



瑞安房地產
SHUI ON LAND

SHUI ON LAND LIMITED
瑞安房地產有限公司

NEW 建立合作 開拓機遇
PARTNERSHIPS
NEW
OPPORTUNITIES

INTERIM REPORT 2017

二零一七年度中期業績報告

Stock Code 股份代號 : 272

PERFORMANCE
BALANCE
STRENGTH



INNOVATIVE PROPERTY DEVELOPER IN CHINA

Established in 2004 and listed on The Stock Exchange of Hong Kong (Stock Code: 272) in October 2006, Shui On Land Limited is the Shui On Group's flagship property development company in the Chinese Mainland. Headquartered in Shanghai, Shui On Land has established a solid foundation in the Chinese Mainland and has a proven track record in developing mixed-use, sustainable communities.

Shui On Land develops and operates high-quality residential, office, retail, entertainment and cultural properties in the Chinese Mainland. Shui On Land applies its hallmark approach of master-planning to all projects to ensure that developments are fully consistent with government objectives in economic development and urban planning while simultaneously incorporating local historical and cultural characteristics into our designs and planning. Manifesting the "Total Community" concept, our projects provide a unique environment enabling life enrichment of "Live-Work-Play".

Shui On Land's landbank stood at 11.7 million sq.m. (9.8 million sq.m. of leasable and saleable GFA, and 1.9 million sq.m. of clubhouses, car parking spaces and other facilities). Its nine projects, in various stages of development, are all situated in prime locations within the key cities of Shanghai, Chongqing, Wuhan, Dalian and Foshan.

CONTENTS 目錄

2	Chairman's Statement 主席報告	64	Interim Dividend 中期股息
6	Management Discussion and Analysis 管理層討論與分析	64	Directors' Interests in Securities 董事於證券的權益
31	Report on Review of Condensed Consolidated Financial Statements 簡明綜合財務報表審閱報告	65	Substantial Shareholders' Interests in Securities 主要股東於證券的權益
32	Condensed Consolidated Statement of Profit or Loss 簡明綜合損益表	66	Share Options 購股權
33	Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income 簡明綜合損益及其他全面收益表	67	Corporate Governance 企業管治
34	Condensed Consolidated Statement of Financial Position 簡明綜合財務狀況表	69	Purchase, Sale or Redemption/Cancellation of Listed Securities 購買、出售或贖回/註銷上市證券
36	Condensed Consolidated Statement of Changes in Equity 簡明綜合權益變動表	69	Disclosure under Rule 13.21 of the Listing Rules 根據上市規則第 13.21 條作出的披露
38	Condensed Consolidated Statement of Cash Flows 簡明綜合現金流量表	71	Update on Information of Directors under Rule 13.51B(1) of the Listing Rules 根據上市規則第 13.51B(1) 條披露有關董事 資料之更新
39	Notes to the Condensed Consolidated Financial Statements 簡明綜合財務報表附註	71	Employees and Remuneration Policy 僱員及薪酬政策
		72	Corporate Information 公司資料



Our improved cash flow will allow us to replenish our landbank and invest in new projects that generate higher profit, while the partnerships will help accelerate the pace at which we complete new development projects.

CHAIRMAN'S STATEMENT

In the first six months of 2017 the Group made good progress towards laying the foundation for improved shareholder returns. This progress is especially encouraging given the challenging market conditions that have resulted from Chinese government policies aimed at stabilising the property market, which have affected contracted sales.

Our determination to execute our Asset Light Strategy is evident from the achievements we have made in improving the strength and balance of the Group during the period, as we continue to implement our game plan to enhance our financial position and rebalance our portfolio. An important and exciting new element of our strategy is working in partnership with other companies in China, and our first such venture, which began earlier this year, has been very encouraging. Although improved financial performance remains a work in progress, the Group is now intently focused on profitability, after having greatly strengthened our balance sheet in the past two years. Our improved cash flow will allow us to replenish our landbank and invest in new projects that generate higher profit, while the partnerships will help accelerate the pace at which we complete new development projects. We thus have a solid platform for expansion in the years ahead.

FINANCIAL HIGHLIGHTS

For the period under review, the Group recorded a turnover of RMB10,166 million, an increase of 185% compared to RMB3,571 million in the first half of 2016. The strong growth was primarily driven by the robust residential sales contracted in 2016 and the disposal of the majority equity interests in the portfolio of 11 parcels in the Chongqing project. Rental and related income increased by 19% to RMB946 million, with the contribution of three new retail properties and higher rentals at existing portfolio.

Gross profit margin increased by 20 percentage points to 43% with more Shanghai residential sales being recognised. Gross profit increased by 449% to RMB4,418 million and operating profit increased by 611% to RMB4,061 million.

Profit attributable to shareholders was RMB898 million in the first half of 2017, a 17% increase compared to RMB768 million in the same period in 2016.

MARKET CHALLENGES

The global economy has continued to expand during 2017, albeit at the more moderate pace established since the global financial crisis. The Chinese economy is performing considerably better than other major economies and above Government targets, with gross domestic product increasing by 6.9% in the first six months of the year.

China's economic growth has been accompanied by Government policies designed to reduce dependence on exports and increase domestic consumption, which in recent years has lent support to the property market. Such has been the strength of demand for property, however, that the Government has responded during 2017 with a series of local and national measures designed to stabilise the market. The restrictive measures are unprecedented and include imposing controls on granting pre-sale permits, price controls, as well as restrictions on home purchases and residential mortgages.



CHAIRMAN'S STATEMENT

Although these measures have not curbed actual demand, which remains very strong, they have affected the timing of sales and the ability of developers to convert subscribed sales into contracted sales, especially in top-tier cities such as Shanghai. The Group expects the restrictions to continue into the second half of the year, creating uncertainties as to the timing, volume and pricing of contracted sales for the full year.

SALES AND RENTAL PERFORMANCE

SALES

Notwithstanding the Government's policy restraints, we saw steady sales of our residential developments during the first half of 2017.

In Shanghai, Rui Hong Xin Cheng ("RHXC"), our master-planned integrated community, continued to lead sales overall. A second batch of units in the Phase 7 residential development at RHXC, called The Gallery, was launched in April. The batch comprised 232 units with a total gross floor area ("GFA") of 44,495 square metres ("sq.m."). Sales performance was outstanding with a 92% sale through rate on the first day of launch.

In addition to residential sales, the Group continues to pursue our Asset Light Strategy of improving our asset turnover and financial returns through en-bloc and large scale asset disposals. In May, we announced the disposal of a 79.2% interest in the partnership portfolio of our Chongqing project to China Vanke Co., Ltd ("Vanke"). Not only did this transaction unlock a substantial amount of profit from the project, it also established a joint venture between the Group and Vanke, a leading developer in China. More details on this transaction can be found in the section "Partnerships for the Future".

For the first six months of 2017, total accumulated contracted property sales and other asset disposal amounted to RMB8,530 million, comprising residential property sales of RMB2,833 million, commercial property sales of RMB1,564 million and other asset disposal of RMB4,133 million, respectively.

The decrease in contracted sales as compared with the same period of 2016 was mainly due to the aforementioned Government measures to stabilise the property market. By contrast, subscribed property sales for the period grew by a robust 37% to RMB4,035 million, on the back of very strong market demand.

Looking ahead, the Group has residential assets from five projects now under construction with a total GFA of 410,100 sq.m. for sale and pre-sale in the second half of 2017, of which 99,800 sq.m. are in Shanghai. The contracted sales amount from these projects will depend on the granting of pre-sale permits by local governments.

RENTAL

The Group's commercial rental portfolio has benefited from the recent openings of three new retail properties with a combined GFA of 253,000 sq.m., as well as higher rentals at its more established properties.

In Foshan, the Group opened its "young and trendy" shopping mall NOVA in April last year, followed in September by the opening of the HORIZON shopping mall in Wuhan. In Shanghai, Hall of the Moon, part of the RHXC complex, commenced retail operations in December last year and had its grand opening in June 2017.

As at 30 June 2017, these three properties were 89%, 85% and 82% occupied respectively and their addition has been a major factor driving rental growth. Gradual progress is being made in improving the rental returns on these new properties, such as through encouraging higher footfall.

The shift towards domestic consumption and the continuing strength of the Chinese economy has led to a boom in lifestyle retail. This is benefiting not just the new properties, but also the Group's existing commercial developments. In Shanghai, Xintiandi, the retail, entertainment, office and cultural destination we opened in 2002, has seen record traffic and sales. Improved returns from such properties was another contributor to the 19% increase in rental income during the first six months.

PARTNERSHIPS FOR THE FUTURE

During the first half of 2017, the Group entered into its first partnerships under Asset Light Strategy in China, a new milestone that will see us working increasingly with strong local players in the Chinese property market. These partnerships will reduce risk and increase returns, while enabling us to replenish our landbank to ensure a strong pipeline of future projects.

The Group is attractive to partners because of our strength in commercial development and our expertise in devising innovative solutions to urbanisation based on a "Total Community" approach that creates unique environments encompassing "live, work, learn and play".

In January this year, we announced the success of our joint bid for a plot of land in a central location of Wuhan Optics Valley Central City, part of the East Lake High-tech Development Zone, in partnership with CITIC Limited (“CITIC”), a subsidiary of China’s CITIC Corporation Group. This marks a major milestone for land acquisition as it is the first time the Group has teamed up with a partner to bid for land and the transaction opens the way to exciting synergies. The land is earmarked for a mixed-use development project with an estimated developable GFA of approximately 1,278,898 sq.m..

The land acquired together with CITIC is immediately ready for development. We expect to start building by the end of this year and target initial sales towards the end of 2018. This shortens the development cycle by half as compared with our traditional approach, showing our progress in targeting greater efficiency and profitability. The Group’s estimated investment will be RMB1,410 million.

Our second partnership began in May with Vanke and the transaction of our interests in the Chongqing Tiandi portfolio. The sale of these assets has unlocked their hidden value, yielding total net proceeds of RMB3,923 million and a profit of RMB1,699 million. The cash inflow frees up capital for new, more profitable projects. Following the sale, we retain 19.8% interests in the partnership portfolio and 99% interests in the remaining portfolio in Chongqing Tiandi, which will maintain its brand name. As such, we will participate in the upcoming development and operation of the project, while being well placed to seek new business opportunities.

OUTLOOK

China has made progress in recent years in rebalancing its economy away from reliance on exports more towards domestic demand, with the property market a key driver. Its commerce is also less dependent on developed country demand, given the growing trade ties with other countries, especially in Asia. Nonetheless, China cannot be entirely immune from global trends and there are uncertainties, including the prospect of further interest rate rises in the US. Rising levels of debt are also a concern.

Regardless of the external environment, we continue to follow our three-pronged strategy to improve the strength, balance and performance of our business. We will strengthen the balance sheet through further asset disposals where these appear advantageous. The significant amount of debt maturing this year also presents an opportunity to re-finance our investments at significantly lower cost, which will drive

down our cost of borrowing. As of July, the Group has already repaid or refinanced RMB7,259 million equivalent of US dollar and China Offshore Spot Renminbi senior notes.

Further refinements to our Asset Light Strategy will improve the balance of the Group’s businesses and this will be enhanced by our new partnerships with CITIC and Vanke, and other potential partners. As noted, these partnerships are reducing risk and allowing us to replenish our landbank in a way that will accelerate turnover and increase returns from property development. We will seek similarly attractive opportunities in the months and years ahead. Such partnerships will form the basis of the Group’s growth strategy going forward as we take advantage of the Group’s strong brand, innovation and management capabilities.

To achieve our goals we need fully committed and talented managers leading the Group. I am pleased to say that the younger management team we put in place last year has been effective in driving the far-reaching changes we are making to the business. We will continue to enhance our management to ensure the efficient execution of our strategy and improve our ability to respond to the market, in order to unlock further value from our assets.

A NOTE OF THANKS

I wish to take this opportunity to thank the members of the Board for the perceptive advice they have continued to give, and to all of our colleagues for their hard work and commitment to excellence throughout.

The progress we have made in increasing the strength and improving the balance of our businesses is encouraging. Although challenges lie ahead, in part due to the uncertainties that hover over the global economy, I believe we have laid a solid foundation which should benefit shareholders in the longer term.



Vincent H. S. LO
Chairman

Hong Kong, 23 August, 2017

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

For the first half ended 30 June 2017 (“1H 2017”), the Group recorded turnover of RMB10,166 million, comprised of RMB5,857 million of property sales (excluding other asset disposal), RMB946 million of rental and related income (including income from hotel operations) and RMB3,229 million from disposing 79.2% of the interests in the portfolio of 11 parcels (“Partnership Portfolio”) in the Chongqing project. These represented 58%, 9% and 32% of total turnover respectively. RMB107 million was contributed by the construction business and the remaining RMB27 million was generated from other business.

Gross profit increased to RMB4,418 million in 1H 2017 compared to RMB805 million in the first half of 2016 (“1H 2016”). Gross profit margin substantially increased 20 percentage points to

43% in 1H 2017, as the turnover recognised in 1H 2017 was mainly contributed by Shanghai residential projects contracted in 2016.

As control measures imposed by Chinese government designed to stabilise the property market continued in 1H 2017, contracted property sales and other asset disposal of the Group decreased by 49% to RMB8,530 million in 1H 2017, compared to RMB16,642 million in 1H 2016. Residential property sales accounted for 33% and the remaining 67% was contributed by commercial property sales and other asset disposal. Average Selling Price ("ASP") for residential sales increased by 11% to RMB42,700 per sq.m., compared to RMB38,300 per sq.m. in 1H 2016.

In 1H 2017, the Group recorded a net increase in fair value of its remaining investment property portfolio, totalling RMB207 million. Overall valuation of our investment property portfolio was stable since no investment property development had been sold or completed during the reported period.

Profit for the period was RMB1,168 million in 1H 2017 compared to RMB1,128 million in 1H 2016. Profit attributable to shareholders was RMB898 million in 1H 2017, compared to RMB768 million in 1H 2016. The substantial one-off gain recorded in 1H 2016 has been offset by the strong property sales profit booked in 1H 2017.

The Group's core earnings increased by 13% to RMB1,487 million in 1H 2017.

As of 30 June 2017, total locked-in sales including disposal of commercial properties and contributions from its Dalian

associates for delivery in the second half of 2017 ("2H 2017") and beyond, were RMB10,194 million, with a total GFA of 450,000 sq.m.. In addition to the contracted property sales and other asset disposal outlined above, as of 30 June 2017, a total GFA of 46,000 sq.m., producing a total value of RMB4,035 million, was subscribed and subject to formal sales and purchase agreements.

As of 30 June 2017, the Group's total assets were RMB121,662 million. The Group's total cash and bank deposits were RMB17,704 million and the net gearing ratio was 57%, a decrease of 11 percentage points over 31 December 2016.

PROPERTY SALES

RECOGNISED PROPERTY SALES

For 1H 2017, total recognised property sales, including property sales recognised as turnover, disposal of investment properties, disposal of property, plant and equipment, disposal of equity in subsidiaries holding commercial properties and turnover of associates, were RMB12,558 million (after deduction of applicable taxes), representing an increase of 44% for a total GFA of 1,420,600 sq.m.. ASP (excluding other asset disposal) increased by 35% to RMB48,600 per sq.m. compared to 1H 2016.

Property sales (after deduction of applicable taxes) recognised as turnover increased by 247% to RMB9,086 million, on a total GFA sold of 781,700 sq.m.. It included the disposal of 79.2% of the interests in Partnership Portfolio in Chongqing's property inventories of RMB3,229 million.



▶ Lakeville Luxe is highly recognised by customers

MANAGEMENT DISCUSSION AND ANALYSIS

Property sales recognised as disposal of subsidiaries holding commercial properties amounting to RMB1,937 million were contributed by disposal of 79.2% of the interests in Partnership Portfolio in Chongqing's commercial portion representing a GFA of 555,700 sq.m.. Property sales recognised as disposal of investment properties of RMB1,021

million consisted of selling a hotel and street front shops (The Palette 2 retail) at Shanghai RHXC.

Recognised property sales for Dalian Tiandi stood at RMB493 million, and its related profit or loss was reflected in the share of results of associates, to the extent of the Group's interest in the project.

The table below summarises by project the recognised property sales (stated after the deduction of applicable taxes) for 1H 2017 and 1H 2016:

PROJECT	1H 2017			1H 2016 ¹		
	Sales revenue	GFA sold	ASP ²	Sales revenue	GFA sold	ASP ²
	RMB' million	sq.m.	RMB per sq.m.	RMB' million	sq.m.	RMB per sq.m.
Shanghai Taipingqiao						
Residential	776	5,900	139,200	–	–	–
3 Corporate Avenue	–	–	–	5,700	87,300	65,300
Shanghai RHXC						
Residential	4,790	60,000	84,600	4	100	42,400
Retail	548	11,700	49,500	47	1,000	49,800
Hotel	473	15,500	32,300	–	–	–
Chongqing Tiandi						
Residential ³	20	2,400	10,400	141	16,500	11,000
Office & Retail	90	5,800	16,700	56	1,900	31,100
Foshan Lingnan Tiandi						
Townhouses	55	2,400	24,200	26	1,300	20,800
Low-/mid-/high-rises	7	700	10,000	430	37,000	12,300
Retail	32	1,000	34,000	36	1,100	34,500
SUBTOTAL	6,791	105,400	68,200	6,440	146,200	44,300
Carparks and others	108	–	–	94	–	–
Dalian Tiandi⁴						
Mid-/high-rises	446	51,600	9,200	330	44,700	7,800
Villas	47	4,400	11,400	10	1,100	10,000
SUBTOTAL	7,392	161,400	48,600	6,874	192,000	36,100
Other asset disposal:						
Chongqing Tiandi	5,166	1,259,200		–	–	
Foshan Lingnan Tiandi (Lot 4)	–	–		1,842	231,500	
TOTAL	12,558	1,420,600		8,716	423,500	
Recognised as:						
– property sales in turnover of the Group ⁵	9,086	781,700		2,618	288,700	
– disposal of investment properties ⁵	1,021	27,200		58	1,700	
– disposal of property, plant and equipment	21	–		–	–	
– disposal of equity in subsidiaries holding commercial properties	1,937	555,700		5,700	87,300	
– turnover of associates	493	56,000		340	45,800	
TOTAL	12,558	1,420,600		8,716	423,500	

1 In 2016 interim financial report, sale of Foshan Yuan Kang (residential lands sales) was accounted as disposal of a subsidiary based on its legal form, and a loss on disposal of a subsidiary of RMB15 million was recognised. In accordance with the new revenue recognition policy under the Group's new Asset Light Strategy, revenue from the sale of Foshan Yuan Kang of RMB1,842 million and related cost of sales of RMB1,846 million were recognised at the completion date and 1H 2016 actual amounts were restated.

2 The calculation of ASP per sq.m. is based on gross sales revenue before the deduction of business/value-added tax and other surcharges/taxes.

3 ASP of Chongqing residential sales is based on net floor area, a common market practice in the region.

4 Dalian Tiandi is a project developed by associates of the Group.

5 Sales of commercial properties are recognised as "turnover" if the properties concerned are designated for sale prior to the commencement of development. Sales of commercial properties previously designated as held for capital appreciation or rental income are recognised as "disposal of investment properties".



Show flat of Rui Hong Xin Cheng • The Gallery

CONTRACTED PROPERTY SALES AND OTHER ASSET DISPOSAL

The Group's contracted property sales and other asset disposal dropped 49% to RMB8,530 million in 1H 2017, compared to RMB16,642 million in 1H 2016. Residential property sales accounted for 33%, commercial property sales accounted for 18% and the remaining 49% was contributed by other asset disposal. ASP of residential property sales increased by 11% to RMB42,700 per sq.m. in 1H 2017, compared to RMB38,300 per sq.m. in 1H 2016.

