind of economic activities related to the Group's business operation like supplying equipments or subcontracting. Employees are requested to sign the Integrity Agreement and comply with the guideline above strictly.

7. Care for Society

Being an ethical social enterprise, the Group is devoted to build a high quality living environment for the citizens, to serve and care for the community by making every effort. The Group continuously cooperates with non-governmental organizations (NGOs) and other enterprises which are willing to practice corporate social responsibility to work for the well being of the community. In 2016, we received the President's Award from the Community Chest of Hong Kong for our enthusiasm for charity and continuous contribution to the society.

INDEPENDENT AUDITOR'S REPORT

To the share holders of Chen Xing Development Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Chen Xing Development Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 237 to 322, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Net realisable value of properties under development and completed properties held for sale	
As at 31 December 2016, the Group's properties under development and completed properties held for sale amounted to RMB3,949,841,000 and RMB1,046,771,000, respectively, which represented in aggregate 78.6% of the total assets of the Group. The assessment of provision for properties under development and completed properties held for sale was made by management through the application of judgement in assessing if the carrying values were lower than the net realisable values of the properties under development and completed properties held for sale at the year end and the use of subjective assumptions such as selling prices, the costs of completion of properties under development and the costs to be incurred in selling the properties based on prevailing market conditions. The Group's disclosures about provision for properties under development and completed properties held for sale are included in notes 2.4, 3, 7, 15 and 19 to the financial statements, which specifically explained the accounting policies, management's accounting estimates and the recognition of impairment during the year.	We reviewed the basis for the provision assessment by understanding the assumptions used to determine the net realisable values of properties under development and completed properties held for sale. We evaluated the assumptions used by checking, on a sample basis, the selling prices of properties to latest sale transactions and reviewing pre-sale status of other projects in the same location to evaluate the saleablility. We also assessed the reasonableness of costs to complete or sell the properties by reviewing budgets and contractor agreements signed for different projects and comparing costs incurred for similar projects.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
As at 31 December 2016, the Group's investment properties amounted to RMB164,000,000 and were measured at fair value. It is the Group's policy to have investment property valuations performed by independent professional valuer at least once a year. The valuations of the investment properties were highly dependent to a large extent on estimates such as current and future market rents, yields and future maintenance costs, which were subject to uncertainty and might materially differ from the actual results. The Group's disclosures about valuation of investment properties are included in notes 2.4, 3 and 14 to the financial statements, which specifically explained accounting policies, management's accounting estimates and fair value disclosures for investment properties.	We evaluated the objectivity of the valuation process and expertise of the independent professional valuer. We involved our valuation specialists to assist us in evaluating the applied methods, the underlying assumptions and parameters adopted in the valuation of investment properties performed by management and independent professional valuer. We assessed the property-related data used as inputs for the valuations by checking to existing rental agreements, the rates of rent quoted for similar properties and the occupancy rates of the properties. We also reviewed the adequacy of the related disclosures in the financial statements.
Impairment of buildings and prepaid land lease payments	
In view of the fact that the carrying amount of the net assets of the Group was higher than the market capitalisation of the Company as at 31 December 2016, the Group performed impairment tests on its buildings and prepaid land lease payments with carrying values of RMB57,405,000 and RMB1,419,000, respectively. These impairment tests involved significant estimation and judgements around assumptions used, including current and future market rents, yields, future maintenance costs and available data from market transactions of similar assets. The Group's disclosures about impairment of non-financial assets, which included buildings and prepaid land lease payments, are included in notes 2.4 and 3 to the financial statements, which specifically explained the accounting policies and management's accounting estimates.	We evaluated management's identification of indicators of impairment. We assessed the inputs used for the estimation of recoverable amounts by comparing to the rates of rent quoted for similar assets and observable prices from market transactions. We also involved our valuation specialist to assist us in evaluating the methodology used, the underlying assumptions and parameters adopted by management to estimate the recoverable amounts of buildings and prepaid land lease payments.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Directors' Report, the Corporate Governance Report and the Environmental, Social and Governance Report, which are expected to be made available to us after that date.

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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Chairman's Statement, the Directors' Report, the Corporate Governance Report and the Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
24 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**1,081,989**	966,213
Cost of sales		**(745,308)**	(684,824)
Gross profit		**336,681**	281,389
Other income and gains	5	**10,248**	292,871
Selling and distribution expenses		**(58,879)**	(47,420)
Administrative expenses		**(38,104)**	(60,778)
Other expenses		**(9,823)**	(19,553)
Finance costs	6	**(3,763)**	(6,894)
PROFIT BEFORE TAX	7	**236,360**	439,615
Income tax expense	10	**(89,398)**	(151,583)
PROFIT FOR THE YEAR		**146,962**	288,032
Attributable to:			
Owners of the parent		**151,832**	290,103
Non-controlling interests		**(4,870)**	(2,071)
		146,962	288,032
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
— For profit for the year	12	**RMB0.30**	RMB0.64

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR		**146,962**	288,032
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**3,518**	10,235
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**3,518**	10,235
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gains on property revaluation		**—**	31,108
Income tax effect	28	**—**	(7,777)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**—**	23,331
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**3,518**	33,566
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**150,480**	321,598
Attributable to:			
Owners of the parent		**155,350**	323,669
Non-controlling interests		**(4,870)**	(2,071)
		150,480	321,598

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**69,560**	67,718
Investment properties	14	**164,000**	161,000
Properties under development	15	**143,861**	157,473
Intangible assets	17	**630**	711
Deferred tax assets	28	**103,040**	54,130
Prepaid land lease payments	16	**1,419**	1,464
Total non-current assets		**482,510**	442,496
CURRENT ASSETS			
Properties under development	15	**3,805,980**	3,689,517
Completed properties held for sale	19	**1,046,771**	569,910
Inventories	18	**2,044**	2,271
Prepayments, deposits and other receivables	20	**205,818**	377,329
Tax recoverable		**17,673**	15,868
Due from a related party	35(c)	**—**	159
Available-for-sale investments	21	**493,810**	91,900
Pledged deposits	22	**14,323**	42,159
Cash and cash equivalents	22	**290,594**	617,215
Total current assets		**5,877,013**	5,406,328
CURRENT LIABILITIES			
Trade payables	23	**1,109,982**	991,184
Other payables, deposits received and accruals	24	**1,509,194**	1,179,898
Advances from customers	26	**2,249,277**	1,689,073
Interest-bearing bank borrowings	27	**241,000**	369,000
Due to related parties	35(c)	**567**	892
Due to a director	35(c)	**93**	85
Tax payable	10	**132,433**	90,216
Provision	25	**—**	7,213
Total current liabilities		**5,242,546**	4,327,561
NET CURRENT ASSETS		**634,467**	1,078,767
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,116,977**	1,521,263