Contracted property sales from residential properties and carparks (including those from Dalian associates) was RMB2,833 million in 1H 2017, a decrease of 73% over RMB10,334 million in 1H 2016. The decrease was mainly due to continued control measures imposed by Chinese government designed to stabilise the property market, hence fewer new residential property launches compared to 1H 2016. However, the launch of the second batch of The Gallery (Lot 2) at Shanghai RHXC, sales performance was outstanding with a 92% sale through rate on the first day of launch and ASP reached RMB103,000 per sq.m., an increase of 9.6% compared to the previous launch. The ASP of Dalian further picked-up in 1H 2017, an improvement from 2016.

Contracted commercial property sales, comprising a total GFA of 46,400 sq.m., amounted to RMB1,564 million, representing a decrease of 66% compared to RMB4,615 million in 1H 2016. The major contributions were from disposals of street front shops (The Palette 2 retail) and a hotel at Shanghai RHXC.

In 1H 2017, the Group disposed 79.2% of the interests in the Partnership Portfolio in the Chongqing project with a total consideration of RMB4,133 million. The Partnership Portfolio represented a bundle of undeveloped land parcels and an office building which was construction in progress. This transaction allows the Group to release the hidden value in the Chongqing project at a substantial profit, which was also in line with the Group's Asset Light Strategy to enhance shareholders' return by cooperating with partners who can create synergies.

In addition to the contracted property sales and other asset disposal outlined above, as of 30 June 2017, a total GFA of 46,000 sq.m., producing a total value of RMB4,035 million, was subscribed and subject to formal sales and purchase agreements. These sales came primarily from the Shanghai RHXC The Gallery, which accounted for RMB3,536 million of subscribed sales.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below provides an analysis by project of contracted sales (stated before the deduction of applicable taxes) for 1H 2017 and 1H 2016:

PROJECT	1H 2017			1H 2016		
	Contracted amount	GFA sold	ASP	Contracted amount	GFA sold	ASP
	RMB' million	sq.m.	RMB per sq.m.	RMB' million	sq.m.	RMB per sq.m.
Residential property sales:						
Shanghai Taipingqiao						
Lakeville Luxe (Lot 116)	1,048	7,000	149,700	2,107	15,900	132,500
Shanghai RHXC						
	1,119	11,500	97,300	5,363	64,700	82,900
Wuhan Tiandi						
Site B Residential	–	–	–	1,451	45,600	31,800
Chongqing Tiandi						
Residential ¹	3	200	18,300	683	72,400	11,500
Foshan Lingnan Tiandi						
Townhouses	12	600	20,000	–	–	–
Low-/mid-/high-rises	48	2,200	21,800	344	26,600	12,900
Dalian Tiandi²						
Mid-/high-rises	506	41,900	12,100	348	43,400	8,000
Villas	34	2,900	11,700	17	1,500	11,300
Carparks and others						
	63	–	–	21	–	–
SUBTOTAL FOR RESIDENTIAL PROPERTY SALES	2,833	66,300	42,700	10,334	270,100	38,300
Commercial property sales:						
Shanghai RHXC						
Lot 9 Retail	111	2,100	52,900	–	–	–
Lot 3 Hotel	500	15,500	32,300	–	–	–
The Palette 2	579	11,700	49,500	–	–	–
Wuhan Tiandi						
3 Corporate Avenue (Lot A3 Office)	–	–	–	1,134	55,100	20,600
Lot A1 Office	–	–	–	3,365	177,100	19,000
Chongqing Tiandi						
Office	58	4,700	12,300	58	4,600	12,600
Retail	192	10,200	18,800	10	500	20,000
Foshan Lingnan Tiandi						
Retail	103	2,200	46,800	36	1,300	27,700
Carparks and others						
	21	–	–	12	–	–
SUBTOTAL FOR COMMERCIAL PROPERTY SALES	1,564	46,400	33,700	4,615	238,600	19,300
Other asset disposal:						
Chongqing Tiandi						
	4,133	1,259,200		–	–	
Foshan Lingnan Tiandi (Lot 4)						
	–	–		1,693	231,500	
GRAND TOTAL	8,530	1,371,900		16,642	740,200	

1 ASP of Chongqing residential sales is based on net floor area, a common market practice in the region.

2 Dalian Tiandi is a project developed by associates of the Group.



Wuhan Tiandi has become a popular destination for locals and visitors



Show flat of Dalian Tiandi Splendid Bay • The Upper



Dalian Tiandi is devoted to providing high-quality living space for customers

RESIDENTIAL GFA AVAILABLE FOR SALE AND PRE-SALE IN 2H 2017

The Group has approximately 410,100 sq.m. of residential GFA spanning five projects, available for sale and pre-sale during 2H 2017, as summarised below:

PROJECT		GFA in sq.m.	Group's interest %	Available for sale and pre-sale in 2H 2017
				Attributable GFA in sq.m.
Shanghai Taipingqiao	Lakeville Luxe (Lot 116) (High-rises)	44,900	98.00%	44,000
Shanghai RHXC	High-rises	54,900	99.00%	54,400
Foshan Lingnan Tiandi	Townhouses and Low-rises	5,900	100.00%	5,900
Chongqing Tiandi	High-rises	211,000	19.80%	41,800
Dalian Tiandi	Villas, High-rises and Serviced apartments	93,400	48.00% ¹	44,700
TOTAL		410,100		190,800

¹ The Group has an effective interest of 44.72% in Lots E02a & C03 with a total GFA of 5,300 sq.m. and 48.00% in the remaining lots.

By way of a cautionary note, the actual market launch dates depend on and will be affected by factors such as construction progress, changes in market environments, and changes in government regulations.

IMPROVED FINANCIAL
STRENGTH
FROM ASSET LIGHT STRATEGY



|| During the year we continued to execute the Asset Light Strategy, unlocking value and increasing asset turnover, while at the same time strengthening our balance sheet. ||

PROPERTY DEVELOPMENT PROGRESS

PROPERTY COMPLETED IN 1H 2017 AND DEVELOPMENT PLANS FOR 2H 2017 AND 2018

The table below summarises the projects with construction completed in 1H 2017 and construction work that is planned for completion in 2H 2017 and 2018:

PROJECT	Residential sq.m.	Office sq.m.	Retail sq.m.	Hotel/ serviced apartments sq.m.	Subtotal sq.m.	Clubhouse, carpark and other facilities sq.m.	Total sq.m.
Actual delivery in 1H 2017							
Shanghai RHXC	104,000	–	1,000	–	105,000	44,000	149,000
Dalian Tiandi ¹	26,000	–	–	13,000	39,000	15,000	54,000
TOTAL	130,000	–	1,000	13,000	144,000	59,000	203,000
Planned for delivery in 2H 2017							
Shanghai Taipingqiao	47,000	–	–	–	47,000	33,000	80,000
Wuhan Tiandi	41,000	–	71,000	–	112,000	78,000	190,000
Chongqing Tiandi	111,000	–	14,000	–	125,000	53,000	178,000
Dalian Tiandi ¹	–	–	13,000	–	13,000	5,000	18,000
TOTAL	199,000	–	98,000	–	297,000	169,000	466,000
Planned for delivery in 2018							
Shanghai Taipingqiao	–	–	28,000	–	28,000	–	28,000
Dalian Tiandi ¹	93,000	12,000	–	–	105,000	30,000	135,000
TOTAL	93,000	12,000	28,000	–	133,000	30,000	163,000

¹ Dalian Tiandi is a project developed by associates of the Group.

By way of a cautionary note, the actual completion date depends on and will be affected by construction progress, changes in the market environments, changes in government regulations and other factors.

THE FOLLOWING SECTION PROVIDES FURTHER DETAILS OF THE DEVELOPMENT PROGRESS AND COMPLETION OF EACH OF THE PROJECTS LOCATED IN SHANGHAI, WUHAN, CHONGQING, FOSHAN AND DALIAN

SHANGHAI TAIPINGQIAO

Lakeville Luxe (Lot 116) has a total residential apartment GFA of 94,000 sq.m., the first batch of which was launched in December 2015 and was well received by the market. A total GFA of 47,000 sq.m. was completed and has been progressively delivered to the buyers since December 2016 while the remaining portion is planned to be launched in 2H 2017.

The retail space with a total GFA of 28,000 sq.m. at Shui On Plaza is under Asset Enhancement Initiatives (“AEI”). It is expected to be completed in the second half of 2018.

SHANGHAI RHXC

The Gallery (Lot 2), with a total GFA of 104,000 sq.m. of residential and 1,000 sq.m. of ancillary retail, was completed in 1H 2017. Its second batch with a total GFA of 44,000 sq.m. was launched for pre-sale in April 2017. The first batch with a total GFA of 40,000 sq.m. was launched for pre-sale in June 2016 and a total GFA of 27,000 sq.m. has been delivered in 1H 2017. The third batch with a total GFA of 20,000 sq.m. is scheduled to be launched in 2H 2017.

The Upper (Lot 9), has a total GFA of 85,000 sq.m. of residential apartments and 2,000 sq.m. of ancillary retail, of which the first batch was launched for pre-sale in October 2015 and the second batch was launched for pre-sale in February 2016. In addition to a total GFA of 53,000 sq.m. delivered to the buyers in 2016, a total GFA of 31,000 sq.m. has been delivered to the buyers in 1H 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

The Grand Opening of Hall of the Moon (Ruihong Tiandi Lot 3) was held in June 2017. It commenced operation in December 2016, with a total leasable GFA of 64,000 sq.m. in the retail podium. Its anchor tenants include G-Super, H&M, UNIQLO, Modern Sky and Emperor UA Cinema. The occupancy rate was 82% as of 30 June 2017.

Lot 3 Hotel with a total leasable GFA of 15,500 sq.m. was contracted for sale in January 2017 for a total consideration of RMB500 million and delivered in 1H 2017. The Palette 2 (Phase 4 retail) with a total leasable GFA of 11,700 sq.m. was contracted for sale in April 2017 for a total consideration of RMB579 million and delivered in 1H 2017.

SHANGHAI KIC

A hotel building located at Lot 311 with a total GFA of 22,000 sq.m. was completed in September 2016, and the occupancy rate reached 97% as of 30 June 2017.

WUHAN TIANDI

Park View (Lot B5) with a total GFA of 41,000 sq.m. for residential apartments was launched for pre-sale in December 2015 and is scheduled for completion in 2H 2017. Park Place (Lot B4/5 Retail) with a total GFA of 71,000 sq.m. for retail use has been under construction since 2015 and is planned for completion in 2H 2017.

HORIZON (a shopping mall at Lots A1/A2/A3) with a total GFA of 114,000 sq.m. commenced operation in September 2016, major tenants include Cinema PALACE, King of Party, and Skyland Food Court. The occupancy rate was 85% as of 30 June 2017.

CHONGQING TIANDI

Lake Ville Phase 2 (Lot B6) with a total GFA of 111,000 sq.m. for residential use and 14,000 sq.m. for retail use is under construction and scheduled for completion in 2H 2017.

In May 2017, the Group disposed of 79.2% of the interests in the Partnership Portfolio in the Chongqing project with a total consideration of RMB4,133 million. The transaction was completed in June 2017.

FOSHAN LINGNAN TIANDI

NOVA (a shopping mall) with a GFA of 75,000 sq.m. commenced operation in April 2016, and the occupancy rate reached 89% as of 30 June 2017.

DALIAN TIANDI

At Hekou Bay (Site A of Dalian Tiandi), Lot C03 with a total GFA of 26,000 sq.m. of residential apartments and 13,000 sq.m. of serviced apartments, was completed in 1H 2017. Lot B10b at Hekou Bay with a total GFA of 50,000 sq.m. for residential use was launched for pre-sale in May 2017, and the construction work is scheduled to be completed in 2018.

A total GFA of 161,000 sq.m. for residential use, 77,000 sq.m. for office space, 14,000 sq.m. for retail space and 33,000 sq.m. for serviced apartment use are under construction. They are planned for completion progressively from 2H 2017 to 2020.

By way of a cautionary note, the actual completion date and launch date depend on and will be affected by construction progress, changes in market environments, changes in government regulations and other factors. The Group plans its project construction in advance while adapting to government policy changes, as well as implemented operational tactics to enhance turnover and increase development efficiency. The Group will nevertheless, adjust the progress of construction, delivery plan and launch schedules, in accordance with the sales conditions of each project, and with respect to the rapid changing market conditions.

INVESTMENT PROPERTY

Rental and related income (including income from hotel operations) increased by 19% to RMB946 million in 1H 2017 compared to 1H 2016. Excluding the income from hotel operations, the sum of RMB906 million was generated by rental and related income from the investment properties, representing a growth rate of 19%. The increase reflected continued leasing progress made at the progressively commenced operations of the three newly opened shopping malls in Wuhan, Foshan and Shanghai.

Occupancy levels of the office property portfolio remained stable. Our office developments mainly located at THE HUB and Shanghai KIC, both achieved over 90% of occupancy in 1H 2017.

Occupancy levels of the completed retail portfolio also increased, mainly led by robust leasing activities at the three new shopping malls, NOVA at Foshan Lingnan Tiandi, HORIZON at Wuhan Tiandi and Hall of the Moon at Shanghai RHXC project. Occupancy rates of these three operating properties had reached 89%, 85% and 82% respectively,

with tenants progressively moving in since 2016. The majority of tenants commenced operations in 2H 2016.

Rental income and the related profit or loss from investment properties located in Dalian Tiandi were reflected in the share of results of associates, to the extent of the Group's interest in the project.

The table below provides an analysis of the rental and related income from investment properties for 1H 2017 and 1H 2016 and the percentage of leases in GFA by property with lease expiring from 2H 2017 to 2019:

PROJECT	Product	Leasable GFA sq.m.	Rental & related income RMB ¹ million			Period on period change %		Leases expire in % of GFA		
			1H 2017	1H 2016	1H 2015	1H 2017	1H 2016	2H 2017	2018	2019
Shanghai Taipingqiao										
Shanghai Xintiandi	Office/Retail	54,000	198	164	148	21%	11%	6%	25%	34%
Xintiandi Style	Retail	26,000	43	40	37	8%	8%	21%	31%	20%
1 & 2 Corporate Avenue ¹	Office/Retail	–	–	–	136	–	–	–	–	–
3 Corporate Avenue ²	Office	–	–	15	4	–	275%	–	–	–
Shui On Plaza ³	Office/Retail	24,000	55	75	70	(27%)	7%	39%	23%	25%
THE HUB	Office/Retail	263,000	159	125	80	27%	56%	3%	8%	9%
Shanghai RHXC	Retail	116,000	70	38	35	84%	9%	3%	4%	28%
Shanghai KIC⁴	Office/Retail/Hotel	239,000	183	166	115	10%	44%	11%	30%	34%
Wuhan Tiandi	Retail	160,000	102	55	43	85%	28%	5%	9%	20%
Chongqing Tiandi	Retail	134,000	23	23	22	–	5%	0%	12%	8%
Foshan Lingnan Tiandi	Retail	139,000	73	58	46	26%	26%	1%	6%	18%
TOTAL		1,155,000	906	759	736	19%	3%	6%	15%	21%

1 1 & 2 Corporate Avenue were disposed of on 31 August 2015.

2 3 Corporate Avenue was disposed of on 2 February 2016.

3 A total GFA of 8,000 sq.m. located at Shanghai Shui On Plaza was occupied as offices by the Group. Shui On Plaza is carrying out AEI at its retail space with a total GFA of 28,000 sq.m., which is classified as properties under development as of 30 June 2017.

4 A total GFA of 8,000 sq.m. located at Shanghai KIC was occupied by the Group.



KIC University Avenue has become a favourite destination for university students, residents and white collars

MANAGEMENT DISCUSSION AND ANALYSIS

The table below summarises the portfolio of completed investment properties together with their respective occupancy rates:

PROJECT	Leasable GFA (sq.m.)				Occupancy rate		Group's interest
	Office	Retail	Hotel	Total	30 June 2017	31 December 2016	
Completed before 2017							
Shanghai Taipingqiao							
Shanghai Xintiandi	4,000	43,000	–	47,000	100%	99%	78.11%
THE HOUSE	–	7,000	–	7,000	100%	100%	78.11%
Xintiandi Style	–	26,000	–	26,000	100%	99%	77.33%
Shui On Plaza	32,000	–	–	32,000	93%	100%	62.49% ¹
THE HUB							
Office Towers 1, 2, 3 and 5	93,000	4,000	–	97,000	97%	95%	78.11%
Mall and Xintiandi ²	–	147,000	–	147,000	92%	79%	78.11%
Performance Center	–	19,000	–	19,000	100%	N/A	78.11%
Shanghai RHXC							
The Palette 1, 3 and 5	–	33,000	–	33,000	84%	100%	99.00% ³
Hall of the Stars (Ruihong Tiandi Lot 6)	–	19,000	–	19,000	94%	97%	99.00%
Hall of the Moon (Ruihong Tiandi Lot 3)	–	64,000	–	64,000	82%	61%	99.00%
Shanghai KIC							
1-3 and 5-12 KIC Plaza	95,000	42,000	–	137,000	89%	89%	86.80%
KIC Village R1 and R2	11,000	11,000	–	22,000	94%	93%	86.80%
5, 6 and 7 KIC Corporate Avenue	53,000	8,000	–	61,000	94%	94%	99.00%
KIC Village 12-8	5,000	–	–	5,000	100%	100%	86.80%
Lot 311 Hotel	–	–	22,000	22,000	97%	N/A	99.00%
Wuhan Tiandi							
Wuhan Xintiandi	–	46,000	–	46,000	95%	95%	78.11%
HORIZON (Lots A1/2/3 Retail)	–	114,000	–	114,000	85%	N/A	100.00%
Chongqing Tiandi							
The Riviera I, II & III	–	6,000	–	6,000	98%	98%	99.00%
Chongqing Tiandi (Lot B3/01)	–	49,000	–	49,000	74%	83%	99.00%
2, 6, 7 and 8 Corporate Avenue Retail	–	79,000	–	79,000	44%	84%	99.00%
Foshan Lingnan Tiandi							
Lingnan Tiandi (Phases 1 and 2)	–	49,000	–	49,000	79%	82%	100.00%
NOVA	–	75,000	–	75,000	89%	84%	100.00%
Shui On New Plaza (Lot D retail podium)	–	15,000	–	15,000	2%	2%	100.00%
Dalian Tiandi							
Aspen and Maple Towers (Site D22)	42,000	–	–	42,000	77%	77%	48.00%
Acacia and Lynwood Towers (Site D14)	52,000	–	–	52,000	78%	77%	48.00%
Ambow (Training School)	113,000	–	–	113,000	100%	100%	48.00%
IT Tiandi (D10 Retail)	–	41,000	–	41,000	55%	53%	48.00%
TOTAL	500,000	897,000	22,000	1,419,000			
As of 30 June 2017, investment properties held by:							
– Subsidiaries of the Group	293,000	856,000	22,000	1,171,000			
– Associated companies	207,000	41,000	–	248,000			
TOTAL LEASABLE GFA AS OF 30 JUNE 2017	500,000	897,000	22,000	1,419,000⁴			
TOTAL LEASABLE GFA AS OF 31 DECEMBER 2016	500,000	918,000	22,000	1,440,000⁴			

1 The Group has a 62.49% interest in Shui On Plaza, except for a GFA of 2,000 sq.m. at the Shui On Plaza 15th floor, in which the Group has an effective interest of 78.11%.

2 Including retail space in the basement.

3 The Group has a 99.00% interest in The Palette 3 and 5, and a 100.00% interest in The Palette 1.

4 Self-use properties are classified as property, plant and equipment in the condensed consolidated statement of financial position.