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**40,000**	293,000
Due to a related party	35(c)	**—**	80,000
Deferred tax liabilities	28	**14,942**	24,983
Total non-current liabilities		**54,942**	397,983
NET ASSETS		**1,062,035**	1,123,280
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**4,003**	4,003
Reserves	30	**978,498**	1,034,873
		982,501	1,038,876
Non-controlling interests		**79,534**	84,404
TOTAL EQUITY		**1,062,035**	1,123,280

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Bai Xuankui
Director

Bai Wukui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2016

	Attributable to owners of the parent									
	Share capital RMB'000 (note 29)	Share premium account RMB'000 (note 29)	Capital reserves RMB'000	Statutory surplus reserve RMB'000	Asset revaluation reserve# RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	–	–	101,849	67,356	–	–	322,581	491,786	86,475	578,261
Profit for the year	–	–	–	–	–	–	290,103	290,103	(2,071)	288,032
Other comprehensive income for the year:										
Exchange differences related to foreign operations	–	–	–	–	–	10,235	–	10,235	–	10,235
Gains on property revaluation, net of tax	–	–	–	–	23,331	–	–	23,331	–	23,331
Total comprehensive income for the year	–	–	–	–	23,331	10,235	290,103	323,669	(2,071)	321,598
Issue of shares	801	239,350	–	–	–	–	–	240,151	–	240,151
Capitalisation issue	3,202	(3,202)	–	–	–	–	–	–	–	–
Share issue expenses	–	(16,730)	–	–	–	–	–	(16,730)	–	(16,730)
Transfer to statutory reserves	–	–	–	33,877	–	–	(33,877)	–	–	–
At 31 December 2015	4,003	219,418*	101,849*	101,233*	23,331*	10,235*	578,807*	1,038,876	84,404	1,123,280

The asset revaluation reserve arose from a change in use from an owner-occupied property to an investment property carried at fair value during the year.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2016

	Attributable to owners of the parent									
	Share capital RMB'000 (note 29)	Share premium account RMB'000 (note 29)	Capital reserves RMB'000	Statutory surplus reserve RMB'000	Asset revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	4,003	219,418	101,849	101,233	23,331	10,235	578,807	1,038,876	84,404	1,123,280
Profit for the year	–	–	–	–	–	–	151,832	151,832	(4,870)	146,962
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	3,518	–	3,518	–	3,518
Total comprehensive income for the year	–	–	–	–	–	3,518	151,832	155,350	(4,870)	150,480
Transfer to statutory reserves	–	–	–	1,341	–	–	(1,341)	–	–	–
Final 2015 dividend declared	–	–	–	–	–	–	(211,725)	(211,725)	–	(211,725)
At 31 December 2016	4,003	219,418*	101,849*	102,574*	23,331*	13,753*	517,573*	982,501	79,534	1,062,035

* These reserve accounts comprise the consolidated reserves of RMB978,498,000 at 31 December 2016 (2015: RMB1,034,873,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**236,360**	439,615
Adjustments for:			
Depreciation	13	**8,064**	7,191
Amortisation of intangible assets	17	**348**	287
Amortisation of prepaid land lease payments	16	**45**	45
Gain on disposal of items of property, plant and equipment	7	**—**	(223)
Loss on disposal of investment properties	7	**—**	11,303
Income from available-for-sale investments	5	**(2,543)**	(1,666)
Finance costs	6	**3,763**	6,894
Recognition of government grants	5	**—**	(283,883)
Changes in fair value of investment properties	14	**(3,000)**	(4,483)
Interest income	5	**(2,151)**	(1,836)
		240,886	173,244
Increase in properties under development		**(69,540)**	(1,471,756)
Decrease/(increase) in completed properties held for sale		**(476,861)**	639,526
Decrease/(increase) in inventories		**227**	(431)
Decrease in trade receivables		**—**	2,090
Decrease/(increase) in prepayments, deposits and other receivables		**171,511**	(280,528)
Decrease/(increase) in an amount due from a related party		**159**	(159)
Decrease/(increase) in pledged deposits		**27,836**	(1,279)
Increase in trade payables		**118,798**	289,694
Increase in advances from customers		**560,204**	315,050
Increase in other payables, deposits received and accruals		**372,443**	605,769
Increase/(decrease) in provision		**(7,213)**	7,213
Increase in an amount due to a director		**8**	85
Increase/(decrease) in an amount due to related parties		**567**	(3,124)
Cash generated from operations		**939,025**	275,394
Tax paid		**(107,937)**	(71,294)
Net cash flows from operating activities		**831,088**	204,100

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and construction in progress		**(11,797)**	(14,932)
Purchases of intangible assets		**(267)**	—
Acquisition of non-controlling interests		**(40,620)**	—
Purchases of available-for-sale investments		**(1,155,000)**	(91,900)
Decrease in amounts due to directors		**—**	(184,426)
Decrease in other payables, deposits received and accruals		**—**	(19,383)
Sales of available-for-sale investments		**753,090**	36,000
Proceeds from disposal of items of property, plant and equipment		**—**	594
Proceeds from disposal of items of investment properties		**—**	2,180
Income from available-for-sale investments		**2,543**	1,666
Interest received		**2,151**	1,836
Net cash flows used in investing activities		**(449,900)**	(268,365)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**—**	231,366
Share issue expenses		**—**	(5,734)
Increase in government grants		**—**	6,505
New bank loans		**128,000**	540,000
Repayment of bank loans		**(509,000)**	(505,000)
Repayment of loans from a related party		**(80,000)**	—
Loans from a related party		**—**	80,000
Dividends paid		**(211,725)**	(18,344)
Interest paid		**(38,602)**	(51,063)
Net cash flows generated from/(used in) financing activities		**(711,327)**	277,730
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(330,139)**	213,465
Cash and cash equivalents at beginning of year		**617,215**	393,515
Effect of foreign exchange rate changes, net		**3,518**	10,235
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	**290,594**	617,215

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 3 November 2014. The registered office address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the year, the Group was principally engaged in property development.

In the opinion of the directors, the ultimate controlling shareholders of the Group are Mr. Bai Xuankui and Mr. Bai Guohua.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chen Xing Investments Limited	British Virgin Islands	US$10,000	100%	—	Investment holding
Chen Xing International Holdings Limited	Hong Kong	HK$100	—	100%	Investment holding
Jinzhong Chen Xing Hui Technology And Trade Company Limited*	People's Republic of China/ Mainland China	RMB 1,000,000	—	100%	Investment holding
Chenxing Real Estate Development Co., Ltd. ("Chen Xing")**	People's Republic of China/ Mainland China	RMB 204,000,000	—	100%	Property development and sale
Sichuan Chenxing Real Estate Development Co., Limited ("Chen Xing Sichuan")**	People's Republic of China/ Mainland China	RMB 100,000,000	—	83.89%	Property development and sale

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1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jinzhong Chenxing Commercial Management Co., Limited**	People's Republic of China/ Mainland China	RMB 1,000,000	—	100%	Property leasing
Jinzhong City Yuci Chenxing Doors &Windows Co., Ltd**	People's Republic of China/ Mainland China	RMB 1,500,000	—	100%	Manufacture and installation of windows
Shanxi Chenxing Property Services Co., Limited**	People's Republic of China/ Mainland China	RMB 6,000,000	—	100%	Property management
Jinzhong Development Zone Real Estate Development Co., Ltd.**	People's Republic of China/ Mainland China	RMB 100,000,000	—	51%	Property development and sale
Wuzhishan Chenxing Real Estate Development Co., Limited**	People's Republic of China/ Mainland China	RMB 90,280,000		100%	Property development and sale

* The entity is registered as a wholly-foreign-owned enterprise under PRC law.

** These entities are limited liability enterprises established under PRC law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

NOTES TO FINANCIAL STATEMENTS

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2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

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

2.2 CHANGES IN ACCOUNTING POLICES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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

The adoption of the above new and revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

The Group is in the process of making an assessment of the new and revised HKFRSs upon initial application, certain of which may be relevant to the Group's operation and may result in changes in the Group accounting policies, and changes in presentation and measurement of certain items of the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

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

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

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

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

When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

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

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

Fair value measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	1.90%–19%
Motor vehicles	9.50%–19.40%
Machinery and equipment	9.50%–19.40%
Computer and office equipment	9.50%–32.33%

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Construction in progress represents buildings under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

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

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from completed properties held for sale to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

The Group determines whether completed properties held for sale would be transferred to investment properties when, and only when, there is a change in use, evidenced by the following criteria: (a) the Group has prepared a business plan that reflects the future rental income generated by the property and this is supported with evidence that there is demand for rental space; (b) the Group can demonstrate that it has the resources, including the necessary financing or capital, to hold and manage an investment property; (c) the change in use is legally permissible; (d) if the property must be further developed for the change in use, and the development has commenced; and (e) change in use is approved by a board resolution.

Properties under development

Properties under development are intended to be held for sale after completion. On completion, the properties are transferred to completed properties held for sale. Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless they will not be realised in the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated in the statement of financial position at the lower of cost and net realisable value. Cost is determined by an apportionment of the total costs of land and buildings attributable to the unsold properties. Net realisable value takes into account the price ultimately expected to be realised, less estimated costs to be incurred in selling the properties.

Allocation of property development costs

Land costs are allocated to each unit according to their respective saleable gross floor areas ("GFA") to the total saleable GFA. Construction costs relating to units were identified and allocated specifically. Common construction costs have been allocated according to the saleable GFA similar to land costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

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

Operating leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

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

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets, if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

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

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

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, as appropriate.

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

The Group's financial liabilities include trade and other payables, amounts due to directors and related parties and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

Loans and borrowings

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

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

Financial guarantee contracts

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

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

Income tax

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

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

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

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

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

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31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

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

(a) Sale of completed properties

Revenue from the sale of properties is recognised when the risks and rewards of the properties are transferred to the purchasers. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities.

(b) Property leasing income

Revenue derived from the leasing of the Group's properties is recognised on a time proportion basis over the lease terms.

(c) Interest income

Revenue is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

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31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 14% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging from 4.75% to 5.23% has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Renminbi ("**RMB**"), which is the Company's presentation currency because the Group's principal operations are carried out in Mainland China. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss.

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

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates ruling at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

NOTES TO FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

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

Estimation of fair value of investment properties

Investment properties were revalued based on the appraised market value by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of the reporting period.

In the absence of current prices in an active market for similar properties, the Group considers information from discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties was RMB164,000,000 as at 31 December 2016 (2015: RMB161,000,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Net realisable value of properties under development and completed properties held for sale

The Group's properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Based on the Group's historical experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion of properties under development, and the costs to be incurred in selling the properties based on prevailing market conditions and by reference to the latest selling prices of properties sold in the ordinary course of business by the Group or other developers in the same location.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in a provision for properties under development and completed properties held for sale. Such provision requires the use of judgements and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the period in which such estimate is changed will be adjusted accordingly. The carrying amounts of properties under development and completed properties held for sale at 31 December 2016 were RMB3,949,841,000 (2015: RMB3,846,990,000) and RMB1,046,771,000 (2015: RMB569,910,000), respectively.

PRC land appreciation tax ("LAT")

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2016 was RMB583,000 (2015: RMB882,000). The carrying amount of gross deferred tax assets at 31 December 2016 was RMB136,732,000 (2015: RMB87,072,000). Further details are included in note 28 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (other than properties under development and completed properties held for sale) at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. As at 31 December 2016, the Company's market capitalisation was lower than the Group's net assets value which is an indicator of impairment for non-financial assets. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculations of the fair value less costs of disposal are based on current prices in an active market for similar non-financial assets and use assumptions that are mainly based on market conditions existing at the end of the reporting period. In the absence of current prices in an active market for similar non-financial assets, the Group estimates the expected future cash flows from the non-financial assets and choose a suitable discount rate in order to calculate the present value of those cash flows.

The key assumptions used in the fair value less costs of disposal calculations include current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. Where the expectation is different from the original estimates, the carrying value and provision for such non-financial assets in the period in which such estimates are changed will be adjusted accordingly.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way.

Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and services and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

No geographical information is presented as the Group's revenue from the external customers is derived solely from its operations in Mainland China and no non-current assets of the Group are located outside Mainland China.

No information about major customers is presented as no sales to a single customer individually contributed to over 10% of the Group's revenue for the reporting period.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents income from the sale of properties and lease of properties, net of business tax and other sales related to taxes and discounts allowed.

An analysis of revenue, other income and gains is as follows:

	2016 RMB'000	2015 RMB'000
Revenue		
Sale of properties	**1,130,392**	1,016,055
Property leasing income	**8,320**	8,530
	1,138,712	1,024,585
Less: Business tax and government surcharges	**(56,723)**	(58,372)
	1,081,989	966,213
Other income		
Government grants	**—**	283,883
Bank interest income	**2,151**	1,836
Income from available-for-sale investments	**2,543**	1,666
Gross rental income	**2,282**	211
Others	**272**	569
	7,248	288,165
Gains		
Fair value gains on investment properties	**3,000**	4,483
Gain on disposal of property, plant and equipment	**—**	223
	3,000	4,706
	10,248	292,871

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6. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on bank loans	**34,669**	50,518
Interest on loans from a related party	**2,405**	1,743
Less: Interest capitalised	**(33,311)**	(45,367)
Total finance costs	**3,763**	6,894