The table below summarises the carrying value of the remaining investment properties at valuation as of 30 June 2017 together with the change in fair value for 1H 2017:

PROJECT	Leasable GFA sq.m.	Increase/ (decrease) in fair value for 1H 2017 RMB'million	Carrying value as of 30 June 2017 RMB'million	Carrying value per GFA RMB per sq.m.	Valuation gain/(loss) to carrying value %
Completed investment properties at valuation					
Shanghai Taipingqiao					
Shanghai Xintiandi & Xintiandi Style	80,000	75	7,400	92,500	1.0%
Shui On Plaza – Office	24,000	1	1,873	78,000	0.1%
THE HUB	263,000	(158)	8,938	34,000	(1.8%)
Shanghai RHXC	116,000	40	3,824	33,000	1.0%
Shanghai KIC	239,000	178	7,332	30,700	2.4%
Wuhan Tiandi	160,000	52	5,540	34,600	0.9%
Chongqing Tiandi	134,000	(25)	1,753	13,100	(1.4%)
Foshan Lingnan Tiandi	139,000	11	4,180	30,100	0.3%
SUBTOTAL	1,155,000	174	40,840	35,400	0.4%
Investment properties under development at valuation					
Shanghai Taipingqiao					
Shui On Plaza – Retail	28,000	1	1,665	59,500	0.1%
Wuhan Tiandi	71,000	32	1,259	17,700	2.5%
SUBTOTAL	99,000	33	2,924	29,500	1.1%
TOTAL OF THE REMAINING INVESTMENT PROPERTIES AT VALUATION	1,254,000	207	43,764	34,900	0.5%

Note: Hotels for operation and self-use properties are classified as property, plant and equipment in the condensed consolidated statement of financial position, and leasable GFA of which is excluded from this table.



THE HUB has become the first stop for many passengers travelling through Hongqiao Transportation Hub

The carrying value of the completed investment properties (excluding hotels for operation and self-use properties) with a total GFA of 1,155,000 sq.m. was RMB40,840 million as of 30 June 2017. Of this sum, RMB174 million (representing 0.4% of the carrying value) arose from increased fair value during 1H 2017. The properties located in Shanghai, Wuhan, Chongqing and Foshan, respectively contributed 72%, 14%, 4% and 10% of the carrying value.

The carrying value of the investment properties under development at valuation for a total GFA of 99,000 sq.m. was RMB2,924 million as of 30 June 2017.

Except for the above mentioned investment properties at valuation, the carrying value of the investment properties under development and for further development at cost was RMB11,066 million.

BUILDING
PARTNERSHIPS
FOR FUTURE BUSINESS
GROWTH



LANDBANK

As of 30 June 2017, the Group's landbank, including the contribution of Wuhan Optics Valley joint venture, Chongqing partnership and Dalian associates, stood at a total GFA of 11.7 million sq.m. (comprising 9.8 million sq.m. of leasable and saleable area, and 1.9 million sq.m. for clubhouses, car parking spaces and other facilities) spread across nine development projects located in the prime areas of five major PRC cities, namely: Shanghai, Wuhan, Chongqing, Foshan and Dalian. The GFA attributable to the Group was 8.1 million sq.m..

Of the total leasable and saleable GFA of 9.8 million sq.m., the sum of 1.7 million sq.m. was completed, and held for sale and/or investment. Approximately 3.0 million sq.m. was under development, and the remaining 5.1 million sq.m. was held for future development.

RELOCATION OF SHANGHAI

The relocation of RHXC lots 10, 1 & 7 is in progress. 99.9%, 99% and 98% of residents in Lot 10, Lot 1 and Lot 7 had signed relocation agreements respectively as of 30 June 2017. Lots 1 and 7 will be developed into high-end residential apartments and Lot 10 will be developed into a commercial

complex with two Grade-A office buildings and a shopping mall. As of 30 June 2017, a total amount of RMB10,741 million had been paid. The estimated outstanding relocation cost of RMB1,818 million is estimated to be paid progressively in 2H 2017 and 2018. The relocation of these three sites is planned to be completed from 2H 2017 to 2018.

Details of the relocation progress for the respective lots are provided below:

PROJECT	Percentage of relocation as of 30 June 2017	Leasable and saleable GFA sq.m.	Relocation cost paid as of 30 June 2017 RMB'million	Estimated outstanding relocation cost as of 30 June 2017 RMB'million	Estimated relocation completion year
RHXC Lot 10	99.9%	338,000	2,702	332	2017
RHXC Lot 1 (Residential)	99%	110,000	4,182	1,037	2017
RHXC Lot 7 (Residential)	98%	159,000	3,857	449	2018
TOTAL		607,000	10,741	1,818	

By way of a cautionary note, the actual completion date and relocation cost of the above-mentioned sites depend on and will be affected by changes in government regulations, negotiations with relevant parties and other factors. The above represents the best estimates as of the reporting period.



Chongqing Tiandi has become a new urban core that integrates riverside residences, business centre, and public facilities

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's total landbank as of 30 June 2017, including that of its joint venture and associates, is summarised below:

PROJECT	Approximate/Estimated leasable and saleable GFA					Subtotal sq.m.	Clubhouse, carpark and other facilities sq.m.	Total sq.m.	Group's interest %	Attributable GFA sq.m.
	Residential sq.m.	Office sq.m.	Retail sq.m.	Hotel/ serviced apartments sq.m.	Hotel/ serviced apartments sq.m.					
Completed properties:										
Shanghai Taipingqiao	10,000	36,000	76,000	–	–	122,000	59,000	181,000	99.00% ¹	143,000
Shanghai RHXC	78,000	–	119,000	–	–	197,000	167,000	364,000	100.00% ²	362,000
Shanghai KIC	–	164,000	63,000	22,000	–	249,000	148,000	397,000	86.80% ³	361,000
THE HUB	–	93,000	170,000	–	–	263,000	72,000	335,000	78.11%	262,000
Wuhan Tiandi	–	–	160,000	–	–	160,000	167,000	327,000	100.00% ⁴	311,000
Chongqing Tiandi	1,000	8,000	149,000	–	–	158,000	225,000	383,000	99.00%	381,000
Foshan Lingnan Tiandi	6,000	15,000	159,000	43,000	–	223,000	143,000	366,000	100.00%	366,000
Dalian Tiandi	42,000	207,000	41,000	10,000	–	300,000	190,000	490,000	48.00% ⁵	233,000
SUBTOTAL	137,000	523,000	937,000	75,000	–	1,672,000	1,171,000	2,843,000		2,419,000
Properties under development:										
Shanghai Taipingqiao	127,000	–	28,000	–	–	155,000	33,000	188,000	99.00% ¹	174,000
Shanghai RHXC	267,000	156,000	184,000	–	–	607,000	116,000	723,000	99.00% ²	716,000
Wuhan Tiandi	149,000	177,000	71,000	–	–	397,000	94,000	491,000	100.00%	491,000
Chongqing Tiandi	502,000	259,000	118,000	25,000	–	904,000	166,000	1,070,000	19.80% ⁶	353,000
Foshan Lingnan Tiandi	68,000	–	14,000	–	–	82,000	21,000	103,000	100.00%	103,000
Dalian Tiandi	356,000	206,000	188,000	130,000	–	880,000	276,000	1,156,000	48.00% ⁵	555,000
SUBTOTAL	1,469,000	798,000	603,000	155,000	–	3,025,000	706,000	3,731,000		2,392,000
Properties for future development:										
Shanghai Taipingqiao	86,000	174,000	118,000	38,000	–	416,000	44,000	460,000	99.00%	456,000
Shanghai RHXC	83,000	69,000	78,000	–	–	230,000	2,000	232,000	100.00% ²	232,000
Wuhan Tiandi	135,000	166,000	94,000	–	–	395,000	–	395,000	100.00%	395,000
Chongqing Tiandi	313,000	–	167,000	–	–	480,000	35,000	515,000	19.80% ⁶	102,000
Foshan Lingnan Tiandi	76,000	450,000	107,000	80,000	–	713,000	2,000	715,000	100.00%	715,000
Dalian Tiandi ⁷	394,000	867,000	262,000	42,000	–	1,565,000	–	1,565,000	48.00% ⁵	752,000
Wuhan Optics Valley	444,000	637,000	196,000	–	–	1,277,000	2,000	1,279,000	50.00%	640,000
SUBTOTAL	1,531,000	2,363,000	1,022,000	160,000	–	5,076,000	85,000	5,161,000		3,292,000
TOTAL LANDBANK GFA	3,137,000	3,684,000	2,562,000	390,000	–	9,773,000	1,962,000	11,735,000		8,103,000

- The Group has a 99.0% interest in all the remaining lots, except for Shanghai Xintiandi, Xintiandi Style, Shui On Plaza, 15th floor in Shui On Plaza and Lot 116, in which the Group has an effective interest of 78.11%, 77.33%, 62.49%, 78.11% and 98.00%, respectively.
- The Group has a 100.0% effective interest in RHXC Phase 1, Lot 167A and Lot 167B and 99.0% interest in all the remaining lots. On 9 August 2017, Sheng Pu, an indirect wholly-owned subsidiary of the Group, Guotai Junan (as the manager of the Trust) and Hong Fang entered into the Shareholders' Agreement, pursuant to which Sheng Pu, Guotai Junan and Hong Fang have agreed to establish the JV Company held as to 49% by Sheng Pu, 31% by Guotai Junan and 20% by Hong Fang respectively, for the acquisition of Lot 167A and Lot 167B from the Group. After this transaction, the Group has a 49% effective interest in RHXC Lot 167A and Lot 167B.
- The Group has an 86.8% interest in all the remaining lots, except for KIC Lot 311 in which the Group has an effective interest of 99.0%.
- The Group has a 100.0% effective interest in all the remaining lots, except for Wuhan Xintiandi in which the Group has an effective interest of 78.11%.
- The Group has a 48.0% effective interest in Dalian Tiandi, except for Lots C01, C03, B08, B09 and E02a in which the Group has a 44.72% effective interest.
- The Group has a 19.8% effective interest in Chongqing in all the remaining lots, except for Lot B6 in which the Group has an effective interest of 99.0%.
- Dalian Tiandi is expected to have a landbank of 3.2 million in GFA. As of 30 June 2017, approximate 2.9 million sq.m. had been acquired. The remaining GFA of approximate 0.3 million sq.m. is expected to be acquired through public bidding in due course.



Foshan Lingnan Tiandi blends the traditional culture and modern life



Foshan Lingnan Tiandi is a local pioneer in providing new shopping experience

MARKET OUTLOOK

Global economic growth strengthened in early 2017, supported by improving international trade prospects and an upturn of the Chinese economy. The risks of economic disruption due to rising populism and trade frictions have receded, leading the International Monetary Fund to revise upward its forecasts for global economic growth this year to 3.5%. In the United States, the Federal Reserve is on track to tighten monetary policy, and is expected to introduce a further 25 basis point rate hike later this year, after raising interest rates twice in the first half. The Federal Reserve has stated that it anticipates a policy of gradual normalisation, which includes a reduction of its enlarged balance sheet in the near term. Growth projections for 2017 have been revised upwards for a number of eurozone countries due to stronger than anticipated domestic demand, but with insufficient progress on President Donald Trump's plan to cut taxes, the projection for US gross domestic product (GDP) growth has been adjusted downwards to 2.1%.

China's economic growth accelerated to 6.9% in the first half of 2017 and is expected to maintain a steady pace throughout the year. The authorities have tightened their grip on regulatory oversight, making containment of financial sector risks a policy priority. At the National Financial Work Conference held in July this year, a decision was taken to establish a State Council-led Financial Stability Development Committee to improve coordination of financial supervision between the People's Bank of China and other financial

regulatory bodies. This is seen as a timely move to ensure sound, stable economic development and to achieve the objective of inclusive growth.

The residential market maintained robust growth, despite the imposition of purchase restrictions across tier one and many tier two cities. Unlike previous cycles, policymakers have this time opted for localised measures in different cities. As a result, while residential sales in tier one and major tier two cities contracted, home sales in smaller cities have picked up, and the destocking of housing inventory has continued to make steady progress, with the stock of unsold units falling 19.3% year-on-year by the end of June to 352 million sq. m. National housing transactions in the first six months registered year-on-year increases of 13.5% by area and 17.9% by value. Sales growth in the second half is expected to taper off in view of localised restrictions and a likely slowdown in mortgage lending.

In the currency market, the US dollar weakened in the first half of the year. With stronger control of capital outflows, China's foreign exchange reserves registered an increase of US\$46.3 billion in the first six months of 2017, bringing the total of reserves to US\$3.057 trillion by the end of June. The Renminbi exchange rate strengthened to around 6.77 to the US dollar during this period, which represents a 2.4% appreciation from where it started the year. Given the strength of China's economy, the RMB:USD exchange rate is expected to remain relatively stable this year.

MANAGEMENT DISCUSSION AND ANALYSIS

Shanghai's economy grew by 6.9% in the first half of the year, with inflation remaining stable despite urban per capita disposable income rising by 8.6%. The municipality released the 13th Five-Year Plan housing programme, which contained a housing supply target of 1.7 million units for the period 2016-2020. The bulk of supply will be relocation housing and rental housing, and the total of commodity housing for sale will be 450,000 units. Shanghai is an important international business hub and gateway city of China. In 2016, 45 new regional headquarters of multi-national corporations were established in Shanghai, bringing the cumulative total to 580.

Chongqing recorded a rapid GDP growth rate of 10.5% in the first half of 2017, and its tertiary sector now accounts for 50.4% of the economy, a notable rise from last year's 48.4%. Significant progress has been made on reducing housing inventory and promoting supply-side structural reforms. The municipality is a major beneficiary of China's transportation development plan, as six major rail lines in the "10 vertical and 10 horizontal" national high speed rail system will interchange in Chongqing, making it one of the nation's most important high speed rail hubs. This should further solidify Chongqing's position as the leading economic centre in Western China.

Wuhan's 2017 first half GDP growth accelerated to 7.5% from the first quarter's 6.9%. The city's financial services industry is emerging as a new pillar industry and now accounts for 10.0% of GDP. The city has a program to retain 1 million graduates over the next five years. The municipal government has implemented a series of preferential policies, such as easing control over the hukou population registration system, expanding the supply of 'talent apartments' and providing free office space for start-up companies. In March, the development plan of Hubei province's Pilot Free Trade Zone (PFTZ) was unveiled. It is worth noting that Wuhan PFTZ was designated to serve "One Belt One Road" and "Yangtze River Economic Belt" national strategies, facilitating the transfer of manufacturing activities to central China. This should help to attract capital and talent to Wuhan, strengthening the city's innovation-driven growth model.

Foshan maintained a steady growth pace of 8.5% in the first half of 2017, with foreign direct investment increased by 11.5% US\$1.2 billion. Foshan is well positioned to gain from the Guangdong-Hong Kong-Macao Greater Bay Area national strategy announced earlier this year. In June 2017, the governments of Hong Kong and Foshan signed a Hong Kong-Foshan Cooperation Agreement to harness the complementary advantages Foshan has in manufacturing and Hong Kong enjoys in international business, aiming to increase the flow of people, logistics, capital and information between the two cities.



HUBINDAO provides unique lifestyle experience



A scene in Dalian Tiandi Greenview Heights

Dalian's economic growth increased to 6.8% in the first half of 2017, up from the 6.5% achieved for full year 2016. Foreign direct investment grew by 14.7% to US\$2.1 billion during the first half of 2017. Dalian is expected to benefit from the State Council's recent granting of pilot Free Trade Zone (FTZ) status to the city. Dalian FTZ will focus on six major industries including shipping logistics, finance, advanced equipment manufacturing, high and new technology, circular economy, and shipping services. The zone will provide preferential policies for entrepreneurs and foreign-invested companies. This should help to attract more inward investment and support the city's economic development.

While global growth momentum has improved, there are still considerable lingering uncertainties regarding the impact of quantitative tightening, the North Korean nuclear issue and rising regional geopolitical disputes. Overall, China has the policy tools to address the drag from financial deleveraging and achieve 6.5% GDP growth for the year. In the property sector, the industry is expected to undergo further consolidation, with competition becoming more intense and profit margins continuing to be squeezed by escalating land prices as well as localised restrictions continuing to reduce sales volumes. In view of these circumstances, we will continue to refine our business model to address the challenges and identify emerging opportunities arising from the changing lifestyles of millennials in a rapidly evolving sharing economy.



ENHANCED
PERFORMANCE
AS WE FOCUS
ON PROFITABILITY

FINANCIAL REVIEW

The Group's *turnover* for the six months ended 30 June 2017 ("1H 2017") increased by 185% to RMB10,166 million (1H 2016: RMB3,571 million), mainly due to a significant increase in recognised property sales and rental and related income for the period under review.

Property sales in 1H 2017 increased substantially by 247% to RMB9,086 million (1H 2016: RMB2,618 million) as a result of more residential properties being delivered in our Shanghai projects and also the sales of majority equity interests in the Chongqing project in 1H 2017. Sales of our Shanghai RHXC The Upper (Lot 9) and The Gallery (Lot 2), Shanghai Taipingqiao Lakeville Luxe (Lot 116) and the Chongqing equity interests increased to RMB8,939 million

during the period under review (1H 2016: RMB234 million), while property sales of our Foshan project decreased to RMB147 million (1H 2016: RMB2,384 million). Total area handed over to buyers increased to 781,700 sq.m. (1H 2016: 288,700 sq.m.). Details of the property sales in 1H 2017 are in the paragraph titled "Property Sales" in the Business Review Section.

Income from property investment increased to RMB946 million (1H 2016: RMB795 million). *Rental and related income* from investment properties in 1H 2017 increased to RMB906 million (1H 2016: RMB759 million), mainly due to higher rental income from existing investment properties in Shanghai i.e. THE HOUSE at Xintiandi, THE HUB and KIC as well as, from the progressively commenced operations of new investment properties including HORIZON at Wuhan Tiandi, NOVA at Foshan Lingnan Tiandi and Hall of the Moon at Shanghai RHXC. *Income from hotel operations*, comprising contributions from our Marco Polo Hotel in Foshan remained stable at RMB40 million for the period under review (1H 2016: RMB36 million). Details on the business performance of investment properties are in the paragraph titled "Investment Property" in the Business Review Section.

Construction income generated by our construction business, decreased to RMB107 million in 1H 2017 (1H 2016: RMB122 million).

Gross profit in 1H 2017 significantly increased by 449% to RMB4,418 million (1H 2016: RMB805 million), while gross profit margin also increased to 43% (1H 2016: 23%).

The higher gross profit margin was due to higher margins contributed from Shanghai residential property which accounted for a higher portion of 55% of the Group's turnover (1H 2016: 1%).

Other income decreased 41% to RMB206 million (1H 2016: RMB352 million), which comprised interest income and government grants. The decrease was mainly due to government grant income decreasing to RMB9 million in 1H 2017 (1H 2016: RMB228 million).

Selling and marketing expenses increased by 20% to RMB142 million (1H 2016: RMB118 million) and was in line with the increase in sales and marketing activities carried out in our residential property markets especially in our major market, Shanghai.

General and administrative expenses decreased 10% to RMB421 million (1H 2016: RMB468 million). The decrease was attributable to our control in expenses incurred e.g. advisory costs, rental expenses and depreciation charge.

As a result of the above, *operating profit* increased 611% to RMB4,061 million in 1H 2017 (1H 2016: RMB571 million).

Gain on disposal of investment properties through disposal of subsidiaries mainly represented gains from the disposal of 79.2% of the interests in Partnership Portfolio in Chongqing's commercial portion in 1H 2017 while the RMB471 million gain in 1H 2016 represented the disposal of 3 Corporate Avenue located in Shanghai Taipingqiao project.



KIC Corporate Avenue provides a comfortable working environment



Chongqing Tiandi incorporates the traditional culture in its development



Wuhan Tiandi provides high-quality living space for customers

Net increase in fair value of the remaining investment properties decreased 60% to RMB207 million (1H 2016: RMB519 million), of which RMB174 million gain (1H 2016: RMB559 million) was contributed by completed investment properties and RMB33 million gain (1H 2016 loss: RMB40 million) from investment properties under construction or development. The decrease in fair value gain was mainly because of a RMB158 million fair value loss of investment properties in THE HUB, Shanghai where it has taken into account of the fair value loss of The Performance Centre, THE HUB, Shanghai in 1H 2017. The Group has changed the business model of The Performance Centre from self-operating to leasing. Accordingly the Performance Centre was leased to a tenant since March 2017. The paragraph titled "Investment Property" in the Business Review Section provides a detailed description of these properties.

Other gains and losses amounted to a loss of RMB8 million (1H 2016 gain of RMB1,156 million), of which RMB132 million loss (1H 2016: RMB97 million) arose from rental guarantee arrangements arising from previously sold commercial properties in Chongqing Tiandi. This loss was offset by RMB145 million gain arose from the disposal of investment properties and RMB88 million gain on fair value change of derivative financial instruments. In 1H 2016, we had the one-off bargain purchase gain of Taipingqiao which amounted to RMB867 million and while the gain on sales of beneficial interest in Shanghai RHXC project amounted RMB327 million.