7. PROFIT BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of properties sold		**744,825**	684,824
Depreciation	13	**8,064**	7,191
Amortisation of intangible assets	17	**348**	287
Minimum lease payments under operating leases		**741**	1,156
Amortisation of prepaid land lease payments	16	**45**	45
Auditor's remuneration		**1,700**	1,700
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**10,414**	9,461
Pension scheme contributions		**1,326**	1,316
Staff welfare expenses		**1,682**	1,791
		13,422	12,568
Changes in fair value of investment properties	14	**(3,000)**	(4,483)
Government grants		**—**	(283,883)
Bank interest income		**(2,151)**	(1,836)
Income from available-for-sale investments		**(2,543)**	(1,666)
Gain on disposal of property, plant and equipment		**—**	(223)
Other expenses:			
Loss on disposal of investment properties		**—**	11,303
Impairment of completed properties held for sale	19	**9,036**	—

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2016 RMB'000	2015 RMB'000
Fees	**190**	90
Other emoluments:		
Salaries, allowances and benefits in kind	**1,413**	1,056
Performance related bonuses	**288**	374
Pension scheme contributions	**98**	115
	1,989	1,635

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 RMB'000	2015 RMB'000
Mr. Gu Jiong	**107**	50
Mr. Tian Hua	**43**	20
Mr. Qiu Yongqing	**40**	20
	190	90

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors and the chief executive

Year ended 31 December 2016

Executive directors:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Mr. Bai Xuankui	—	542	108	—	650
Mr. Bai Wukui	—	507	108	31	646
Mr. Zhang Yongcheng[1]	—	61	—	12	73
Mr. Dong Shiguang	—	107	18	24	149
Mr. Bai Guohua	—	196	54	31	281
	—	1,413	288	98	1,799

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors and the chief executive *(continued)*

Year ended 31 December 2015

Executive directors:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Mr. Bai Xuankui	—	392	108	—	500
Mr. Bai Wukui	—	360	120	30	510
Mr. Zhang Yongcheng	—	100	25	28	153
Mr. Dong Shiguang	—	100	25	28	153
Mr. Bai Guohua	—	104	96	29	229
	—	1,056	374	115	1,545

(1) Mr. Zhang Yongcheng resigned on 8 June 2016.

Mr. Bai Wukui is the chief executive officer and an executive director of the Group.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The directors did not receive any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2015: Nil).

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2015: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2015: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	682	754
Performance related bonuses	168	336
Pension scheme contributions	61	88
	911	1,178

The number of non-director highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2016	2015
Nil to HK$1,000,000	2	3

The five highest paid employees did not receive any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2015: Nil).

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group's subsidiaries incorporated in the Cayman Islands and British Virgin Islands are not subject to any income tax. Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax is based on a tax rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the year (2015: Nil).

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

According to the requirements of the provisional regulations of the PRC on the land appreciation tax ("**LAT**") effective from 1 January 1994 onwards, and the detailed implementation rules on the provisional regulations of the PRC on LAT effective from 27 January 1995 onwards, all income from the sale or transfer of state-owned leasehold interests on land, buildings and their attached facilities in Mainland China is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for property sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

The Group has estimated, made and included in tax provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for LAT is calculated.

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31 December 2016

10. INCOME TAX *(continued)*

Major components of the Group's income tax expense are as follows:

	2016 RMB'000	2015 RMB'000
Current tax:		
Income tax charge	**131,012**	39,409
LAT	**17,337**	16,812
Deferred tax	**(58,951)**	95,362
Total tax charge for the year	**89,398**	151,583

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	**236,360**	439,615
Tax at the statutory tax rate	**59,551**	113,780
Provision for LAT	**17,337**	16,812
Tax effect of LAT provision	**(4,334)**	(4,203)
Effect of withholding tax at 10% on distributable profits of the Group's PRC subsidiaries	**15,370**	24,983
Expenses not deductible for tax	**410**	211
Tax losses not recognised	**1,064**	—
Tax charge at the Group's effective rate	**89,398**	151,583

Tax payable in the consolidated statement of financial position represents:

	2016 RMB'000	2015 RMB'000
Tax payable		
— PRC corporate income tax	**96,061**	50,943
— PRC LAT	**36,372**	39,273
	132,433	90,216

11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed final — HK30 cents (2015: HK50 cents) per ordinary share	**134,175**	209,450

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

A final dividend of HK50 cents per ordinary share for the year ended 31 December 2015 of RMB211,725,000 was approved by shareholders on 19 May 2016 and paid on 31 May 2016.

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

The calculation of the basic earnings per share amounts for the year is based on profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 500,000,000 (2015: 450,278,000) in issue and issuable during the year, as adjusted to reflect the rights issue during the year.

The calculation of basic earnings per share based on:

	2016 RMB'000	2015 RMB'000
Earnings: Profit for the year attributable to ordinary equity holders of the parent	**151,832**	290,103

	2016 '000	2015 '000
Number of shares: Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	**500,000**	450,278

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Machinery RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016						
At 31 December 2015 and 1 January 2016:						
Cost	61,720	14,478	791	10,587	—	87,576
Accumulated depreciation	(6,264)	(5,934)	(594)	(7,066)	—	(19,858)
Net carrying amount	55,456	8,544	197	3,521	—	67,718
At 1 January 2016, net of accumulated depreciation	55,456	8,544	197	3,521	—	67,718
Additions	—	1,915	—	2,958	5,033	9,906
Transfers	5,033	—	—	—	(5,033)	—
Depreciation provided during the year	(3,084)	(2,514)	(66)	(2,400)	—	(8,064)
At 31 December 2016, net of accumulated depreciation	57,405	7,945	131	4,079	—	69,560
At 31 December 2016:						
Cost	66,753	16,393	791	13,545	—	97,482
Accumulated depreciation	(9,348)	(8,448)	(660)	(9,466)	—	(27,922)
Net carrying amount	57,405	7,945	131	4,079	—	69,560
31 December 2015						
At 31 December 2014 and 1 January 2015:						
Cost	46,657	10,337	779	9,165	—	66,938
Accumulated depreciation	(3,362)	(4,013)	(520)	(5,000)	—	(12,895)
Net carrying amount	43,295	6,324	259	4,165	—	54,043
At 1 January 2015, net of accumulated depreciation	43,295	6,324	259	4,165	—	54,043
Additions	—	4,706	12	1,456	26,955	33,129
Disposals	—	(337)	—	(34)	—	(371)
Transfers	15,063	—	—	—	(26,955)	(11,892)
Depreciation provided during the year	(2,902)	(2,149)	(74)	(2,066)	—	(7,191)
At 31 December 2015, net of accumulated depreciation	55,456	8,544	197	3,521	—	67,718
At 31 December 2015:						
Cost	61,720	14,478	791	10,587	—	87,576
Accumulated depreciation	(6,264)	(5,934)	(594)	(7,066)	—	(19,858)
Net carrying amount	55,456	8,544	197	3,521	—	67,718

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

At 31 December 2016, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB42,483,000 (2015: RMB44,762,000) were pledged to secure bank loans granted to the Group (note 27).

14. INVESTMENT PROPERTIES

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**161,000**	127,000
Transfer from owner-occupied property	**—**	43,000
Disposals	**—**	(13,483)
Net gain from a fair value adjustment	**3,000**	4,483
Carrying amount at 31 December	**164,000**	161,000

The Group's investment properties consist of three commercial properties in China. The directors of the Company have determined that the investment properties consist of two classes of assets, i.e., retail and office, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2016 based on valuations performed by DTZ Debenham Tie Leung Limited ("**DTZ**"), an independent professionally qualified valuer, at RMB164,000,000 (2015: RMB161,000,000).

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 32.

At 31 December 2016, the Group's investment properties with a carrying value of RMB164,000,000 (2015: RMB118,000,000) were pledged to secure bank loans granted to the Group (note 27).

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31 December 2016

14. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy

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

	Fair value measurement as at 31 December 2016 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Retail properties	–	–	120,000	120,000
Office properties	–	–	44,000	44,000
	–	–	164,000	164,000

	Fair value measurement as at 31 December 2015 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Retail properties	–	–	118,000	118,000
Office properties	–	–	43,000	43,000
	–	–	161,000	161,000

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

14. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Retail properties RMB'000	Office properties RMB'000
Carrying amount at 1 January 2015	127,000	—
Additions	—	43,000
Disposal	(13,483)	—
Net gain from a fair value adjustment recognised in other income and gains in the statement profit or loss	4,483	—
Carrying amount at 31 December 2015 and 1 January 2016	118,000	43,000
Net gain from a fair value adjustment recognised in other income and gains in the statement profit or loss	2,000	1,000
Carrying amount at 31 December 2016	**120,000**	**44,000**

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

Investment properties	Valuation techniques	Significant unobservable inputs	Range of unobservable inputs 2016	2015
Retail properties	Income approach	Prevailing market rents	RMB22 to RMB130	RMB22 to RMB130
		Yield rate	7%	7%
Office properties	Income approach	Prevailing market rents	RMB69 to RMB115	RMB68 to RMB114
		Yield rate	7%	7%

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31 December 2016

14. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

Prevailing market rents are estimated based on recent letting transactions within the subject properties and other comparable properties. A significant increase (decrease) in the estimated rental value in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the yield rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by an opposite change in the yield rate.

15. PROPERTIES UNDER DEVELOPMENT

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**3,846,990**	2,329,867
Additions	**1,333,573**	1,562,421
Transfer to completed properties held for sale (note 19)	**(1,230,722)**	(45,298)
Carrying amount at 31 December	**3,949,841**	3,846,990
Less: Current portion	**(3,805,980)**	(3,689,517)
Non-current portion	**143,861**	157,473

Properties under development expected to be recovered:

	2016 RMB'000	2015 RMB'000
Within one year	**3,131,460**	2,393,242
After one year	**674,520**	1,296,275
	3,805,980	3,689,517

15. PROPERTIES UNDER DEVELOPMENT *(continued)*

At 31 December 2016, certain of the Group's properties under development with a carrying value of approximately RMB817,238,000 (2015: RMB1,232,706,000) were pledged to secure bank loans granted to the Group (note 27).

16. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	**2015 RMB'000**
Carrying amount at 1 January	**1,509**	1,554
Recognised during the year	**(45)**	(45)
Carrying amount at 31 December	**1,464**	1,509
Less: Current portion included in prepayments, deposits and other receivables	**(45)**	(45)
Non-current portion	**1,419**	1,464

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17. INTANGIBLE ASSETS

	Software RMB'000
31 December 2016	
Cost at 1 January 2016, net of accumulated amortisation	**711**
Additions	**267**
Amortisation provided during the year	**(348)**
At 31 December 2016	**630**
At 31 December 2016:	
Cost	**1,669**
Accumulated amortisation	**(1,039)**
Net carrying amount	**630**
31 December 2015	
Cost at 1 January 2015, net of accumulated amortisation	998
Amortisation provided during the year	(287)
At 31 December 2015	711
At 31 December 2015:	
Cost	1,402
Accumulated amortisation	(691)
Net carrying amount	711

18. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	2,026	720
Work in progress	—	1,493
Low value consumables	18	58
	2,044	2,271

19. COMPLETED PROPERTIES HELD FOR SALE

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	569,910	1,209,436
Transfer from properties under development (note 15)	1,230,722	45,298
Transfer to cost of properties sold	(744,825)	(684,824)
Impairment during the year	(9,036)	—
Carrying amount at 31 December	1,046,771	569,910

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments	14,168	54,347
Prepaid land lease payment	45	45
Other receivables	89,125	226,789
Other tax recoverable	102,480	96,148
	205,818	377,329

Other receivables are unsecured and non-interest-bearing and have no fixed terms of repayment.

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

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21. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Unlisted investments, at fair value	**493,810**	91,900

Unlisted investments represented investments in certain financial assets issued by licensed financial institutions in Mainland China. The financial assets in the investments bear expected yield rates of 2.1% to 3.9% per annum upon maturity in the current year (2015: 2.2% to 4.35%).

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 RMB'000	2015 RMB'000
Total cash and bank balances, including pledged deposits	**304,917**	659,374
Less: Pledged deposits	**(14,323)**	(42,159)
Cash and cash equivalents	**290,594**	617,215

At 31 December 2016, the cash and bank balances of the Group denominated in RMB amounted to RMB284,678,000 (2015: RMB419,116,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

At 31 December 2016, no pledged deposits were frozen pursuant to a civil ruling issued by the Jinzhong Intermediate People's Court in relation to the lawsuit filed by Shanxi Yuci Huayi Section Steel Industrial Co., Ltd. ("Shanxi Yuci Huayi") (2015: RMB30,000,000).

23. TRADE PAYABLES

An aging analysis of the trade payables, based on the payment due date, is as follows:

	2016 RMB'000	2015 RMB'000
Less than 1 year	**876,859**	685,943
1 to 2 years	**90,328**	254,540
2 to 3 years	**97,748**	8,250
3 to 4 years	**7,584**	3,360
4 to 5 years	**510**	3,780
Over 5 years	**36,953**	35,311
	1,109,982	991,184

Trade payables are unsecured and interest-free and are normally settled based on the progress of construction.

24. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Payroll and welfare payable	**7,970**	7,944
Payables to government authority	**18,004**	15,844
Deposits related to sales of properties	**3,069**	3,100
Deposits related to construction	**1,177**	3,479
Sales commission payable	**4,966**	2,200
Payables to third parties	**23,011**	87,839
Interest payable	**1,671**	2,307
Advances from government		
— Phase I of Longtian Project[1]	**1,436,308**	1,056,536
— Beiliubao Project[2]	**3,926**	—
— Others	**1,267**	—
Taxes payable other than corporate income tax	**7,825**	649
	1,509,194	1,179,898

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24. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS*(continued)*

(1) Represented payment from the management committee and Finance Commission of the Economic Technology Development District, Jinzhong as development costs for the construction of Phase I of Longtian Project, which would be paid to the suppliers.