Share of losses of associates and joint ventures was RMB251 million in 1H 2017 (1H 2016: RMB142 million), which was mainly from the Dalian Tiandi development.

Finance costs, inclusive of exchange differences, amounted to RMB1,004 million (1H 2016: RMB1,193 million). Total interest costs decreased to RMB1,759 million (1H 2016: RMB1,829 million). Of these interest costs, 41% (1H 2016: 54%) or RMB724 million (1H 2016: RMB986 million) was capitalised as cost of property development, with the remaining 59% (1H 2016: 46%) interest relating to mortgage loans on completed properties and borrowings for general working capital purposes was accounted for as expenses. In 1H 2017, the percentage of capitalised interest of the Group's borrowings decreased, and the expense ratio increased as compared with the corresponding period, resulting in the increased finance costs reported. An exchange gain of RMB31 million was recorded as a result of the appreciation of the RMB against the HKD and the USD in 1H 2017, as compared to an depreciation of the RMB in 1H 2016 which generated a loss of RMB350 million.

Profit before taxation increased 119% to RMB3,024 million (1H 2016: RMB1,382 million). The increase in profit before taxation is primarily because the increase in the gross profit and operating profit, but offsetting the decrease in other gains and losses and increase in share of losses of associates and joint ventures.

Taxation increased 631% to RMB1,856 million (1H 2016: RMB254 million). The effective tax rate in 1H 2017 was 37% (1H 2016: 19%). Land appreciation tax was levied at progressing rates ranging from 30 percent to 60 percent on the appreciation value, being the proceeds of properties sales less deductible expenditure including costs of land, development and construction.

Profit attributable to shareholders of the Company in 1H 2017 was RMB898 million, an increase of 17% compared to the corresponding period in 2016 (1H 2016: RMB768 million).

Core earnings of the Group are as follows:

	Six months ended 30 June		Change %
	2017 RMB'million	2016 RMB'million	
Profit attributable to shareholders of the Company	898	768	17%
Net increase in fair value of the remaining investment properties	(207)	(519)	
Effect of corresponding deferred tax charges	52	130	
Cumulative realised fair value gains of investment properties*	113	1,556	
Gain arose from acquisition of subsidiaries	119	(867)	
Share of results of associates			
Fair value losses of investment properties	368	100	
Effect of corresponding deferred tax charges	(92)	(25)	
	353	375	
Non-controlling interests	(4)	(42)	
Net effect of changes in the valuation of investment properties	349	333	5%
Profit attributable to shareholders of the Company before revaluation of the remaining investment properties	1,247	1,101	13%
Add:			
Profit attributable to owners of convertible perpetual capital securities	58	55	5%
Profit attributable to owners of perpetual capital securities	182	165	10%
Core earnings of the Group	1,487	1,321	13%

* Cumulative realised fair value gains of investment properties in 1H 2017 are mainly related to completion of the sales of The Palette 2 retail at Shanghai RHXC while the compared period are mainly related to Shanghai Taipingqiao 3 Corporate Avenue.

Earnings per share was RMB11.2 cents, which was calculated based on a weighted average of approximately 8,002 million shares in issue during 1H 2017 (1H 2016: RMB9.6 cents, which was calculated based on a weighted average of approximately 8,002 million shares in issue).

Dividends payable to shareholders of the Company have to comply with certain covenants under the senior notes and perpetual capital securities as follows:

- Dividends payable to the shareholders of the Company (together with any redemption, repurchase or acquisition of the Company's shares) should not exceed 40% of the Company's consolidated profit for the two most recent semi-annual periods prior to payment of the dividend, unless certain conditions pursuant to the terms of the senior notes have been met.
- In the case where the Company opts to defer the payment of coupons to the owners of perpetual capital securities, no dividend payments should be made to the shareholders of the Company unless all coupons deferred have been paid in full.

Having taken into consideration that: i) the Group's 1H 2016 dividend per share ("DPS") was exceptionally low mainly

due to restriction imposed by the Group's existing bond covenants at that time, and ii) the Group's financial position and cashflow has improved over the last two years, the Board has resolved to recommend the payment of a 2017 interim dividend of HKD0.03 per share (1H 2016: HKD0.011 per share), thus raising the dividend level above pre-2016 levels.

MAJOR ACQUISITION AND DISPOSAL

- 1) In January 2017, the Group entered into a 50:50 Joint Venture with Citic and has made a successful bid for a piece of land in Wuhan which is located in East Lake Ring, Wuhan, the PRC. The Group's investment in the Joint Venture is approximately RMB1,410 million for the purpose of funding the land acquisition.
- 2) In May 2017, the Group entered into an agreement with an independent third party pursuant to which the Group disposed its 79.2% of the interests in Partnership Portfolio in the Chongqing project, at a consideration of RMB4,133 million subject to closing adjustments. For the details of the disposal of Chongqing project, please refer to the Group's circular dated 19 June 2017. The aforesaid equity disposal was completed on 29 June 2017.

LIQUIDITY, CAPITAL STRUCTURE AND GEARING RATIO

Up to the date of this report, the Group has arranged two refinancing and three redemption activities of the senior notes/senior perpetual capital securities. The purpose of refinancing and redemption is to take advantage of the lower finance costs and also to extend the maturity of the senior notes/senior perpetual capital securities. The details are as follows:

- 1) On 23 January 2017, the Group entered into a subscription agreement with two independent financial institutions in connection with the issue by Shui On Development (Holding) Limited ("SODH") of an aggregate principal amount of USD500 million senior notes which will be due in 2021 at a yield of 5.7% per annum.
- 2) On 26 February 2017, the Group had fully repaid an aggregate principal amount of RMB2,500 million senior notes.
- 3) On 5 June 2017, the Group exercised its right to redeem senior notes with principal amount of US\$202,487,000 due 2020 at a redemption price equal to 104.875% of the principal amount plus the accrued and unpaid interest. The total amount paid/payable for such redemption is equivalent to RMB1,452 million.
- 4) On 20 June 2017, the Group entered into a subscription agreement with two independent financial institutions in connection with the issue by SODH of an aggregate principal amount of USD600 million senior perpetual capital securities which will be callable in 2022 at a yield of 6.4% per annum.
- 5) On 26 July 2017, the Group exercised its right to redeem certain senior notes with principal amount of US\$500,000,000 due 2017 at a redemption price equal to US\$1,036.37984 per US\$1,000 in aggregate principal amount. The total amount paid/payable for such redemption is equivalent to RMB3,512 million.

The structure of the Group's borrowings as of 30 June 2017 is summarised below:

	Total (in RMB equivalent) RMB'million	Due within one year RMB'million	Due in more than one year but not exceeding two years RMB'million	Due in more than two years but not exceeding five years RMB'million	Due in more than five years RMB'million
Bank borrowings – RMB	22,465	4,125	7,988	5,973	4,379
Bank borrowings – HKD	4,358	781	2,287	1,290	–
Bank borrowings – USD	3,250	310	1,910	1,030	–
Senior notes – USD	16,506	7,712	3,697	5,097	–
TOTAL	46,579	12,928	15,882	13,390	4,379



◀ Night scene from the viewing terrace at Foshan Lingnan Tiandi • The Imperial



Ruihong Tiandi • Hall of the Stars features shopping streets that serve families and kids

Total cash and bank deposits amounted to RMB17,704 million as of 30 June 2017 (31 December 2016: RMB15,567 million), which included RMB2,632 million (31 December 2016: RMB4,479 million) of deposits pledged to banks and RMB778 million (31 December 2016: RMB1,435 million) of restricted bank deposits which can only be applied to designated property development projects of the Group.

As of 30 June 2017, the Group's net debt balance was RMB28,875 million (31 December 2016: RMB31,556 million) and its total equity was RMB50,722 million (31 December 2016: RMB46,256 million). The Group's net gearing ratio was 57% as of 30 June 2017 (31 December 2016: 68%), calculated on the basis of the excess of the sum of senior notes, bank borrowings net of bank balances and cash

(including pledged bank deposits and restricted bank deposits) over the total equity.

As of 30 June 2017, HKD/USD borrowings including senior notes (unhedged) amounting to approximately RMB12,576 million was equivalent to approximately 27% of total borrowings (31 December 2016: 26%).

Hedges for a total amount of USD1,180 million, accounting for 17% of total debt, expired on 30 June 2017. Accordingly, the Group entered into new forward contracts of USD587 million commencing 1 July 2017 till present.

Total undrawn banking facilities available to the Group amounted to approximately RMB3,805 million as of 30 June 2017 (31 December 2016: RMB6,631 million).

PLEGDED ASSETS

As of 30 June 2017, the Group had pledged investment properties, property, plant and equipment, prepaid lease payments, properties under development for sale, properties held for sale, accounts receivable and deposits totalling RMB50,605 million (31 December 2016: RMB60,274 million) to secure the Group's borrowings of RMB20,917 million (31 December 2016: RMB27,272 million).

CAPITAL AND OTHER DEVELOPMENT RELATED COMMITMENTS

As of 30 June 2017, the Group had contracted commitments for development costs and capital expenditure in the amount of RMB4,588 million (31 December 2016: RMB8,960 million).

CASH FLOW MANAGEMENT AND LIQUIDITY RISK

Management of cash flow is the responsibility of the Group's treasury function at the corporate level.

The Group's commitment is to maintain a balance between continuity of funding and flexibility through a combination of internal resources, bank borrowings and debt financing, as appropriate. The present financial and liquidity position enables the Group to maintain a reasonable liquidity buffer so that sufficient funds are available to meet liquidity requirements at all times.

EXCHANGE RATE AND INTEREST RATE RISKS

The revenue of the Group is denominated in RMB. However, a portion of the revenue is converted into other currencies to meet our foreign-currency-denominated debt obligations, such as bank borrowings denominated in HKD and USD, and senior notes and CPCS denominated in USD issued from 2014 to 2017. As a result, to the extent that the Group has a net foreign currency exposure, there is exposure to fluctuations in foreign exchange rates. As of 30 June 2017, the Group has entered approximately USD2,786 million forward or capped forward to hedge the USD currency risk against RMB. The forward rate of USD against RMB is between 1 USD to 6.7210 to 7.2730 RMB.

The Group's exposure to interest rate risk results from fluctuations in interest rates. Most of the Group's bank borrowings consist of variable rate debt obligations with original maturities ranging from two to six years for project construction loans, and two to fourteen years for mortgage loans. Increases in interest rates would raise interest expenses relating to the outstanding variable rate borrowings and cost of new debt. Fluctuations in interest rates may also lead to significant fluctuations in the fair value of the debt obligations.

Save as disclosed above, as of 30 June 2017, the Group does not hold any other derivative financial instruments that are linked to exchange rates or interest rates. The Group continues to closely monitor its exposure to exchange rate and interest rate risks, and may employ derivative financial instruments to hedge against risk if necessary.



◀ Shanghai Taipingqiao provides well-planned open space for outdoor activities

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF SHUI ON LAND LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Shui On Land Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 63, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

23 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Notes	Six months ended 30 June	
		2017 RMB'million (Unaudited)	2016 RMB'million (Unaudited)
Turnover			
– The Company and its subsidiaries (the “Group”)		10,166	3,571
– Share of associates		254	195
		10,420	3,766
Turnover of the Group	3	10,166	3,571
Cost of sales		(5,748)	(2,766)
Gross profit		4,418	805
Other income		206	352
Selling and marketing expenses		(142)	(118)
General and administrative expenses		(421)	(468)
Operating profit	4	4,061	571
Gain on disposal of investment properties through disposal of subsidiaries	19(a),(c)	19	471
Net increase in fair value of the remaining investment properties	10	207	519
Other gains and losses	5	(8)	1,156
Share of losses of associates and joint ventures		(251)	(142)
Finance costs, inclusive of exchange differences	6	(1,004)	(1,193)
Profit before taxation		3,024	1,382
Taxation	7	(1,856)	(254)
Profit for the period		1,168	1,128
Attributable to:			
Shareholders of the Company		898	768
Owners of convertible perpetual capital securities		58	55
Owners of perpetual capital securities		182	165
Non-controlling shareholders of subsidiaries		30	140
		270	360
		1,168	1,128
Earnings per share	9		
– Basic		RMB11.2 cents	RMB9.6 cents
– Diluted		RMB11.1 cents	RMB9.6 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June	
	2017 RMB'million (Unaudited)	2016 RMB'million (Unaudited)
Profit for the period	1,168	1,128
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of foreign operations	31	(17)
Fair value adjustments on interest rate swaps designated as cash flow hedges	–	3
Fair value adjustments on currency forward contracts designated as cash flow hedges	(512)	–
Reclassification from hedge reserve to profit or loss arising from currency forward contracts	311	3
Other comprehensive expense for the period	(170)	(11)
Total comprehensive income for the period	998	1,117
Total comprehensive income attributable to:		
Shareholders of the Company	728	757
Owners of convertible perpetual capital securities	58	55
Owners of perpetual capital securities	182	165
Non-controlling shareholders of subsidiaries	30	140
	270	360
	998	1,117

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 30 JUNE 2017

	Notes	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
Non-current assets			
Investment properties	10	54,830	56,620
Property, plant and equipment		1,163	1,845
Prepaid lease payments		35	36
Interests in associates	11	1,156	379
Interests in joint ventures	13	765	27
Loans to associates	11	1,858	1,865
Loans to joint ventures	13	1,304	756
Accounts receivable and prepayments	12	757	737
Amounts due from associates	11	2,217	2,156
Pledged bank deposits		2,252	4,024
Derivative financial instruments	17	418	460
Deferred tax assets		875	840
		67,630	69,745
Current assets			
Properties under development for sale		17,550	21,838
Properties held for sale		6,231	4,865
Accounts receivable, deposits and prepayments	12	13,869	12,492
Amounts due from related companies		738	808
Amounts due from joint ventures	13	70	6
Amounts due from customers of contract work		122	97
Derivative financial instruments	17	–	343
Pledged bank deposits		380	455
Restricted bank deposits		778	1,435
Bank balances and cash		14,294	9,653
		54,032	51,992
Assets classified as held for sale		–	476
		54,032	52,468
Current liabilities			
Accounts payable, deposits received and accrued charges	14	14,983	18,885
Amounts due to related companies		305	412
Amounts due to non-controlling shareholders of subsidiaries		10	8
Loan from a non-controlling shareholder of a subsidiary		157	–
Tax liabilities		1,754	2,242
Bank borrowings – due within one year		5,216	6,434
Senior notes	15	7,712	6,023
Derivative financial instruments	17	169	368
Liabilities arising from rental guarantee arrangements	16	260	328
		30,566	34,700
Net current assets		23,466	17,768
Total assets less current liabilities		91,096	87,513

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 30 JUNE 2017

	Notes	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
Capital and reserves			
Share capital		145	145
Reserves		37,771	37,305
Equity attributable to shareholders of the Company		37,916	37,450
Convertible perpetual securities		1	1
Convertible perpetual capital securities		1,345	1,345
Perpetual capital securities		7,097	3,046
Non-controlling shareholders of subsidiaries		4,413	4,414
		12,856	8,806
Total equity		50,772	46,256
Non-current liabilities			
Accounts payable and accrued charges	14	13	24
Bank borrowings – due after one year		24,857	23,377
Senior notes	15	8,794	11,289
Liabilities arising from rental guarantee arrangements	16	172	271
Deferred tax liabilities		6,467	6,274
Defined benefit liabilities		21	22
		40,324	41,257
Total equity and non-current liabilities		91,096	87,513

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to shareholders of the Company							
	Share capital RMB'million	Share premium RMB'million	Merger reserve RMB'million	Special reserve RMB'million	Share option reserve RMB'million	Share award reserve RMB'million	Exchange reserve RMB'million	Hedge reserve RMB'million
At 1 January 2017 (audited)	145	18,020	122	(135)	39	17	(167)	122
Profit for the period	-	-	-	-	-	-	-	-
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	31	-
Net adjustment of hedge reserve reclassified to profit or loss upon termination of currency forward contracts	-	-	-	-	-	-	-	153
Fair value adjustments on currency forward contracts designated as cash flow hedges	-	-	-	-	-	-	-	(512)
Reclassification from hedge reserve to profit or loss arising from currency forward contracts	-	-	-	-	-	-	-	158
Total comprehensive income (expense) for the period	-	-	-	-	-	-	31	(201)
Recognition of equity-settled share-based payment expenses(note 18)	-	-	-	-	1	-	-	-
Gain on revaluation of properties transferred from property, plant and equipment to investment properties	-	-	-	-	-	-	-	-
Deferred tax arising from gain on revaluation of properties transferred from property, plant and equipment to investment properties	-	-	-	-	-	-	-	-
Disposal of equity interest in a subsidiary (note 19(a))	-	-	-	-	-	-	-	-
Distribution to owners of convertible perpetual capital securities	-	-	-	-	-	-	-	-
Distribution to owners of perpetual capital securities	-	-	-	-	-	-	-	-
Lapse of share options	-	-	-	-	(22)	-	-	-
Recognition of equity-settled share-based payment expenses under the share award scheme	-	-	-	-	-	6	-	-
Issue of perpetual capital securities	-	-	-	-	-	-	-	-
Expense on issue of perpetual capital securities	-	-	-	-	-	-	-	-
Dividends approved in respect of previous year	-	-	-	-	-	-	-	-
Dividend paid to a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-
Capital injection	-	-	-	-	-	-	-	-
At 30 June 2017 (unaudited)	145	18,020	122	(135)	18	23	(136)	(79)
At 1 January 2016 (audited)	145	18,020	122	(135)	126	8	(108)	(8)
Profit for the period	-	-	-	-	-	-	-	-
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(17)	-
Fair value adjustments on interest rate swaps designated as cash flow hedges	-	-	-	-	-	-	-	3
Reclassification from hedge reserve to profit or loss	-	-	-	-	-	-	-	3
Total comprehensive (expense) income for the period	-	-	-	-	-	-	(17)	6
Recognition of equity-settled share-based payment expenses (note 18)	-	-	-	-	1	-	-	-
Acquisition of subsidiaries (note 19(b))	-	-	-	-	-	-	-	-
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-
Disposal of subsidiaries (note 19(c))	-	-	-	-	-	-	-	-
Distribution to owners of convertible perpetual capital securities	-	-	-	-	-	-	-	-
Distribution to owners of perpetual capital securities	-	-	-	-	-	-	-	-
Dividend paid to a non-controlling shareholder of subsidiaries	-	-	-	-	-	-	-	-
Lapse of share options	-	-	-	-	(84)	-	-	-
Recognition of equity-settled share-based payment expenses under the share award scheme	-	-	-	-	-	4	-	-
2015 final dividend of HK\$0.028 per share paid	-	-	-	-	-	-	-	-
Distribution to the owner of convertible perpetual securities	-	-	-	-	-	-	-	-
Capital injection	-	-	-	-	-	-	-	-
At 30 June 2016 (unaudited)	145	18,020	122	(135)	43	12	(125)	(2)