(2) Represented payment from the Finance Commission of the Economic Technology Development District, Jinzhong as development costs for the construction of Beiliubao Project, which would be paid to the suppliers.

Other payables are unsecured, non-interest-bearing and repayable on demand.

25. PROVISION

	Litigation compensation RMB'000
At 1 January 2015	—
Additional provision	7,213
At 31 December 2015 and 1 January 2016	7,213
Amounts utilised during the year	**(7,213)**
At 31 December 2016	**—**

On 16 March 2013, Shanxi Yuci Huayi filed an action in the Jinzhong Intermediate People's Court against Chen Xing, claiming compensation and damages in an aggregate amount of RMB40,077,420 on the grounds that Chen Xing failed to sell residential units and retail outlets at favorable prices agreed in accordance with the resettlement compensation agreement and supplemental agreement which Chen Xing entered into with Shanxi Yuci Huayi in November 2006.

25. PROVISION *(continued)*

On 22 January 2016, the Group received the judgement issued by the Supreme People's Court in relation to the litigation between Chen Xing and Shanxi Yuci Huayi that Chen Xing was ordered to pay Shanxi Yuci Huayi an aggregate sum of RMB7,150,650 for the compensation of the residential units and retail outlets. The Supreme People's Court also ordered that RMB61,855 of the legal costs for these appeal proceedings shall be borne by Chen Xing. A provision has been made as at 31 December 2015 according to the judgement. The Group has paid off the compensation and legal cost according to the judgement in 2016.

26. ADVANCES FROM CUSTOMERS

Advances from customers represented the sales proceeds received from buyers in connection with the Group's pre-sale of properties at the end of the reporting period.

27. INTEREST-BEARING BANK BORROWINGS

	2016			2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — secured	**5.22**	**2017**	**46,000**	6.63	2016	47,000
Current portion of long term bank loans — secured	**4.75–5.23**	**2017**	**195,000**	6.15–6.77	2016	322,000
			241,000			369,000
Non-current						
Bank loans — secured	**5.23**	**2018**	**40,000**	4.75–6.60	2018	293,000
			281,000			662,000

NOTES TO FINANCIAL STATEMENTS

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27. INTEREST-BEARING BANK BORROWINGS *(continued)*

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans:		
Within one year or on demand	**241,000**	369,000
In the second year	**40,000**	—
In the third to fifth years, inclusive	**—**	293,000
	281,000	662,000

Certain of the Group's bank loans are secured by:

(i) mortgages over the Group's buildings, which had an aggregate carrying value at the end of the reporting period of approximately RMB42,483,000 (2015: RMB44,762,000) (note 13);

(ii) mortgages over the Group's investment properties, which had an aggregate carrying value at the end of the reporting period of approximately RMB164,000,000 (2015: RMB118,000,000) (note 14); and

(iii) mortgages over the Group's properties under development, which had an aggregate carrying value at the end of the reporting period of approximately RMB817,238,000 (2015: RMB1,232,706,000) (note 15).

In addition, Mr. Bai Xuankui, the director and the Company's controlling shareholder, and Mr. Bai Wukui, the director and the chief executive officer of the Company, have guaranteed certain of the Group's bank loans up to RMB75,000,000 as at the end of the reporting period (2015: RMB93,000,000).

28. DEFERRED TAX

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

Deferred tax liabilities

	Fair value adjustment arising from investment properties RMB'000	Withholding tax RMB'000	Gain on property revaluation RMB'000	Total RMB'000
At 1 January 2015	27,000	–	–	27,000
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	(1,835)	24,983	–	23,148
Deferred tax charged to other comprehensive income during the year	–	–	7,777	7,777
Gross deferred tax liabilities at 31 December 2015 and 1 January 2016	**25,165**	**24,983**	**7,777**	**57,925**
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	**750**	**(10,041)**	**–**	**(9,291)**
Gross deferred tax liabilities at 31 December 2016	**25,915**	**14,942**	**7,777**	**48,634**

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28. DEFERRED TAX *(continued)*

Deferred tax assets

	Accrued LAT RMB'000	Prepaid corporate income tax RMB'000	Tax losses RMB'000	Accrued payroll RMB'000	Unrealised profit to the intra-group transactions RMB'000	Government grants RMB'000	Impairment of property held for sale RMB'000	Decelerated depreciation for tax purposes RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2015	11,051	78,730	–	1,395	406	67,704	–	–	159,286
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	(5,406)	(703)	882	876	(159)	(67,704)	–	–	(72,214)
Gross deferred tax assets at 31 December 2015 and 1 January 2016	5,645	78,027	882	2,271	247	–	–	–	87,072
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	(412)	47,729	(299)	(243)	398	–	2,259	228	49,660
Gross deferred tax assets at 31 December 2016	5,233	125,756	583	2,028	645	–	2,259	228	136,732

28. DEFERRED TAX *(continued)*

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

	2016 RMB'000	2015 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**103,040**	54,130
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(14,942)**	(24,983)

Deferred tax assets have not been recognised in respect of the following item:

	2016 RMB'000	2015 RMB'000
Tax losses	**1,064**	—

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty/arrangement between Mainland China and the jurisdiction of the foreign investors and the foreign investors are the beneficial owners of the dividends. The Group is therefore liable to withholding taxes on dividends distributed by those foreign invested subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. For the Group, the applicable rate is 10%.

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28. DEFERRED TAX *(continued)*

Deferred tax liabilities are recognised based on the estimated dividend of RMB134,175,000 to be distributed from the distributable earnings of the year ended 31 December 2016 from the subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries established in Mainland China will distribute the remaining earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB380,651,000 as at 31 December 2016 (2015: RMB369,677,000).

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

29. SHARE CAPITAL

	2016 RMB'000	2015 RMB'000
Issued and fully paid:		
500,000,000 (2015: 500,000,000) ordinary shares	**4,003**	4,003

29. SHARE CAPITAL *(continued)*

A summary of movements in the Company's share capital and share premium is as follows:

	Note	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2015		7,228	—	—	—
Issue of shares on 16 January 2015	(a)	2,772	—	—	—
Capitalisation issue	(b)	399,990,000	3,202	(3,202)	—
Issue of shares on 3 July 2015	(c)	100,000,000	801	239,350	240,151
Share issue expenses		—	—	(16,730)	(16,730)
At 31 December 2015, 1 January 2016 and 31 December 2016		**500,000,000**	**4,003**	**219,418**	**223,421**

Notes:

(a) Pursuant to an ordinary resolution passed on 12 January 2015, a total of 2,772 ordinary shares of HK$.001 each were issued at par to the existing shareholders.