Attributable to shareholders of the Company									
Other reserves RMB'million	Property revaluation reserves RMB'million	Retained earnings RMB'million	Sub-total RMB'million	Convertible perpetual securities RMB'million	Convertible perpetual capital securities RMB'million	Perpetual capital securities RMB'million (Note 20)	Non-controlling shareholders of subsidiaries RMB'million	Sub-total RMB'million	Total RMB'million
654	78	18,555	37,450	1	1,345	3,046	4,414	8,806	46,256
-	-	898	898	-	58	182	30	270	1,168
-	-	-	31	-	-	-	-	-	31
-	-	-	153	-	-	-	-	-	153
-	-	-	(512)	-	-	-	-	-	(512)
-	-	-	158	-	-	-	-	-	158
-	-	898	728	-	58	182	30	270	998
-	-	-	1	-	-	-	-	-	1
-	5	-	5	-	-	-	-	-	5
-	(1)	-	(1)	-	-	-	-	-	(1)
-	-	-	-	-	-	-	(29)	(29)	(29)
-	-	-	-	-	(58)	-	-	(58)	(58)
-	-	-	-	-	-	(173)	-	(173)	(173)
-	-	22	-	-	-	-	-	-	-
-	-	-	6	-	-	-	-	-	6
-	-	-	-	-	-	4,085	-	4,085	4,085
-	-	-	-	-	-	(43)	-	(43)	(43)
-	-	(273)	(273)	-	-	-	-	-	(273)
-	-	-	-	-	-	-	(3)	(3)	(3)
-	-	-	-	-	-	-	1	1	1
654	82	19,202	37,916	1	1,345	7,097	4,413	12,856	50,772
772	64	17,639	36,645	16	1,346	3,050	5,061	9,473	46,118
-	-	768	768	-	55	165	140	360	1,128
-	-	-	(17)	-	-	-	-	-	(17)
-	-	-	3	-	-	-	-	-	3
-	-	-	3	-	-	-	-	-	3
-	-	768	757	-	55	165	140	360	1,117
-	-	-	1	-	-	-	-	-	1
(115)	-	-	(115)	-	-	-	110	110	(5)
(3)	-	-	(3)	-	-	-	(19)	(19)	(22)
-	-	-	-	-	-	-	(41)	(41)	(41)
-	-	-	-	-	(55)	-	-	(55)	(55)
-	-	-	-	-	-	(166)	-	(166)	(166)
-	-	-	-	-	-	-	(878)	(878)	(878)
-	-	84	-	-	-	-	-	-	-
-	-	-	4	-	-	-	-	-	4
-	-	(190)	(190)	-	-	-	-	-	(190)
-	-	-	-	(15)	-	-	-	(15)	(15)
-	-	-	-	-	-	-	5	5	5
654	64	18,301	37,099	1	1,346	3,049	4,378	8,774	45,873

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Notes	Six months ended 30 June	
		2017 RMB'million (Unaudited)	2016 RMB'million (Unaudited)
Net cash (used in) from operating activities			
Decrease in inventories of properties		1,898	157
Increase in accounts receivable, deposits and prepayments		(51)	(171)
(Decrease) increase in accounts payable, deposits received and accrued charges		(4,047)	4,185
Other operating cash flows		2,119	603
		(81)	4,774
Net cash from investing activities			
Additions to investment properties		(330)	(222)
Proceeds from disposal of investment properties		542	60
Proceeds from disposal of assets classified as held for sale		468	–
Proceeds from disposal of subsidiaries	19(a), (c)	1,349	3,405
Proceeds from disposal of property, plant and equipment		20	–
Withdrawal of pledged bank deposits		2,589	1,683
Placement of pledged bank deposits		(742)	(1,852)
Placement of restricted bank deposits		–	(73)
Release of restricted bank deposits		–	2,402
Advances to associates		(323)	(450)
Advances to related companies		(72)	–
Advances to joint ventures		(610)	–
Investments in joint ventures		(738)	–
Repayments from associates		316	450
Repayments from related companies		44	35
Net cash inflow from acquisition of subsidiaries	19(b)	–	50
Other investing cash flows		93	–
		2,606	5,488
Net cash from (used in) financing activities			
Payments made under rental guarantee arrangements		(299)	(318)
Capital injected by a non-controlling shareholder of a subsidiary		1	5
Loans from a non-controlling shareholder		154	–
Issue of new perpetual capital securities		4,085	–
Expenditures incurred on perpetual capital securities		(43)	–
New bank borrowings raised		6,503	6,983
Repayments of bank and other borrowings		(5,511)	(11,057)
Issue of senior notes		3,379	–
Expenditures incurred on issue of senior notes		(9)	–
Early redemption fee of senior notes		(67)	–
Repayments of senior notes		(3,879)	–
Settlements for derivative financial instruments designated as cash flow hedge		(258)	–
Interests paid		(1,590)	(1,630)
Payment of dividends		–	(190)
Distribution to owners of perpetual capital securities		(173)	(166)
Distribution to the owner of convertible perpetual securities		–	(15)
Distribution to owners of convertible perpetual capital securities		(58)	(55)
Dividend paid to non-controlling shareholders of subsidiaries		(3)	(878)
		2,232	(7,321)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		4,757	2,941
Effect of foreign exchange rate changes		9,653	3,360
Cash and cash equivalents at the end of the period		(116)	(78)
		14,294	6,223
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		14,294	6,223

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. GENERAL

The condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”).

2A. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016 except as described below.

Application of amendments to International Financial Reporting Standards

In the current period, the Group has applied, for the first time, the following new amendments to International Financial Reporting Standards (“IFRSs”) that are mandatorily effective for annual periods beginning on 1 January 2017:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS12	As part of the Annual Improvements to IFRSs 2014 – 2016 Cycle

The application of these amendments to IFRSs in the current period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2B. CHANGE IN ACCOUNTING POLICY

During the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2016, the Directors of the Company reassessed the Group’s revenue recognition policy under the new strategy of selling properties under development for sale. Previously this had seldom occurred but the Group anticipates in the future this will happen more frequently and become part of the normal course of business. Accordingly, a new accounting policy had been adopted by the Group to apply to such transactions, as described in Annual Report as at 31 December 2016, Note 3 “Revenue Recognition”.

In the interim financial report of the Group for the six months ended 30 June 2016, the transaction set out in note 19(d) was accounted for as disposal of a subsidiary based on its legal form, and a loss on disposal of a subsidiary of RMB15 million was recognised in profit or loss. The comparative financial information for the six months ended 30 June 2016 was restated in order to ensure that the accounting policy is applied consistently throughout the entire year to all transactions belonging to this particular class. In accordance with this newly adopted accounting policy, revenue from the sale of properties under development for sale through disposal of a subsidiary amounting to RMB1,842 million and the related cost of sales amounting to RMB1,846 million were recognised during the six months ended 30 June 2016.

3. TURNOVER AND SEGMENTAL INFORMATION

An analysis of the turnover of the Group and share of turnover of associates for the period is as follows:

	Six months ended 30 June (Unaudited)					
	2017			2016		
	The Group RMB'million	Share of associates RMB'million	Total RMB'million	The Group RMB'million	Share of associates RMB'million	Total RMB'million
Property development:						
Property sales	9,086	237	9,323	2,618	163	2,781
Property investment:						
Rental income received from investment properties	811	17	828	691	32	723
Income from hotel operations	40	–	40	36	–	36
Property management fee income	16	–	16	11	–	11
Rental related income	79	–	79	57	–	57
	946	17	963	795	32	827
Construction	107	–	107	122	–	122
Others	27	–	27	36	–	36
Total	10,166	254	10,420	3,571	195	3,766

The Group is organised based on its business activities and has the following three major reportable segments:

- Property development – development and sale of properties
- Property investment – office and commercial/mall leasing, property management and hotel operations
- Construction – construction, interior fitting-out, renovation and maintenance of building premises and provision of related consultancy services

3. TURNOVER AND SEGMENTAL INFORMATION (CONTINUED)

	Six months ended 30 June 2017 (Unaudited)					
	Reportable segment					Consolidated
	Property development	Property investment	Construction	Total	Others	
RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	
Segment Revenue						
External turnover of the Group	9,086	946	107	10,139	27	10,166
Share of turnover of associates	237	17	–	254	–	254
Total segment revenue	9,323	963	107	10,393	27	10,420
Segment Results						
Segment results of the Group	3,574	673	(2)	4,245	13	4,258
Interest income						185
Other gains and losses						(8)
Share of losses of associates and joint ventures						(251)
Finance costs, inclusive of exchange differences						(1,004)
Net unallocated expenses						(156)
Profit before taxation						3,024
Taxation						(1,856)
Profit for the period						1,168

	Six months ended 30 June 2016 (Unaudited)					
	Reportable segment					Consolidated
	Property development	Property investment	Construction	Total	Others	
RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	
Segment Revenue						
External turnover of the Group	2,618	795	122	3,535	36	3,571
Share of turnover of associates	163	32	–	195	–	195
Total segment revenue	2,781	827	122	3,730	36	3,766
Segment Results						
Segment results of the Group	253	1,383	(17)	1,619	42	1,661
Interest income						122
Other gains and losses						1,156
Share of losses of associates and joint ventures						(142)
Finance costs, inclusive of exchange differences						(1,193)
Net unallocated expenses						(222)
Profit before taxation						1,382
Taxation						(254)
Profit for the period						1,128

Segment revenue represents the turnover of the Group and the share of turnover of associates.

Segment results represent the profit earned or loss incurred by each segment without allocation of central administration costs, emoluments of the Directors of the Company, interest income, other gains and losses, share of losses of associates and joint ventures and finance costs inclusive of exchange differences. This is the measure reported to the chief operating decision makers who are the Executive Directors of the Company for the purpose of resource allocation and performance assessment.

4. OPERATING PROFIT

	Six months ended 30 June	
	2017 RMB'million (Unaudited)	2016 RMB'million (Unaudited)
Operating profit has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	54	79
Release of prepaid lease payments	1	3
Employee benefits expenses		
Directors' emoluments		
Fees	1	1
Salaries, bonuses and allowances	8	19
	9	20
Other staff costs		
Salaries, bonuses and allowances	373	349
Retirement benefits costs	14	19
Share option expenses	1	1
Share award expenses	6	4
	394	373
Total employee benefits expenses	403	393
Less: Amount capitalised to investment properties under construction or development, properties under development for sale and hotels under development	(104)	(105)
	299	288
Cost of properties sold recognised as an expense	5,391	2,435
Reversal of impairment loss on properties held for sale and properties under development for sale (included in "cost of sales")	(5)	(19)
Minimum lease payments under operating leases	8	12
Interest income	(185)	(122)

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017 RMB'million (Unaudited)	2016 RMB'million (Unaudited)
Loss arising from rental guarantee arrangements (note 16)	(132)	(97)
(Decrease) increase in fair value of call option to buy back an investment property (note 17)	(42)	10
Fair value gain on other derivative financial instruments	88	43
Bargain purchase gain from acquisition of subsidiaries (note 19(b))	–	369
Gain on deemed disposal of a joint venture (note 19(b))	–	498
Gain on sales of beneficial interest in certain properties (note (i))	–	327
Loss on early redemption of senior notes	(67)	–
Gain on disposal of investment properties (note (ii))	145	6
	(8)	1,156

Notes:

- (i) During the six months ended 30 June 2016, the Group has disposed of the right to receive the net proceeds from sales of the Group's certain properties under development for sales to an independent third party (the "purchaser"). Upon the completion of this disposal, the Group has transferred the significant risks and rewards associated with the relevant properties to the purchaser and a gain of RMB327 million was recognised for the six months ended 30 June 2016. Due to certain unforeseeable events, the disposal deal was subsequently terminated on 31 October 2016. The gain was reversed and a loss on termination of sales of beneficial interest of RMB13 million was recognised during the year ended 31 December 2016.
- (ii) During the six months ended 30 June 2017, the Group disposed certain retail units located in Shanghai, which were classified as completed investment properties, to an independent third party for a cash consideration after the deduction of value-added tax and transaction cost of RMB542 million, and recognised a gain of RMB153 million on disposal of investment properties for the six months ended 30 June 2017.
- During the six months ended 30 June 2017, the Group completed the disposal of a hotel property located in Shanghai, which was classified as assets held for sale as at 31 December 2016, and recognised a loss of RMB8 million.

6. FINANCE COSTS, INCLUSIVE OF EXCHANGE DIFFERENCES

	Six months ended 30 June	
	2017 RMB'million (Unaudited)	2016 RMB'million (Unaudited)
Interest on bank and other borrowings	844	990
Interest on loans from non-controlling shareholders of subsidiaries	3	–
Imputed interest of deferred consideration in relation to acquisition of subsidiaries	81	72
Imputed interest of deferred consideration in relation to disposal of subsidiaries	–	58
Interest on senior notes	805	693
Net interest expense from interest rate swaps designated as cash flow hedges	–	4
Total interest costs	1,733	1,817
Less: Amount capitalised to investment properties under construction or development, properties under development for sale and hotels under development	(724)	(986)
Interest expense charged to profit or loss	1,009	831
Net exchange (gain) loss on bank borrowings and other financing activities	(31)	350
Others	26	12
	1,004	1,193

Borrowing costs capitalised during the six months ended 30 June 2017 were calculated by applying a capitalisation rate of approximately 5.1% (for the six months ended 30 June 2016: approximately 5.3%) per annum to expenditure on the qualifying assets.

7. TAXATION

	Six months ended 30 June	
	2017 RMB'million (Unaudited)	2016 RMB'million (Unaudited)
The People's Republic of China ("PRC") Enterprise Income Tax	741	87
Deferred taxation	128	185
PRC Land Appreciation Tax	972	(22)
PRC Withholding Tax	15	4
	1,856	254

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong.

PRC Enterprise Income Tax has been provided at the applicable income tax rate of 25% (for the six months ended 30 June 2016: 25%) on the assessable profits of the companies in the Group during the period.

The provision of PRC Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. PRC Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditures.

8. DIVIDENDS

	Six months ended 30 June	
	2017 RMB'million (Unaudited)	2016 RMB'million (Unaudited)
Final dividend declared in respect of 2016 of HK\$0.039 (2016: 2015 final dividend of HK\$0.028) per share	273	190
Interim dividend declared in respect of 2017 of HK\$0.03 (2016: 2016 interim dividend of HK\$0.011) per share	205	76

Subsequent to the end of the interim period, the Board has declared the payment of HK\$0.03 (equivalent to RMB0.026) per share, amounting to HK\$241 million (equivalent to RMB205 million) in aggregate as the interim dividend with respect to 2017.

A final dividend for the year ended 31 December 2016 of HK\$0.039 (equivalent to RMB0.034 translated using the exchange rate of 0.86792 as at 30 June 2017) per share, amounting to HK\$314 million (equivalent to RMB273 million translated using the exchange rate of 0.86792 as at 30 June 2017) in aggregate, was approved at the annual general meeting on 24 May 2017 and paid on 18 July 2017.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to shareholders of the Company is based on the following data:

	Six months ended 30 June	
	2017 RMB'million (Unaudited)	2016 RMB'million (Audited)
Earnings		
Earnings for the purpose of basic earnings per share, being profit for the period attributable to shareholders of the Company	898	768
Effect of dilutive potential ordinary shares:		
Adjustment for convertible perpetual capital securities (note (c))	58	–
Earnings for the purpose of diluted earnings per share	956	768

	Six months ended 30 June	
	2017 million (Unaudited)	2016 million (Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (note (a))	8,002	8,002
Effect of dilutive potential ordinary shares:		
Convertible perpetual capital securities (note (c))	574	–
Outstanding share awards	17	18
Weighted average number of ordinary shares for the purpose of diluted earnings per share	8,593	8,020
Basic earnings per share (note (b))	RMB11.2 cents HK\$12.7 cents	RMB9.6 cents HK\$11.4 cents
Diluted earnings per share (note (b))	RMB11.1 cents HK\$12.6 cents	RMB9.6 cents HK\$11.4 cents

Notes:

- The weighted average number of ordinary shares shown above has been arrived at after deducting 24,854,000 shares held by a share award scheme trust as set out in note 18.
- The Hong Kong dollar figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1.000 to HK\$1.1337 for the six months ended 30 June 2017 and RMB1.000 to HK\$1.1881 for the six months ended 30 June 2016, being the average exchange rates that prevailed during the respective periods.
- There was no dilution effect for the convertible perpetual capital securities for the six months ended 30 June 2016 as the full conversion of convertible perpetual capital securities into ordinary shares of the Company would have anti-dilutive effect for the six months ended 30 June 2016.
- There were no dilution effects for outstanding share options and warrants as the exercise prices of each of these share options and warrants were higher than the average market price of the Company's shares per share for the six months ended 30 June 2017 and 30 June 2016.

10. INVESTMENT PROPERTIES

	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
Completed investment properties held to earn rentals or for capital appreciation or both	40,840	42,065
Investment properties under construction or development, stated at fair value	2,924	2,999
Investment properties under construction or development, stated at cost	11,066	11,556
	13,990	14,555
	54,830	56,620

10. INVESTMENT PROPERTIES (CONTINUED)

The movements of investment properties during the current and prior periods are as follows:

	Completed investment properties at fair value RMB'million	Investment properties under construction or development at fair value RMB'million	Investment properties under construction or development at cost RMB'million	Total RMB'million
At 1 January 2017 (audited)	42,065	2,999	11,556	56,620
Additions	33	367	30	430
Eliminated upon disposal	(389)	–	–	(389)
Disposal of a subsidiary (note 19(a))	–	(2,108)	(386)	(2,494)
Transfer due to refurbishment	(1,633)	1,633	–	–
Transfer to property, plant and equipment	(15)	–	–	(15)
Transfer from property, plant and equipment	605	–	–	605
Transfer to properties under development for sale	–	–	(134)	(134)
Increase in fair value recognised in profit or loss	174	33	–	207
At 30 June 2017 (unaudited)	40,840	2,924	11,066	54,830
At 1 January 2016 (audited)	37,561	5,636	12,403	55,600
Additions	13	224	56	293
Transfers upon completion	34	(34)	–	–
Eliminated upon disposal	(53)	–	–	(53)
Disposal of a subsidiary (note 19(d))	–	–	(76)	(76)
Increase (decrease) in fair value recognised in profit or loss	559	(40)	–	519
At 30 June 2016 (unaudited)	38,114	5,786	12,383	56,283

All the completed investment properties are rented out under operating leases or are held for capital appreciation purposes.

The fair values of the Group's investment properties at 30 June 2017 and 31 December 2016 have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited, independent qualified professional valuers not connected to the Group.

For completed investment properties, the valuations have been arrived using direct comparison method and capitalisation of net income method, where appropriate, on the basis of capitalisation of the rental income. In the valuation using capitalisation of net income method, the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties.

For investment properties under construction or development that are measured at fair value, the valuations have been arrived at assuming that the investment properties will be completed in accordance with the development proposals and the relevant approvals for the proposals have been obtained. The key inputs in the valuations include the market value of the completed investment properties, which are estimated with reference to sales evidence of similar properties in the nearest locality, with adjustments made to account for differences in locations and other factors specific to the respective properties based on the valuers' judgement. Costs of development are also taken into account including construction costs, finance costs and professional fees, as well as developer's profit margin which reflects the remaining risks associated with the development of the properties at the valuation date and the return that the developer would require for bringing them to completion status, which is determined by the valuers based on the analyses of recent land transactions and market value of similar completed properties in the respective locations.

11. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

	Notes	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
Interests in associates			
– Cost of investments, unlisted		652	652
– Fair value of the remaining interest in a former subsidiary	(e)	1,033	–
– Share of post-acquisition results, net of effect on elimination of unrealised interest income		(529)	(273)
		1,156	379
Loans to associates – non-current			
– Interest free	(a), (d)	888	871
– Interest bearing	(b), (d)	970	994
		1,858	1,865
Amounts due from associates – non-current			
– Interest free	(c), (d)	621	567
– Interest bearing	(c), (d)	1,596	1,589
		2,217	2,156

Notes:

- (a) These loans to associates represent the loans to subsidiaries of Richcoast Group Limited ("Richcoast"), an associate of the Group, for financing the development and operation of Dalian Tiandi project in Dalian, the PRC. The Dalian Tiandi project is an integrated mixed-use development in Dalian and it comprises office, retail, residential and hotel/service apartments. The principal activities of Richcoast are strategic to the Group's activities as the Group has determined to conduct its property development activities in Dalian through its strategic investment in Richcoast.
- Pursuant to the shareholders agreement dated 25 May 2007 entered into among the three shareholders of Richcoast, being Innovate Zone Group Limited ("Innovate Zone"), an indirect subsidiary of the Company, Main Zone Group Limited ("Main Zone"), a direct wholly-owned subsidiary of SOCAM Development Limited ("SOCAM", an associate of Shui On Company Limited ("SOCL")) and Many Gain International Limited ("Many Gain"), an independent third party, the loans are unsecured, interest-free and have no fixed terms of repayment until Many Gain has contributed its share of the shareholder's loan to the subsidiaries of Richcoast. Thereafter, the loans will bear interest at a rate of 5% per annum, subject to shareholders' approval. The loans are carried at amortised cost using the effective interest rate of 7.29% (31 December 2016: 7.29%) per annum.
- (b) These loans to associates represent the loans to subsidiaries of Richcoast, are unsecured, carry interest at rates ranging from 4.79% to 5.23% (31 December 2016: 4.79% to 5.23%) per annum and have no fixed terms of repayment.
- (c) The amounts due from subsidiaries of Richcoast are non-trade nature, unsecured, interest free and repayable on demand, except for an aggregate amount of RMB1,596 million (31 December 2016: 1,589 million) which carries interest at rate from 4.79% to 5.23% (31 December 2016: 4.79% to 5.23%) per annum.
- (d) The Directors of the Company expect that these loans to associates and amounts due from associates will not be repayable within twelve months from the end of the reporting period and are therefore classified as non-current assets.
- (e) As disclosed in note 19(a), in May 2017, the Group disposed of a 79.2% equity interests in Chongqing Shui On Tiandi Real Estate Development Company Limited and has accounted for the remaining 19.8% interests as interests in associate at its fair value at the date when control is lost.

12. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
Non-current accounts receivable comprise:		
Rental receivables in respect of rent-free periods	332	319
Trade receivables	82	126
Prepayments of relocation costs (note)	309	292
Other receivables	34	–
	757	737
Current accounts receivable comprise:		
Trade receivables	792	708
Prepayments of relocation costs (note)	9,890	9,700
Receivables from disposals of subsidiaries (notes 19(a),(d))	2,159	1,081
Other deposits, prepayments and receivables, including prepaid business tax/value added tax of RMB143 million (2016: RMB205 million)	1,028	1,003
	13,869	12,492

Note:

The amount represents monies paid to a few relocation agents for clearing the land of the current occupants in respect of a property development project in Shanghai. 87% and 10% (2016: 89% and 10%) of the total outstanding balance are paid to two of the relocation agents.

The balances represent the amounts that will be capitalised to properties under development for sale and investment properties as soon as the relocation is completed. Such relocation process in respect of the land portion which will be developed for sale is in accordance with the Group's normal operating cycle and accordingly the related relocation costs are classified as current assets. The balances are not expected to be realised within twelve months from the end of the reporting period.

Trade receivables comprise:

- (i) receivables arising from sales of properties which are due for settlement in accordance with the terms of the relevant sale and purchase agreements;
- (ii) rental receivables which are due for settlement upon issuance of monthly debit notes to the tenants; and
- (iii) receivables arising from construction revenue of which a credit term of 40 days are granted to the customers.

Included in the Group's accounts receivable, deposits and prepayments are trade receivable balances of RMB874 million (31 December 2016: RMB834 million), of which RMB297 million (31 December 2016: RMB367 million) are aged less than 90 days, and RMB577 million (31 December 2016: RMB467 million) are aged over 90 days, as compared to when revenue was recognised.

13. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES/ AMOUNTS DUE FROM JOINT VENTURES

	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
Interests in joint ventures		
– Costs of investments, unlisted	768	30
– Share of post-acquisition results, net of effect on elimination of unrealised interest income	(3)	(3)
	765	27
Loans to joint ventures		
– Unsecured, interest bearing at 110% of People's Bank of China ("PBOC") Prescribed Interest Rate and repayable on demand	544	–
– Unsecured, interest bearing at 100% of PBOC Prescribed Interest Rate and repayable in 2018	760	756
	1,304	756
Amounts due from joint ventures		
– Unsecured, interest free and repayable on demand	70	6

14. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
Current portion comprise:		
Trade payables with aging analysis (based on invoice date):		
0 – 30 days	2,654	2,974
31 – 60 days	21	700
61 – 90 days	10	–
Over 90 days	1,159	700
	3,844	4,374
Retention payables (note)	470	532
Relocation cost payable	823	852
Deed tax, business tax and other tax payables	122	377
Deposits received and receipt in advance from property sales	4,952	8,347
Deposits received and receipt in advance in respect of rental of investment properties	617	580
Deposits received and receipt in advance from disposal of investment properties	73	39
Value-added tax payable	56	305
Deferred consideration of acquisition of subsidiaries	2,853	2,845
Dividends payable	273	–
Other payables and accrued charges	900	634
	14,983	18,885
Non-current portion comprise:		
Other payables and accrued charges	13	24

Note:

Retention payables are expected to be paid upon the expiry of the retention periods according to the respective contracts.

15. SENIOR NOTES

	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
At the beginning of period/year	17,312	14,655
Issue of senior notes	3,379	1,653
Less: Transaction costs directly attributable to issue of senior notes	(9)	(5)
Interest charged during the period/year	805	1,424
Less: Interest paid	(720)	(1,314)
Less: Repayment of senior notes	(3,879)	–
Exchange translation	(382)	899
At the end of period/year	16,506	17,312
Less: Amount due within one year shown under current liabilities	(7,712)	(6,023)
Amount due after one year	8,794	11,289

Issuance of Senior Notes during the current period

On 23 January 2017, Shui On Development (Holding) Limited (“SODH”) issued US\$500 million senior notes to independent third parties with a maturity of four years due on 6 February 2021 (the “2021 US\$500 million Notes”). The 2021 US\$500 million Notes bear coupon at 5.70% per annum payable semi-annually in arrears.

Principal terms of 2021 US\$500 million Notes

The 2021 US\$500 million Notes are:

- (a) senior in right of payment to any existing and future obligations of SODH expressly subordinated in right of payment to the 2021 US\$500 million Notes;
- (b) ranked at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SODH (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);
- (c) guaranteed by the Company on a senior basis, subject to certain limitations;
- (d) effectively subordinated to the secured obligations (if any) of the Company and SODH, to the extent of the value of the assets serving as security therefor; and
- (e) effectively subordinated to all existing and future obligations of the subsidiaries of SODH.

At any time prior to 6 February 2021, the 2021 US\$500 million Notes may be redeemed at the option of SODH, in whole or in part, at a redemption price equal to the sum of 100% of the principal amount of the 2021 US\$500 million Notes redeemed, accrued and unpaid interest (if any) and an Applicable Premium (see the definition below). In the opinion of the Directors of the Company, the fair value of the option to early redeem the 2021 US\$500 million Notes is insignificant at initial recognition and at the end of the reporting period.

“Applicable Premium” means with respect to the 2021 US\$500 million Notes at any redemption date, the greater of (1) 1.00% of the principal amount of the 2021 US\$ 500 million Notes and (2) the excess of (A) the present value at such redemption date of (i) the redemption amount of the senior notes redeemed, plus (ii) all required remaining scheduled interest payments due on the 2021 US\$500 million Notes through the maturity date of the 2021 US\$500 million Notes (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the adjusted treasury rate plus 100 basis points, over (B) the principal amount of the senior notes redeemed on such redemption date.

At any time and from time to time prior to 6 February 2021, SODH may redeem up to 35% of the aggregate principal amount of the 2021 US\$500 million Notes at a redemption price of 105.70% of the principal amount of the 2021 US\$500 million Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. In the opinion of the Directors of the Company, the fair value of the option to early redeem the 2021 US\$500 million Notes is insignificant at initial recognition and at the end of the reporting period.

15. SENIOR NOTES (CONTINUED)

Modification on terms of certain senior notes issued in the prior periods

During the current period, SODH has been soliciting consents from the respective holders of each series of the US\$500,000,000 8.70% Senior Notes Due 2017, US\$637,027,000 8.70% Senior Notes Due 2018, US\$550,000,000 9.625% Senior Notes Due 2019, US\$202,487,000 9.750% Senior Notes Due 2020 to, among other things, modify the covenants provided under provisions of the Indentures relating to the covenants entitled "Limitation on Indebtedness and Preferred Stock", "Limitation on Restricted Payments", "Limitations on Sales and Issuance of Capital Stock", "Limitation on Sale and Leaseback Transactions", "Limitation on Asset Sales", "Designation of Restricted and Unrestricted Subsidiaries" and the relevant definitions under the section entitled "Definitions" of consent solicitations announcement of the Company dated 27 March 2017.

In addition, the Group settled RMB2,500 million 6.875% Senior Notes Due 2017 at maturity date and early redeemed US\$202,487,000 (RMB1,379 million) 9.750% Senior Notes Due 2020 at a redemption price of 104.874%. The difference between the early redemption consideration paid and the carrying amount of senior notes derecognized, amounting to RMB67 million, is included in "other gains and losses".

16. LIABILITIES ARISING FROM RENTAL GUARANTEE ARRANGEMENTS

	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
Rental guarantees, at fair values	432	599
For the purpose of financial statements presentation:		
Non-current liabilities	172	271
Current liabilities	260	328
	432	599

During the year ended 31 December 2014, the Group disposed of an investment property to an independent third party ("purchaser") for a cash consideration of RMB2,412 million. As part of the disposal, the Group also agreed to provide the purchaser with a rental guarantee whereby the Group agreed to compensate the purchaser on a yearly basis, from the date when the first instalment was received till 31 January 2019 which could be further extended by the purchaser for three times, each for a one-year period when certain conditions are met, the shortfall between 8% of the consideration received by the Group from the purchaser and the net operating income to be generated by the property. On the other hand, the Group shall be entitled to receive from the purchaser a fee amounting to 80% of the excess of net operating income above 8% of the consideration received by the Group from the purchaser.

A similar arrangement was entered into during the year ended 31 December 2013 with another independent third party purchaser, which, in accordance with the related sales and purchase agreement, the rental guarantee arrangement was expired in January 2017.

In the current period, the Group has reassessed and revised the related cash flow forecasts taking into account the latest market conditions.

16. LIABILITIES ARISING FROM RENTAL GUARANTEE ARRANGEMENTS (CONTINUED)

As at 30 June 2017, the fair value of financial liabilities arising from the abovementioned rental guarantee arrangement, which is calculated by using Monte-Carlo simulation using the following assumptions:

	30.6.2017	31.12.2016
Estimated office unit rental	RMB96 to RMB114 per square meter	RMB96 to RMB121 per square meter
Occupancy rate	70% to 99%	73% to 99%
Risk-free rate	3.51%	2.88%
Discount rate	8.72%	8.17%
Expected expiry date	31 January 2021	31 January 2020

A loss of RMB132 million (for the six months ended 30 June 2016: RMB97 million) has been recognised in profit or loss in the current period to reflect changes in estimates (included in "other gains and losses" item).

The Group's liabilities arising from rental guarantee arrangements that are measured at fair value at the end of the reporting period are grouped under Level 3. There were no transfers in or out of Level 3 during the period. Level 3 fair value measurements are those derived from inputs that are unobservable for the asset or liability. The higher the estimated office unit rental and occupancy rate, the lower the fair value of the liabilities arising from rental guarantee arrangements. The higher the discount rate is, the lower the fair value of the liabilities arising from rental guarantee arrangements.

17. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
Derivative financial instruments include:		
Call option to buy back an investment property	418	460
Currency forward contracts designated as hedging instruments	(169)	343
Cross currency swaps	–	(368)
For the purpose of financial statement presentation:		
Non-current assets	418	460
Current assets	–	343
Current liabilities	(169)	(368)

Call option to buy back an investment property

In previous years, the Group disposed of its entire equity interest in a subsidiary, and the related intercompany loans, that indirectly owned 99% interest in an investment property located in Shanghai, the PRC, to an independent third party for a cash consideration of RMB3,364 million.

In accordance with the relevant sale and purchase agreement entered into in previous years, the Group was granted a call option to repurchase all the equity interest of the disposed subsidiary and the related shareholders' loans within two months before the fifth anniversary or the seventh anniversary of the completion of the disposal (i.e. 18 December 2013), at a cash consideration that represent the original consideration plus 9% per annum rate of return.

The Group has engaged an independent valuer to estimate the fair value of the option as at 30 June 2017. As at 30 June 2017, the fair value of the call option was estimated to be RMB418 million (31 December 2016: RMB460 million). Loss on fair value of the call option amounting to RMB42 million (for the six months ended 30 June 2016: gain amounting to RMB10 million) has been recognised in profit or loss in the current period. The fair value of the option as at 30 June 2017 are determined using Monte-Carlo simulation with the following key assumptions:

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Call option to buy back an investment property (continued)

	30 June 2017	31 December 2016
99% interest of property valuation	RMB5,891 million	RMB5,891 million
Time to maturity	3.47 years	3.97 years
3.47-year risk-free rate (2016: 3.97-year)	3.47%	2.98%
1.46-year forward 2-year risk free rate (2016: 1.96-year forward 2-year)	3.49%	3.16%
Volatility	5.60%	5.63%

The property was valued by direct comparison approach with reference to market comparable transactions where available and assumed sale of the property with the benefit of vacant possession. The above risk free rates were determined with reference to yields of RMB China government bond. The volatility was determined with reference to the average rent of Premium Grade A office in the same region as the location of the subject investment property.

The call option that is measured at fair value at the end of the reporting period is grouped under Level 3. Level 3 fair value measurements are those derived from inputs that are unobservable for the asset or liability.

An increase in the property valuation would result in an increase in the fair value of the call option, and vice versa. If the property valuation is 3 % (31 December 2016: 3 %) higher and lower while all other variables are held constant, the carrying amount of the call option would increase to approximately RMB568 million (31 December 2016: RMB612 million) and decrease to approximately RMB282 million (31 December 2016: RMB326 million) respectively.

18. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the shareholders on 8 June 2007 for the primary purpose of providing incentives to Directors of the Company, eligible employees and consultants. Under the Scheme, the total number of shares in respect of which options may be granted is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

As of 30 June 2017, 35,175,163 share options (31 December 2016: 44,202,563 share options) remained outstanding under the Scheme, representing 0.4% (31 December 2016: 0.6%) of the ordinary shares of the Company in issue at that date. The Scheme allows the Board of Directors of the Company, when offering the grant of any option, to impose any condition including any performance target which must be met before the option shall vest and become exercisable. The exercise price is determined by the Directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Group recognised a total expense of RMB1 million (for the six months ended 30 June 2016: RMB1 million) in the condensed consolidated statement of profit or loss for the current period in relation to share options granted by the Company.

18. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Share option scheme (continued)

No share options were exercised during the six months ended 30 June 2017. The movement in the Company's share options during the current period is set out below:

Date of grant	Exercise price HK\$	Number of options			
		At 1 January 2017	Exercised during the period	Lapsed during the period	At 30 June 2017
2 January 2008	8.27	1,068,828	–	(1,068,828)	–
1 February 2008	7.42	213,336	–	(213,336)	–
3 March 2008	7.08	76,429	–	(76,429)	–
2 May 2008	7.31	1,926,641	–	(1,926,641)	–
2 June 2008	6.77	4,458,806	–	(4,458,806)	–
2 July 2008	5.95	86,804	–	(12,594)	74,210
4 September 2009	4.52	3,803,331	–	(360,695)	3,442,636
18 January 2012	2.41	7,271,261	–	–	7,271,261
3 September 2012	4.93	10,941,127	–	(910,071)	10,031,056
7 July 2015	2.092	5,776,000	–	–	5,776,000
4 July 2016	1.98	8,580,000	–	–	8,580,000
Total		44,202,563	–	(9,027,400)	35,175,163
Categorised as:					
Directors		437,000	–	–	437,000
Employees		43,765,563	–	(9,027,400)	34,738,163
		44,202,563	–	(9,027,400)	35,175,163
Number of options exercisable		27,645,755			21,640,644

The Scheme expired on 7 June 2017 and no further share options can be granted thereunder. However, the rules of the Scheme remain in full force and effect to the extent necessary to give effect to the exercise of options granted prior to its expiration or otherwise as may be required in accordance with the rules of the Scheme. All outstanding share options granted prior to the expiration of the Scheme shall continue to be valid and exercisable in accordance with the rules of the Scheme.

A new share option scheme was adopted by the Company on 24 May 2017.

Share award scheme

On 1 April 2015, (1) a connected employee share award scheme and (2) an employee share award scheme were adopted by the Company. The share award scheme is effective for a period of 16 years commencing from 1 April 2015. Pursuant to these two schemes, the Group has set up a trust for the purpose of administering the share award scheme and holding the awarded shares before they vest. The Company shall pay to the trustee monies and give directions or recommendation to the trustee to apply such monies and/or such other net amount of cash derived from shares held as part of the fund of the trusts to acquire shares from the market, and/or to allot and issue shares to the trustee, to satisfy any award made to selected participants. The remuneration committee of the Company shall select eligible persons and determine the number of shares to be awarded. Upon termination of the schemes, the trustee shall sell all unvested shares remaining in the trusts within a reasonable time period as agreed between the trustee and the Company, and remit all cash and net proceeds of such sale and such other funds remaining in the trust to the Company.

18. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Share award scheme (continued)

During the six months period ended 30 June 2015, a total of 17,149,000 award shares (which, depending on the performance of the Group, may be adjusted to a maximum of 42,872,500 award shares) and 7,705,000 award shares (which, depending on the performance of the Group, may be adjusted to a maximum of 19,262,500 award shares) of the Company have been awarded to certain connected employees (including Directors of the Company and certain subsidiaries) and employees of the Group respectively at no consideration.

The awarded shares shall vest upon conditions relating to the Group's performance and the individual performance being met during the 3-year performance period.

As at 30 June 2017, 24,854,000 (31 December 2016: 24,854,000) shares are allotted at par and held by the trust for the share award schemes.

RMB6 million (for the six months ended 30 June 2016: RMB4 million) was recognised as an expense in profit or loss for the current period with the corresponding credit being recognised in equity under the heading of "share award reserve".

Vesting dates	Outstanding at 1 January 2017	Movement during the period			Outstanding at 30 June 2017
		Awarded	Lapsed	Vested	
Connected Employee Share Award Scheme					
On or before 30 September 2017 (after the publication of 2016 annual results by the Company)	4,715,000	–	–	–	4,715,000
2 January 2018	2,357,500	–	–	–	2,357,500
2 January 2019	2,357,500	–	–	–	2,357,500
	9,430,000	–	–	–	9,430,000
Employee Share Award Scheme					
On or before 30 September 2017 (after the publication of 2016 annual results by the Company)	3,852,500	–	–	–	3,852,500
2 January 2018	1,926,250	–	–	–	1,926,250
2 January 2019	1,926,250	–	–	–	1,926,250
	7,705,000	–	–	–	7,705,000
	17,135,000	–	–	–	17,135,000

19. ACQUISITIONS AND DISPOSALS

(a) Disposal of equity interest in Chongqing Shui On Tiandi Real Estate Development Company Limited

On 26 May 2017, the Group entered into an agreement with an independent third party pursuant to which the Group would effectively dispose its 79.2% interest in the portfolio of certain properties via disposal at relevant equity interests in Chongqing Shui On Tiandi Real Estate Development Company Limited, a subsidiary in which the Group owned 99% equity interest, at a consideration of approximately RMB4,133 million. The equity disposal was completed on 29 June 2017.

The net assets of the portfolio of certain properties at the date of the disposal were as follows:

	RMB'million
Net assets disposed of:	
Properties under development for sale	1,806
Investment properties under construction or development	2,494
Accounts receivable, deposits and prepayments	2
Deferred tax assets	29
Bank loans	(515)
Accounts payable, deposits received and accrued charges	(114)
	3,702
Gain on disposal of subsidiaries:	
Cash consideration received	2,480
Add: Consideration receivable	1,653
Less: Transaction costs	(14)
Less: Net assets disposed of	(3,702)
Add: Non-controlling interests	29
Add: Fair value of the remaining interest in an associate	1,033
Gain on disposal (note (i))	1,479
Net cash inflow arising on the disposal:	
Cash consideration received from disposal of properties inventories	1,210
Cash consideration received from disposal of investment properties and related assets and liabilities	1,270

Note:

(i) The disposal was partially accounted for as a sale of property inventories in the ordinary course of the Group's property business. Revenue from the sale of properties under development for sale amounting to RMB3,229 million and the cost of sales amounting to RMB1,788 million were recognised at the completion date, representing 99% interest disposed by the Group. The remaining gain of RMB38 million represents gain on disposal of investment properties under construction or development and other net assets included in "Gain on disposal of investment properties through disposal of subsidiaries".