(b) Pursuant to an ordinary resolution passed on 12 June 2015, 399,990,000 ordinary shares of HK$0.01 each were allotted and issued, credited as fully paid at par, by way of capitalisation from the share premium account to the holders of shares whose names appeared on the register of members of the Company at the close of business on 12 June 2015 in proportion to their respective shareholdings. This allotment and capitalisation issue were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in note (c) below.

(c) In connection with the Company's initial public offering, 100,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$3.00 per share for a total cash consideration, before expenses, of approximately HK$300,000,000 (equivalent to RMB240,151,000). Dealings in the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited commenced on 3 July 2015.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 241 to 242 of the financial statements.

Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are registered in the PRC as domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Capital reserve

Capital reserve of the Group represents the aggregate amount of the paid-up capital of those companies comprising the Group prior to the incorporation of the Company.

On 12 September 2013, Sichuan Changxing (Holdings) Limited ("Sichuan Changxing") injected additional capital of RMB139,200,000 into Chen Xing Sichuan. Upon completion of the capital contribution, the shareholding of the Group in Chen Xing Sichuan decreased from 100% to 83.89%. The difference between the contributed amount of RMB139,200,000 net of tax of RMB1,375,000 and the share of net assets of Chen Xing Sichuan by Sichuan Changxing was recorded as capital reserve.

On 24 December 2014 and as part of the reorganisation, the Group acquired Chen Xing from the shareholders of Chen Xing at a cash consideration of RMB203,809,000 which was fully paid in January 2015.

31. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group are included in notes 13, 14, 15 and 27 to the financial statement.

32. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally require the tenants to pay security deposits.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**7,813**	9,223
In the second to ten years, inclusive	**19,927**	15,458
	27,740	24,681

As lessee

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms of one to two years.

As at the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**323**	262
In the second to fifth years, inclusive	**405**	—
	728	262

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33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Property development activities	**1,730,898**	1,579,416

34. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Guarantees given to banks in respect of mortgage facilities granted to the purchasers of the Group's properties	**2,454,696**	866,697

The Group provided guarantees in respect of mortgage facilities granted by certain banks to the purchasers of the Group's completed properties held for sale. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to those banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee period commences from the date of grant of the relevant mortgage loan and ends at the execution of individual purchaser's collateral agreement.

The Group did not incur any material losses during the reporting period in respect of the guarantees provided for mortgage facilities granted to the purchasers of the Group's completed properties held for sale. The directors considered that in case of default on payments, the net realisable value of the related properties would be sufficient to repay the outstanding mortgage loans together with any accrued interest and penalty, and therefore no provision has been made in connection with the guarantees.

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35. RELATED PARTY TRANSACTIONS

Details of the Group's principal related parties are as follows:

Name	Relationship
Mr. Bai Xuankui	Director, the ultimate controlling shareholder
Mr. Bai Wukui	Director, the chief executive officer of the Company
Mr. Bai Guohua	Director, the ultimate controlling shareholder
Shanxi Wanjia Property Service Co., Ltd. ("**Shanxi Wanjia**")	Company controlled by the daughter of Mr. Bai Xuankui
Shanxi Wanzhong Heating Co., Ltd. ("**Shanxi Wanzhong**")	Company controlled by the daughter of Mr. Bai Xuankui
Shanghai Xuanyu Investment Management Center ("**Shanghai Xuanyu**")	Company controlled by Mr. Bai Xuankui

35. RELATED PARTY TRANSACTIONS *(continued)*

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the reporting period:

	Note	2016 RMB'000	2015 RMB'000
Settlement of advance from a director Mr. Bai Guohua		—	733
Refund of advance from a related party Shanxi Wanjia		—	3,124
Loans from a related party Shanghai Xuanyu	(i)	—	80,000
Repayment of loans from a related party Shanghai Xuanyu	(i)	80,000	—
Interest expense to a related party Shanghai Xuanyu		2,405	1,747
Payment on behalf of a related party Shanxi Wanjia		—	159
Refund of payment on behalf of a related party Shanxi Wanjia		159	—
Property management service from a related party Shanxi Wanjia		337	—
Heating service from a related party Shanxi Wanzhong		230	—

(i) The loans of RMB50,000,000 and RMB30,000,000 were unsecured, due in September 2017 and August 2017, repaid in May 2016 and June 2016, respectively, and bore interest at 6.98% per annum.

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35. RELATED PARTY TRANSACTIONS *(continued)*

(b) Other transactions with related parties:

Mr. Bai Xuankui and Mr. Bai Wukui have guaranteed certain of the Group's bank loans up to RMB75,000,000 (2015: RMB93,000,000) as at the end of the reporting period, as further detailed in note 27 to the financial statements.

(c) Outstanding balances with related parties:

The Group had the following significant balances with its related parties during the reporting period:

	Note	2016 RMB'000	2015 RMB'000
Due from a related party			
Shanxi Wanjia	(i)	—	159
Due to a director			
Mr. Bai Guohua	(i)	93	85
Due to related parties — current			
Shanxi Wanjia	(i)	337	—
Shanxi Wanzhong	(i)	230	—
Shanghai Xuanyu	(i)	—	892
		567	892
Due to a related party — non-current			
Shanghai Xuanyu	(ii)	—	80,000

Notes:

(i) The balances were repayable on demand, unsecured and interest-free.

(ii) The balances of RMB50,000,000 and RMB30,000,000 were unsecured, due in September 2017 and August 2017, repaid in May 2016 and June 2016, respectively, and bore interest at 6.98% per annum.

35. RELATED PARTY TRANSACTIONS *(continued)*

(d) Compensation of key management personnel of the Group:

	2016 RMB'000	2015 RMB'000
Short term employee benefits	**2,991**	2,220
Pension scheme contributions	**221**	214
Total compensation paid to key management personnel	**3,212**	2,434

Future details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2016

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	**—**	**493,810**	**493,810**
Financial assets included in prepayments, deposits and other receivables	**89,125**	**—**	**89,125**
Cash and cash equivalents	**290,594**	**—**	**290,594**
Pledged deposits	**14,323**	**—**	**14,323**
	394,042	**493,810**	**887,852**

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36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2016

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	1,109,982
Financial liabilities included in other payables, deposits received and accruals	44,083
Interest-bearing bank borrowings	281,000
Due to related parties	567
Due to a director	93
	1,435,725

2015

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	91,900	91,900
Financial assets included in prepayments, deposits and other receivables	226,789	—	226,789
Cash and cash equivalents	617,215	—	617,215
Pledged deposits	42,159	—	42,159
Due from a related party	159	—	159
	886,322	91,900	978,222

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2015

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	991,184
Financial liabilities included in other payables, deposits received and accruals	114,247
Interest-bearing bank borrowings	662,000
Due to a related party	80,892
Due to a director	85
	1,848,408

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables, deposits received and accruals, the current portion of interest-bearing bank borrowings, amounts due from/to directors and related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

Management has assessed that the fair values of the non-current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the fact that such borrowings were made between the Group and an independent third party financial institution based on prevailing market interest rates.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the board of directors. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors twice a year for interim and annual financial reporting.

The fair values of the available-for-sale investments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for available-for-sale investments as at the end of the reporting period was assessed to be insignificant.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	**—**	**493,810**	**—**	**493,810**

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	—	91,900	—	91,900

The Group did not have any financial liabilities measured at fair value as at the end of the reporting period.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2015: Nil).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly include cash and bank balances, pledged deposits, trade receivables and trade payables, which arise directly from its operations. The Group has other financial assets and liabilities such as interest-bearing bank borrowings, amount due to a director and related parties, other receivables and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. To keep the Group's exposure to these risks to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The chief financial officer reviews and agrees policies for managing each of these risks and they are summarised below:

Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings set out in note 27. The Group does not use derivative financial instruments to hedge interest rate risk. The Group manages its interest cost using variable rate bank borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2016		
RMB	**0.5%**	**(1,405)**
RMB	**(0.5%)**	**1,405**
2015		
RMB	0.5%	(3,310)
RMB	(0.5%)	3,310

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in Hong Kong dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in HK$ rate %	Increase/ (decrease) in profit before tax RMB'000
2016		
If RMB weakens against HK$	**5**	**865**
If RMB strengthens against HK$	**(5)**	**(865)**
2015		
If RMB weakens against HK$	5	11,455
If RMB strengthens against HK$	(5)	(11,455)

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations.

The Group has no concentrations of credit risk in view of its large number of customers. The Group did not record any significant bad debt losses during the reporting period.

The credit risk of the Group's other financial assets, which mainly comprise pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. Cash flows are closely monitored on an ongoing basis.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, is as follows:

Year ended 31 December 2016

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
borrowings	–	3,559	173,875	118,610	–	296,044
Trade payables	1,109,982	–	–	–	–	1,109,982
Financial liabilities included in other payables, deposits received and accruals	44,083	–	–	–	–	44,083
Due to related parties	567	–	–	–	–	567
Due to a director	93	–	–	–	–	93
	1,154,725	3,559	173,875	118,610	–	1,450,769
Financial guarantees issued: Maximum amount guaranteed (note 34)	2,454,696	–	–	–	–	2,454,696

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Year ended 31 December 2015

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	88,218	325,339	323,544	—	737,101
Trade payables	991,184	—	—	—	—	991,184
Financial liabilities included in other payables, deposits received and accruals	114,247	—	—	—	—	114,247
Due to a related party	—	—	—	90,315	—	90,315
Due to a director	85	—	—	—	—	85
	1,105,516	88,218	325,339	413,859	—	1,932,932
Financial guarantees issued:						
Maximum amount guaranteed (note 34)	866,697	—	—	—	—	866,697

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement.

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31 December 2016

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is total debt divided by total equity. Total debt includes interest-bearing bank borrowings and amounts due to related parties. The gearing ratios as at the end of the reporting periods were as follows:

	2016 RMB'000	2015 RMB'000
Interest-bearing bank borrowings	**281,000**	662,000
Due to related parties	**567**	80,892
Total debt	**281,567**	742,892
Total equity	**1,062,035**	1,123,280
Gearing ratio	**26.51%**	66.14%

39. EVENTS AFTER THE REPORTING PERIOD

On 20 January 2017, the Group succeeded in the bid at the listing-for-sale for four parcels of land located in Jinzhong Economic and Technology Development Zone with an aggregate site area of 197,285.28 sq.m. for an aggregate consideration of RMB352,600,000. The Group had received confirmation of completion in relation to successful bidding for transfer of land use right on 20 January 2017. The Group is preparing to enter into land transfer contracts for the completion of land acquisition.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary	**895**	838
Total non-current asset	**895**	838
CURRENT ASSETS		
Due from subsidiaries	**229,895**	1,173
Cash and cash equivalents	**18,994**	229,016
Total current assets	**248,889**	230,189
CURRENT LIABILITIES		
Due to a director	**3**	1
Due to subsidiaries	**12,818**	12,756
Total current liabilities	**12,821**	12,757
NET CURRENT ASSETS	**236,068**	217,432
TOTAL ASSETS LESS CURRENT LIABILITIES	**236,963**	218,270
NET ASSETS	**236,963**	218,270
EQUITY		
Share capital	**4,003**	4,003
Reserves (note)	**232,960**	214,267
TOTAL EQUITY	**236,963**	218,270

NOTES TO FINANCIAL STATEMENTS

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40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	–	–	–	–
Total comprehensive loss for the year	–	–	(15,362)	(15,362)
Exchange differences on translation of foreign operations	–	10,211	–	10,211
Issue of shares	239,350	–	–	239,350
Capitalisation issue	(3,202)	–	–	(3,202)
Share issue expenses	(16,730)	–	–	(16,730)
At 31 December 2015	219,418	10,211	(15,362)	214,267
Final 2015 dividend declared	—	—	(211,725)	(211,725)
Total comprehensive income for the year	—	—	226,876	226,876
Exchange differences on translation of foreign operations	—	3,542	—	3,542
At 31 December 2016	219,418	13,753	(211)	232,960

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2017.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. The summary does not form part of the notes to financial statements.

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**1,081,989**	966,213	825,888	303,200	258,504
Cost of sales	**(745,308)**	(684,824)	(587,443)	(219,920)	(184,018)
Gross profit	**336,681**	281,389	238,445	83,280	74,486
Other income and gains	**10,248**	292,871	5,528	1,795	16,248
Selling and distribution expenses	**(58,879)**	(47,420)	(38,655)	(18,590)	(22,224)
Administrative expenses	**(38,104)**	(60,778)	(36,301)	(23,670)	(22,994)
Other expenses	**(9,823)**	(19,553)	(224)	(753)	(3)
Finance costs	**(3,763)**	(6,894)	(2,161)	(5,753)	(6,483)
Share of loss of a joint venture	**—**	—	(151)	—	—
PROFIT BEFORE TAX	**236,360**	439,615	166,481	36,309	39,030
Income tax expense	**(89,398)**	(151,583)	(60,046)	(22,216)	(18,172)
PROFIT FOR THE YEAR	**146,962**	288,032	106,435	14,093	20,858
Attributable to:					
Owners of the parent	**151,832**	290,103	104,342	14,434	20,858
Non-controlling interests	**(4,870)**	(2,071)	2,093	(341)	—
	146,962	288,032	106,435	14,093	20,858

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**6,359,523**	5,848,824	4,450,076	2,901,015	2,556,145
TOTAL LIABILITIES	**(5,297,488)**	(4,725,544)	(3,871,815)	(2,182,422)	(1,989,470)
NON-CONTROLLING INTERESTS	**(79,534)**	(84,404)	(86,475)	(35,575)	—
	982,051	1,038,876	491,786	683,018	566,675

CHEN XING