(b) Acquisition of further equity interest in Portspin Limited in the prior period

Pursuant to a sale and purchase agreement entered into on 18 December 2015 between an indirectly wholly-owned subsidiary of the Company ("Purchaser"), as a purchaser, and the joint venture partner of Portspin Limited ("Portspin"), a then joint venture of the Group that the Group owned 39.86% equity interest in Portspin, as a seller, the joint venture partner agreed to sell and the Group agreed to acquire the remaining 60.14% of the equity interest and the related shareholders' loans in Portspin for an aggregate cash consideration of US\$563 million, of which US\$156 million (approximately RMB1,014 million translated using the exchange rate as at 19 January 2016) was settled on 19 January 2016 and US\$407 million (approximately RMB2,670 million translated using the exchange rate as at 19 January 2016) is to be settled on 29 December 2017. The transaction was completed on 19 January 2016 and Portspin became a subsidiary of the Company upon completion. Portspin is an investment holding company and its subsidiaries owned a property development project in Shanghai, which is held for property development for sale.

In accordance with the sale and purchase agreement, when certain conditions are met, in addition to the US\$407 million being the remaining consideration, the Purchaser shall pay the seller at the maximum equal to US\$15 million (approximately RMB98 million translated using the exchange rate as at 19 January 2016). The present value of such deferred consideration of US\$422 million (approximately RMB2,768 million) discounted for about 2 years using the weighted average borrowing rate of the Purchaser's bank and other borrowings outstanding during 2015 of 6.26% per annum is RMB2,452 million.

19. ACQUISITIONS AND DISPOSALS (CONTINUED)

(b) Acquisition of further equity interest in Portspin Limited in the prior period (continued)

The acquisition is accounted for using the acquisition method of accounting in accordance with IFRS 3 *Business Combinations*. The Directors of the Company believe that the acquired items constitutes a business in accordance with IFRS 3 (for example, construction activities and pre-completion sales activities had been started before the acquisition). The bargain purchase gain recognised was RMB369 million, which is attributable to the increase in the valuation of the subject properties under development for sale after the negotiation of consideration.

In addition, the difference between the fair value of the existing interest in a joint venture and the aggregate carrying amount of interests in and loans to a joint venture amounting to RMB498 million was recognised in profit or loss during the prior period as gain on deemed disposal of a joint venture.

Acquisition-related costs of RMB38 million have been expensed in the profit or loss in the prior period and included in "general and administrative expenses" line item in the consolidated statement of profit or loss.

The recognised amounts of assets and liabilities of the acquired companies at the date of acquisition (which is 19 January 2016) are set out below:

	RMB'million
Property, plant and equipment	12
Properties under development for sale	7,760
Accounts receivable, deposits and prepayments	4
Deferred tax assets	14
Restricted bank deposits	318
Bank balances and cash	50
Accounts payable and accruals	(540)
Loans from and amounts due to the Group	(2,159)
Loans from and amounts due to a shareholder	(3,258)
Bank and other borrowings	(513)
Deferred tax liabilities	(618)
Less: Non-controlling interests	(110)
Net assets acquired	960
Consideration paid out of restricted bank balance	1,014
Deferred consideration	2,452
Less: Assumption of loans from and amounts due to a shareholder acquired	(3,258)
Plus: Fair value of existing interest in a joint venture	383
Less: Fair value of net assets acquired	(960)
Bargain purchase gain (included in "other gains and losses" in the profit or loss)	(369)
Cash inflow on acquisition:	
Cash and cash equivalent balances acquired	50

Included in the profit of the Group for the six months ended 30 June 2016 is a loss of RMB21 million attributable to the acquired companies (after elimination of transactions with the Group). The acquired companies did not have any turnover during the current period.

(c) Disposal of equity interest in Infoshore International Limited in the prior period

Pursuant to a sale and purchase agreement entered into with independent third parties on 10 December 2015, the Group, on 2 February 2016, completed a disposal of its entire equity interest in a subsidiary, namely Infoshore International Limited ("Infoshore") and the related shareholders' loans for an aggregate cash consideration of approximately RMB5,759 million. Infoshore indirectly held an investment property located in Shanghai, the PRC.

19. ACQUISITIONS AND DISPOSALS (CONTINUED)

(c) Disposal of equity interest in Infoshore International Limited in the prior period (continued)

The net assets of the subsidiaries at the date of the disposal were as follows:

	RMB'million
Net assets disposed of:	
Investment properties	5,700
Accounts receivable, deposits and prepayments	64
Deferred tax assets	45
Bank balances and cash	215
Accounts payable, deposits received and accrued charges	(208)
Deferred tax liabilities	(527)
	5,289
Gain on disposal of subsidiaries:	
Cash consideration received	5,759
Less: Transaction costs	(50)
Less: Net assets disposed of	(5,289)
Add: Non-controlling interests	41
	461
Increase in fair value of the investment properties recognised during the period	10
Gain on disposal (presented as "gain on disposal of investment properties through disposed of a subsidiary")	471
Net cash inflow arising on the disposal for the period ended 30 June 2016:	
Cash consideration received, net of transaction costs	3,843
Less: Restricted bank deposits	(223)
Less: Bank balances and cash disposed of	(215)
	3,405

During the six months ended 30 June 2016, included in the Group's turnover and the Group's profit for the period were turnover of RMB16 million and a loss of RMB2 million respectively attributable to the subsidiaries disposed of.

As a result of the finalisation of the related transaction cost, transaction cost of RMB5 million was overprovided and recognised as a gain during the year ended 31 December 2016. Therefore, the total gain of RMB476 million was recognised for the year ended 31 December 2016. In addition, the net asset value of the disposal subsidiaries was finalised during six month ended 30 June 2017, the consideration was adjusted downward by RMB19 million and recognised as loss for the current period.

19. ACQUISITIONS AND DISPOSALS (CONTINUED)

- (d) Disposal of property inventories through the disposal of equity interest in Foshan Yuan Kang Property Development Co., Ltd. in the prior period.

Pursuant to a sale and purchase agreement entered into with an independent third party on 14 April 2016, the Group disposed of the entire equity interest in Foshan Yuan Kang Property Development Co., Ltd. ("Foshan Yuan Kang"), a wholly-owned subsidiary of the Company, at an aggregate consideration of RMB1,900 million. Foshan Yuan Kang owned a property development project in Foshan, the PRC. The disposal was completed on 24 June 2016.

The net assets disposed of in the transaction were as follows:

	RMB'million
Net assets disposed of:	
Investment properties under construction or development at cost	76
Properties under development for sale	1,770
Bank balances and cash	10
	1,856
Total consideration satisfied by:	
Cash consideration received	1,386
Consideration receivables (note (iii))	514
Less: Cost of discounting to present value (note (i))	(58)
Consideration	1,842
Net assets disposed of	(1,856)
Transaction cost	(1)
Loss on disposal (note (ii))	(15)

Notes:

- (i) The consideration is to be settled by instalment in June 2017 and December 2017 by the buyer and therefore is discounted using market interest rate.
(ii) The transaction was accounted for as a sale of property inventories in the ordinary course of the Group's property business. The disposal of properties under development for sale was through the disposal of Foshan Yuan Kang which owned the properties.
(iii) As at 30 June 2017, the amortised cost of the consideration receivable was RMB506 million.

20. PERPETUAL CAPITAL SECURITIES

On 12 June 2017, SODH issued US\$600 million (equivalent to approximately RMB4,085 million) 6.40% guaranteed perpetual capital securities ("Perpetual Capital Securities") at an issue price of 100% of the principal amount. The Perpetual Capital Securities were guaranteed by the Company on a senior basis for the due payment of all sums which may be payable by SODH under the Perpetual Capital Securities. Distributions on the Perpetual Capital Securities are paid semi-annually in arrears in U.S. dollars on 20 June and 20 December in each year, commencing on 20 December 2017 and can be deferred at the discretion of SODH. The Perpetual Capital Securities have no fixed maturity and are redeemable at SODH's option on or after 20 June 2022 at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the Company and SODH cannot declare or, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank, which includes the ordinary shares of the Company and SODH.

21. PLEDGE OF ASSETS

The following assets were pledged to banks as securities to obtain certain banking facilities at the end of the reporting period:

	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
Investment properties	41,583	48,969
Property, plant and equipment	1,150	1,133
Prepaid lease payments	7	7
Properties under development for sale	2,003	5,354
Properties held for sale	3,185	284
Accounts receivable	45	48
Bank deposits	2,632	4,479
	50,605	60,274

In addition, the equity interests in certain subsidiaries with carrying amount of net assets of RMB6,667 million (31 December 2016: RMB13,761 million) are also pledged to banks as securities to obtain banking facilities granted to the Group at the end of the reporting period.

Included in investment properties as at 31 December 2016 above, RMB476 million was included under "assets classified as held for sale".

22. COMMITMENTS AND CONTINGENCIES

(a) Capital and other commitments

As of the end of the reporting period, the Group had the following commitments:

	30 June 2017 RMB'million (Unaudited)	31 December 2016 RMB'million (Audited)
Contracted but not provided for:		
Development costs for investment properties under construction or development	1,841	5,184
Development costs for properties under development held for sale	2,747	3,776
	4,588	8,960

22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Contingent liabilities

- (i) Pursuant to an agreement entered into with the district government (the “Hongkou Government”) and the Education Authority of the Hongkou District, Shanghai, the PRC on 31 July 2002, guarantees of no more than RMB324 million (31 December 2016: RMB324 million) will be granted by the Group to support bank borrowings arranged in the name of a company to be nominated by the Hongkou Government, as part of the financial arrangement for the site clearance work in relation to the development of a parcel of land. As at 30 June 2017 and 31 December 2016, such arrangement has not taken place.
- (ii) As at 30 June 2017, the Group has an outstanding guarantee issued to (a) a joint venture which was formed between Richcoast and Mitsui Fudosan Residential Co., Ltd. (“Mitsui”, a non-controlling shareholder of an associate’s subsidiary) and (b) Mitsui for an aggregate amount not exceeding RMB55 million (31 December 2016: RMB55 million) in respect of Richcoast’s payment obligations to the joint venture and Mitsui.
- (iii) As at 30 June 2017, the Group has outstanding financial guarantees issued to independent third parties in respect of outstanding amounts due from subsidiaries of an associate. The maximum amount that could be paid by the Group if the guarantees were called upon is RMB873 million (31 December 2016: RMB911 million).
- (iv) The Group provided guarantees of RMB982 million (31 December 2016: Nil) at 30 June 2017 to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group’s developed properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificates of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted.

In determining whether financial liabilities should be recognised in respect of the Group’s financial guarantee contracts, the Directors of the Company exercise judgment in evaluation of the probability of resources outflow that will be required and the assessment of whether a reliable estimate can be made of the amount of the obligation.

In the opinion of the Directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors of the Company consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the condensed consolidated statement of financial position as at 30 June 2017. Should the actual outcome be different from expected, provision for losses will be recognised in the condensed consolidated financial statements.

23. RELATED PARTY TRANSACTIONS

Amounts due from and to related companies are unsecured, interest-free and repayable on demand except for the amounts due from related companies amounting to RMB110 million (31 December 2016: RMB107 million) which are trade nature and with the credit period of 40 days granted by the Group, of which RMB5 million (31 December 2016: RMB2 million) are aged less than 90 days, and RMB105 million (31 December 2016: RMB105 million) are aged over 90 days, as compared to when revenue was recognised.

In addition, apart from the related party transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group also had the following transactions with related parties during the current period:

	Six months ended 30 June	
	2017 RMB'million (Unaudited)	2016 RMB'million (Unaudited)
SOCL and its subsidiaries other than those of the Group		
Rental and building management fee expenses	2	2
Travel expenses	4	4
SOCAM and its subsidiaries, associates of SOCL		
Revenue from construction services	43	90
Associates		
Interest income	28	37
Imputed interest income	30	27
Labor fee income	3	–
Joint venture		
Interest income	20	22
Project management fee income	–	1
Labor fee income	–	2
Sales commission fee income	–	2
Non-controlling shareholders of subsidiaries		
Interest expense	3	–
Key management personnel (excluding Directors of the Company, refer to note 4)		
Short-term benefits	43	37
Share award expenses	3	2
	46	39

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group's derivative financial instruments, other than the liabilities arising from rental guarantee arrangements and call option to buy back an investment property, are measured at fair value at the end of the reporting period that are grouped under Level 2. Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The Group's liabilities arising from rental guarantee arrangements and call option to buy back an investment property are measured at fair value at the end of the reporting period that are grouped under Level 3. The fair values of both instruments are estimated based on Monte-Carlo simulation using key inputs as disclosed in notes 16 and 17 respectively.

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

25. EVENT AFTER THE REPORTING PERIOD

- (a). On 26 July 2017, the Group exercised its right to redeem certain senior notes with principal amount of US\$500,000,000 due 2017 at a redemption price equal to US\$1,036.37984 per US\$1,000 in aggregate principal amount. The total amount paid for such redemption is equivalent to RMB3,512 million, and the Group recognised a loss on redemption of senior notes of RMB73 million.
- (b). On 9 August 2017, Shanghai Sheng Pu Enterprise Management Consulting Company Limited, an indirect wholly-owned subsidiary of the Company, entered into an agreement with two independent third parties not connected to the Group to set up a joint-venture company ("JV Company") to develop a plot of land, namely Lot 167 in Shanghai Hongkou District ("Lot 167"). The project to be built on Lot 167 covers an area of approximately 61,494 square meter with a developable gross floor area of approximately 213,200 square meter. It is expected that 40% will be for residential development purposes while 60% will be for commercial development purposes. It is estimated that the project will take 6 to 8 years to complete, with a total investment of approximately RMB15 billion.

For the details of the shareholdings and funding arrangements of the JV Company, please refer to the Company's announcement dated 9 August 2017.

26. APPROVAL OF FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on 23 August 2017.

INTERIM DIVIDEND

The Board has declared an interim dividend of HKD0.03 per share (2016: HKD0.011 per share) for the six months ended 30 June 2017, which is payable on or about 25 September 2017 to shareholders whose names appear on the register of members of the Company on 12 September 2017.

In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 12 September 2017.

DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2017, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (i) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO); or (ii) were recorded in the register required to be kept under section 352 of the SFO; or (iii) were 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 the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(a) Long position in the shares and the underlying shares of the Company

Name of Directors	Number of ordinary shares			Interests in the underlying shares	Total	Approximate percentage of interests to the issued share capital of the Company (Note 5)
	Personal interests	Family interests	Other interests	Share options (Note 4)		
Mr. Vincent H. S. LO	–	1,849,521 (Note 1)	4,611,835,751 (Note 2 & 3)	–	4,613,685,272	57.47%
Mr. Douglas H. H. SUNG	–	–	–	437,000	437,000	0.0054%
Sir John R. H. BOND	250,000	–	–	–	250,000	0.003%
Dr. William K. L. FUNG	5,511,456	–	–	–	5,511,456	0.06%
Professor Gary C. BIDDLE	305,381	–	–	–	305,381	0.0038%
Dr. Roger L. McCARTHY	200,000	–	–	–	200,000	0.002%

Notes:

- (1) These shares were beneficially owned by Ms. Loletta CHU ("Mrs. LO"), the spouse of Mr. Vincent H. S. LO ("Mr. LO"). Mr. LO was deemed to be interested in 1,849,521 shares under Part XV of the SFO.
- (2) These shares were held by Shui On Company Limited ("SOCL") through its controlled corporations, comprising 675,493,996 shares, 1,707,888,889 shares, 183,503,493 shares, 29,847,937 shares, 633,333,333 shares, 908,448,322 shares, 150,000,000 shares and 323,319,781 shares held by Shui On Properties Limited ("SOP"), Shui On Investment Company Limited ("SOI"), Chester International Cayman Limited ("Chester International"), New Rainbow Investments Limited ("NRI"), Lanvic Limited ("Lanvic"), Boswell Limited ("Boswell"), Merchant Treasure Limited ("Merchant Treasure") and Doretturn Limited ("Doretturn") respectively whereas SOP, Chester International, Lanvic, Boswell, Merchant Treasure and Doretturn were all wholly-owned subsidiaries of SOI. NRI was a wholly-owned subsidiary of SOCAM Development Limited ("SOCAM") which in turn was held by SOCL as to 48.38% as of 30 June 2017. SOCL was held under the Bosrich Unit Trust, the trustee of which was Bosrich Holdings (PTC) Inc. ("Bosrich"). The units of the Bosrich Unit Trust were the property of a discretionary trust, of which Mr. LO was a discretionary beneficiary and HSBC International Trustee Limited ("HSBC Trustee") was the trustee. Accordingly, Mr. LO, Mrs. LO, Bosrich and HSBC Trustee were deemed to be interested in such shares under Part XV of the SFO.
- (3) Out of these 4,611,835,751 shares, SOP may lend up to 350,000,000 shares in aggregate to J.P. Morgan Securities plc pursuant to a Stock Lending Agreement dated 21 May 2015 entered into between SOP (as lender) and J.P. Morgan Securities plc (as borrower), details of which were set out in the announcement of the Company dated 22 May 2015.
- (4) These represent the interests of share options granted to the Directors and/or their respective associate(s) for subscription of shares of the Company under the share option scheme adopted by the Company on 8 June 2007.
- (5) These percentages have been compiled based on the total number of issued shares (i.e. 8,026,630,189 shares) of the Company at 30 June 2017.

(b) Interests in the debentures of the associated corporation of the Company

Name of Directors	Name of Associated Corporation	Nature of Interests	Amount of Debentures
Mr. LO	Shui On Development (Holding) Limited	Family interests	USD1,300,000
Mr. Douglas H. H. SUNG	Shui On Development (Holding) Limited	Personal interests	USD450,000
Sir John R. H. BOND	Shui On Development (Holding) Limited	Personal interests	USD813,000
Dr. William K. L. FUNG	Shui On Development (Holding) Limited	Family interests	USD500,000
		Interests of Controlled Corporation	USD3,000,000
Mr. Anthony J. L. NIGHTINGALE	Shui On Development (Holding) Limited	Personal interests	USD200,000

Save as disclosed above, at 30 June 2017, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

At 30 June 2017, the persons or corporations (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholders	Capacity/ Nature of interests	Total number of ordinary shares and underlying shares	Approximate percentage of interests in the Company (Note 5)
Mrs. LO	Family and Personal	4,613,685,272 (Notes 1 & 4)	57.47%
HSBC Trustee	Trustee	4,611,835,751 (Notes 2, 3 & 4)	57.45%
Bosrich	Trustee	4,611,835,751 (Notes 2, 3 & 4)	57.45%
SOCL	Interests of Controlled Corporation	4,611,835,751 (Notes 2, 3 & 4)	57.45%

Notes:

- (1) These shares comprised 1,849,521 shares beneficially owned by Mrs. LO and 4,611,835,751 shares in which Mr. LO, the spouse of Mrs. LO, had a deemed interest under Part XV of the SFO as mentioned in note (2) below. Accordingly, Mrs. LO was also deemed to be interested in 4,611,835,751 shares under Part XV of the SFO.
- (2) These shares were held by SOCL through its controlled corporations, comprising 675,493,996 shares, 1,707,888,889 shares, 183,503,493 shares, 29,847,937 shares, 633,333,333 shares, 908,448,322 shares, 150,000,000 shares and 323,319,781 shares held by SOP, SOI, Chester International, NRI, Lanvic, Boswell, Merchant Treasure and Doretum respectively whereas SOP, Chester International, Lanvic, Boswell, Merchant Treasure and Doretum were all wholly-owned subsidiaries of SOI. NRI was a wholly-owned subsidiary of SOCAM which in turn was held by SOCL as to 48.38% as of 30 June 2017. SOCL was held under the Bosrich Unit Trust, the trustee of which was Bosrich. The units of the Bosrich Unit Trust were the property of a discretionary trust, of which Mr. LO was a discretionary beneficiary and HSBC Trustee was the trustee. Accordingly, Mr. LO, Mrs. LO, Bosrich and HSBC Trustee were deemed to be interested in such shares under Part XV of the SFO.
- (3) Out of these 4,611,835,751 shares, SOP may lend up to 350,000,000 shares in aggregate to J.P. Morgan Securities plc pursuant to a Stock Lending Agreement dated 21 May 2015 entered into between SOP (as lender) and J.P. Morgan Securities plc (as borrower), details of which were set out in the announcement of the Company dated 22 May 2015.
- (4) All the interests stated above represent long positions.
- (5) These percentages have been compiled based on the total number of issued shares (i.e. 8,026,630,189 shares) of the Company at 30 June 2017.

Save as disclosed above, at 30 June 2017, the Directors are not aware of any other person or corporation (other than a Director or chief executive of the Company), having an interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

SHARE OPTIONS

The share option scheme of the Company adopted on 8 June 2007 (the “Old Scheme”) expired on 7 June 2017 and no further share options can be granted thereunder. However, the rules of the Old Scheme remain in full force and effect to the extent necessary to give effect to the exercise of options granted prior to its expiration or otherwise as may be required in accordance with the rules of the Old Scheme. All outstanding share options granted prior to the expiration of the Old Scheme shall continue to be valid and exercisable in accordance with the rules of the Old Scheme.

A new share option scheme (the “Share Option Scheme”) was adopted by the Company on 24 May 2017 and no share option has been granted under the Share Option Scheme since its adoption.

Particulars of the Old Scheme are set out in note 18 to the condensed consolidated financial statements.

The following table sets out the movement of the Company’s share options during the six months ended 30 June 2017:

Name or category of Eligible participants	Date of grant	Exercise price per share HKD	At 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2017	Period during which the share options are exercisable
Director								
Mr. Douglas H. H. SUNG	4 July 2016	1.98	437,000	–	–	–	437,000	1 June 2017– 3 July 2022
Sub-total			437,000	–	–	–	437,000	
Employees (in aggregate)								
	2 January 2008	8.27	1,068,828	–	–	(1,068,828)	–	2 January 2010 – 1 January 2017
	1 February 2008	7.42	213,336	–	–	(213,336)	–	1 February 2010 – 31 January 2017
	3 March 2008	7.08	76,429	–	–	(76,429)	–	3 March 2010 – 2 March 2017
	2 May 2008	7.31	1,926,641	–	–	(1,926,641)	–	2 May 2010 – 1 May 2017
	2 June 2008	6.77	4,458,806	–	–	(4,458,806)	–	2 June 2010 – 1 June 2017
	2 July 2008	5.95	86,804	–	–	(12,594)	74,210	2 July 2010 – 1 July 2017
	4 September 2009	4.52	3,803,331	–	–	(360,695)	3,442,636	3 November 2010 – 2 November 2017
	18 January 2012	2.41	7,271,261	–	–	–	7,271,261	28 June 2013 – 17 January 2020
	3 September 2012	4.93	2,236,730	–	–	(3,258)	2,233,472	3 October 2012 – 28 October 2018
	3 September 2012	4.93	8,704,397	–	–	(906,813)	7,797,584	5 November 2012 – 4 November 2019
	7 July 2015	2.092	5,776,000	–	–	–	5,776,000	1 June 2016 – 6 July 2021
	4 July 2016	1.98	8,143,000	–	–	–	8,143,000	1 June 2017 – 3 July 2022
Sub-total			43,765,563	–	–	(9,027,400)	34,738,163	
Total			44,202,563	–	–	(9,027,400)	35,175,163	

CORPORATE GOVERNANCE

The Company is committed to enhancing its corporate governance practices and to pursue the right balance between conformance and performance in its corporate governance. The Company reviews its corporate governance practices from time to time to ensure it complies with all the applicable code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and aligns with its latest developments. The Board believes that good corporate governance is essential to the success of the Company, the enhancement of shareholders’ value, and stakeholders’ confidence in the Company.

Compliance with the CG Code

During the six months ended 30 June 2017, the Company had complied with all the applicable code provisions of the CG Code.

Model Code for Securities Transactions

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2017.

To comply with the code provision A.6.4 of the CG Code, the Company has established and adopted a Code for Securities Transactions by Relevant Employees (as defined in the Listing Rules) on terms no less exacting than the Model Code, to regulate dealings in the securities of the Company by certain employees of the Company or any of its subsidiaries who are considered to be likely in possession of unpublished inside information in relation to the Company or its securities because of their offices or employments.

No incident of non-compliance with the Model Code by the Directors and the Code for Securities Transactions by Relevant Employees was noted by the Company during the six months ended 30 June 2017.

Board Composition

The majority of the members of the Board of Directors (the “Board”) of the Company are Independent Non-executive Directors (“INEDs”). Currently, the Board is made up of nine members in total, with two Executive Directors, one Non-executive Director and six INEDs.

In conformity to the Board Diversity Policy adopted by the Company, the composition of the Board reflects the necessary balance of skills, experience and diversity of perspectives desirable for effective leadership of the Company and independence in decision-making.

In addition, the functions of the Board and the management are clearly established and set out in writing for delegation of day-to-day operational responsibility to the management of the Company.

Chairman and Chief Executive

The roles of chairman and chief executive of the Company are separated and currently performed by Mr. Vincent H. S. LO (“Mr. LO”) and the Executive Committee of the Company (“EXCOM”) respectively. Mr. LO, who is the Chairman of the Company and one of the members of the EXCOM, takes an active role in steering the business and to leverage his experience to guide the EXCOM at a strategic level and promote the Company’s sustainable growth. The reformed EXCOM, after the reorganized management of the Group, collectively takes the key management role of the Company on executive decisions and takes up the functional duties of chief executive officer. The division of responsibilities of chairman and chief executive of the Company is clearly established and set out in writing.

Board Committees

The Board has established four Board committees with defined terms of reference, namely Audit and Risk Committee, Remuneration Committee, Nomination Committee and Finance Committee, for overseeing particular aspects of the Company's affairs. The Company has also set up an Investment Sub-Committee under the Finance Committee to oversee the formulation of investment strategy for the Company.

Audit and Risk Committee

The Audit and Risk Committee was established to review the financial information of the Group, oversee the Group's financial reporting system, risk management and internal control systems, and assist the Board and its Chairman in performing the corporate governance functions of the Company. The Audit and Risk Committee also reviews the relationship with the external auditor including but not limited to their work, fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditor.

The Audit and Risk Committee consists of three members, namely Professor Gary C. BIDDLE ("Professor BIDDLE"), Dr. Roger L. McCARTHY and Mr. David J. SHAW, all of whom are INEDs. The Chairman of the Audit and Risk Committee is Professor BIDDLE who possesses appropriate professional qualifications, accounting and related financial management expertise.

The Audit and Risk Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2017, including the accounting principles and practices and internal control systems, adopted by the Company, in conjunction with the Company's external auditor. The Audit and Risk Committee has no disagreement with the accounting treatment adopted.

Remuneration Committee

The Remuneration Committee was established to evaluate the performance of the Directors and senior management and make recommendations on their remuneration packages, and to evaluate and make recommendations on employee benefit arrangements.

The Remuneration Committee consists of three members, namely Dr. William K. L. FUNG ("Dr. FUNG"), Mr. LO and Professor BIDDLE. Dr. FUNG and Professor BIDDLE are INEDs. The Chairman of the Remuneration Committee is Dr. FUNG.

Nomination Committee

The Nomination Committee was established to review the structure, size and composition of the Board and the Board Diversity Policy, identify individuals suitably qualified to become members of the Board, and assess the independence of INEDs.

The Nomination Committee consists of three members, Mr. LO, Sir John R. H. BOND and Professor BIDDLE. Sir John R. H. BOND and Professor BIDDLE are INEDs. The Chairman of the Nomination Committee is Mr. LO.

Finance Committee

The Finance Committee was established to stipulate and monitor the financial strategies, policies and guidelines of the Group. An Investment Sub Committee was established under the Finance Committee for the performance of certain duties of the Finance Committee.

The Finance Committee currently consists of seven members, namely Mr. LO, Mr. Frankie Y. L. WONG ("Mr. WONG"), Sir John R. H. BOND, Dr. FUNG, Professor BIDDLE, Mr. Anthony J. L. NIGHTINGALE ("Mr. NIGHTINGALE") and Mr. Douglas H. H. SUNG. Sir John R. H. BOND, Dr. FUNG, Professor BIDDLE and Mr. NIGHTINGALE are INEDs. The Chairman of the Finance Committee is Mr. LO and the Vice Chairman of the Finance Committee is Mr. WONG.

Training, Induction and Continuing Development for Directors

The Directors are continually updated on legal and regulatory developments, as well as business and market changes, in order to facilitate the discharge of their responsibilities. During the six months ended 30 June 2017, the Directors attended three training sessions organised by the Company.

In addition, individual Directors participated in forums and workshops organised by external professionals and/or director training programme provided by the Stock Exchange for continuous professional development.

Annual General Meeting

To enhance communications with shareholders at the Company's Annual General Meeting, the conducting language is Cantonese with simultaneous interpretation in English. The Chairman of the Board, most of the Directors, the Chairmen of the Audit and Risk Committee, the Remuneration Committee, the Nomination Committee and the Finance Committee or in their absence, another member of the committees and the external auditor were present at the Annual General Meeting held on 24 May 2017 and the meeting provided a useful forum to exchange views with the Board.

PURCHASE, SALE OR REDEMPTION/CANCELLATION OF LISTED SECURITIES

In February 2014, Shui On Development (Holding) Limited ("SODH") issued RMB2,500 million 6.875% senior notes due 2017 (the "2017 CNH Notes"). On 26 February 2017, SODH had fully repaid the principal amount of the outstanding 2017 CNH Notes together with the accrued and unpaid interest upon its maturity.

In May 2014, SODH issued USD202,487,000 9.750% senior notes due 2020 (the "2020 SODH Notes"). On 5 June 2017, SODH redeemed all the outstanding 2020 SODH Notes with an aggregate principal amount of USD202,487,000 and paid the redemption price plus the accrued and unpaid interest. Upon redemption, the 2020 SODH Notes were cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the six months ended 30 June 2017.

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

On 10 December 2012, a written agreement (the "Trust Deed") was entered into between the Company as guarantor, SODH as issuer and DB Trustee (Hong Kong) Limited ("DB") as trustee of the USD500 million perpetual capital securities issued by SODH (the "Perpetual Securities"), pursuant to which the Perpetual Securities were issued. The Trust Deed provides that if (a) SODH fails to comply with any of the covenants set out in the terms and conditions of the Perpetual Securities and such breach continues or (b) SODH does not redeem the Perpetual Securities following the occurrence of a change of control (as defined in the terms and conditions of the Perpetual Securities) or fails to make or consummate an offer to purchase, the then-prevailing distribution rate shall be increased by 3% per annum with effect from (and including) the date on which such change of control occurs, provided that the maximum aggregate increase in the distribution rate shall be 3% per annum. Details of the transaction were set out in the announcement of the Company dated 11 December 2012.

On 26 February 2014, a written agreement (the "2017 CNH Indenture") was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the 2017 CNH Notes, pursuant to which the 2017 CNH Notes were issued. The 2017 CNH Indenture provides that upon the occurrence of a Change of Control (as defined in the 2017 CNH Indenture), the Company or SODH will make an offer to repurchase all outstanding 2017 CNH Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Details of the transaction were set out in the announcement of the Company dated 27 February 2014. On 26 February 2017, SODH had fully repaid the principal amount of the outstanding 2017 CNH Notes together with the accrued and unpaid interest upon its maturity.

On 19 May 2014, two written agreements (respectively the “2018 SODH Indenture” and the “2020 SODH Indenture”) were entered into between the Company as guarantor, SODH as issuer and DB as trustee of the USD637,027,000 8.700% senior notes due 2018 (the “2018 SODH Notes”) and the 2020 SODH Notes issued by SODH, pursuant to which the 2018 SODH Notes and 2020 SODH Notes were issued. The 2018 SODH Indenture and the 2020 SODH Indenture provide that upon the occurrence of a Change of Control (as defined in the 2018 SODH Indenture and 2020 SODH Indenture), the Company or SODH will make an offer to repurchase all outstanding 2018 SODH Notes and 2020 SODH Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Details of the transaction were set out in the announcement of the Company dated 20 May 2014. On 5 June 2017, SODH redeemed all the outstanding 2020 SODH Notes with an aggregate principal amount of USD202,487,000 and paid the redemption price plus the accrued and unpaid interest. Upon redemption, the 2020 SODH Notes were cancelled. Details of the transaction were set out in the announcement of the Company dated 4 May 2017.

On 10 June 2014, a written agreement (the “2019 SODH Indenture”) was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the USD550 million 9.625% senior notes due 2019 issued by SODH (the “2019 SODH Notes”), pursuant to which the 2019 SODH Notes were issued. The 2019 SODH Indenture provides that upon the occurrence of a Change of Control (as defined in the 2019 SODH Indenture), the Company or SODH will make an offer to repurchase all outstanding 2019 SODH Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Details of the transaction were set out in the announcement of the Company dated 11 June 2014.

On 24 November 2014, a written agreement (the “2017 SODH Indenture”) was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the USD500 million 8.70% senior notes due 2017 issued by SODH (the “2017 SODH Notes”), pursuant to which the 2017 SODH Notes were issued. The 2017 SODH Indenture provides that upon the occurrence of a Change of Control (as defined in the 2017 SODH Indenture), the Company or SODH will make an offer to repurchase all outstanding 2017 SODH Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Details of the transaction were set out in the announcement of the Company dated 25 November 2014. On 26 July 2017, SODH redeemed all the outstanding 2017 SODH Notes with an aggregate principal amount of US\$500 million and paid the redemption price plus the applicable premium, the accrued and unpaid interest, if any. Upon redemption, the 2017 SODH Notes were cancelled. Details of the transaction were set out in the announcement of the Company dated 26 June 2017.

On 5 October 2016, a written agreement (the “2019 Indenture”) was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the USD250 million 4.375% senior notes due 2019 issued by SODH (the “2019 Notes”), pursuant to which the 2019 Notes were issued. The 2019 Indenture provides that upon the occurrence of a Change of Control (as defined in the 2019 Indenture), the Company or SODH will make an offer to repurchase all outstanding 2019 Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Details of the transaction were set out in the announcement of the Company dated 6 October 2016.

On 6 February 2017, a written agreement (the “2021 Indenture”) was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the USD500 million 5.70% senior notes due 2021 issued by SODH (the “2021 Notes”), pursuant to which the 2021 Notes were issued. The 2021 Indenture provides that upon the occurrence of a Change of Control (as defined in the 2021 Indenture), the Company or SODH will make an offer to repurchase all outstanding 2021 Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Details of the transaction were set out in the announcement of the Company dated 7 February 2017.

On 24 April 2017, SODH entered into a facility agreement with China CITIC Bank International Limited (the "Facility Agreement") whereby SODH was granted a two-year term loan facility of HK\$400 million for refinancing the existing facility. Pursuant to the Facility Agreement, there is a requirement that Mr. Lo (i) beneficially owns at least 35% of the issued share capital of the Company and be the single largest shareholder of the Company; (ii) be the Chairman of the Company and (iii) maintains management control of the Company. Details of the transaction were set out in the announcement of the Company dated 5 May 2017.

On 20 June 2017, a written agreement (the "Securities Trust Deed") was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the USD600 million senior perpetual capital securities callable 2022 issued by SODH (the "Securities"), pursuant to which the Securities were issued. The Securities Trust Deed provides that upon the occurrence of a change of control (as defined in the terms and conditions of the Securities), SODH may at its option, redeem in whole but not in part the Securities at (i) their applicable early redemption amount (as defined in the Securities Trust Deed) if such redemption occurs prior to 20 June 2022; or (ii) their principal amount, together with any distribution accrued to the date fixed for redemption (including any arrears of distribution and any additional distribution amount), if such a redemption occurs on or after 20 June 2022. Details of the transaction were set out in the announcement of the Company dated 20 June 2017.

Any breach of the above obligations will cause a default in respect of the Perpetual Securities, the 2017 SODH Notes, the 2019 SODH Notes, the 2019 Notes, the 2021 Notes, the Facility Agreement and the Securities may trigger cross defaults in other outstanding debts of the Group, in the aggregate amount of approximately RMB6,857 million at 30 June 2017.

UPDATE ON INFORMATION OF DIRECTORS UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, an update on the biographical details of the Directors of the Company are as follows:

Name of Directors	Details of Changes
Mr. LO	– was awarded the Grand Bauhinia Medal by the Government of the Hong Kong Special Administrative Region in 2017
Sir John R. H. BOND	– resigned as a member of the International Advisory Board to the Tsinghua University School of Economics and Management in July 2017
Dr. William K. L. FUNG	– retired as an Independent Non-executive Director of Singapore Airlines Limited on 28 July 2017
Professor Gary C. BIDDLE	– is Professor of Financial Accounting at University of Melbourne and the lecturer at University of Hong Kong
Mr. Anthony J. L. NIGHTINGALE	– is no longer the PCCW Professor and Chair of Accounting at University of Hong Kong – ceased to be non-official member of the Commission on Strategic Development in Hong Kong with effect from 1 July 2017 – ceased to be a member of the Securities and Futures Commission Committee on Real Estate Investment Trusts with effect from 1 April 2017

Save as disclosed above, after having made all reasonable enquiry, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's annual report 2016.

EMPLOYEES AND REMUNERATION POLICY

As of 30 June 2017, the number of employees in the Group was 3,260 (31 December 2016: 3,295); which included the headcount of China Xintiandi at 442 (31 December 2016: 388), the headcount of the property management business at 1,627 (31 December 2016: 1,583). The headcount of the acquired construction and fitting out business was 275 as of 30 June 2017 (31 December 2016: 301). The Group provides a comprehensive benefits package for all employees as well as career development opportunities. This includes retirement schemes, share option scheme, medical insurance, other insurances, in-house training, on-the-job training, external seminars, and programs organised by professional bodies and educational institutes.

The Group strongly believes in the principle of equality of opportunity. The remuneration policy of the Group for rewarding its employees is based on their performance, qualifications and competency displayed in achieving our corporate goals.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Vincent H. S. LO (Chairman)

Mr. Douglas H. H. SUNG
(Chief Financial Officer)

Non-executive Director

Mr. Frankie Y. L. WONG

Independent

Non-executive Directors

Sir John R. H. BOND
Dr. William K. L. FUNG
Professor Gary C. BIDDLE
Dr. Roger L. McCARTHY
Mr. David J. SHAW
Mr. Anthony J. L. NIGHTINGALE

AUDIT AND RISK COMMITTEE

Professor Gary C. BIDDLE (Chairman)
Dr. Roger L. McCARTHY
Mr. David J. SHAW

REMUNERATION COMMITTEE

Dr. William K. L. Fung (Chairman)
Mr. Vincent H. S. LO
Professor Gary C. BIDDLE

NOMINATION COMMITTEE

Mr. Vincent H. S. LO (Chairman)
Sir John R. H. BOND
Professor Gary C. BIDDLE

FINANCE COMMITTEE

Mr. Vincent H. S. LO (Chairman)
Mr. Frankie Y. L. WONG (Vice Chairman)
Sir John R. H. BOND
Dr. William K. L. FUNG
Professor Gary C. BIDDLE
Mr. Douglas H. H. SUNG
Mr. Anthony J. L. NIGHTINGALE

COMPANY SECRETARY

Mr. UY Kim Lun

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Freshfields Bruckhaus Deringer
Mayer Brown JSM

REGISTERED OFFICE

190 Elgin Avenue
George Town
Grand Cayman KY1-9005
Cayman Islands

CORPORATE HEADQUARTERS

26/F, Shui On Plaza
333 Huai Hai Zhong Road
Shanghai 200021
PRC

PLACE OF BUSINESS IN HONG KONG

34/F, Shui On Centre
6-8 Harbour Road
Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Agricultural Bank of China Limited
Bank of China Limited
China Development Bank
China Merchants Bank Co., Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of
China Limited
Standard Chartered Bank Limited
United Overseas Bank Limited

STOCK CODE

272

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