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CHINA SCE PROPERTY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1966.HK

2017
ANNUAL REPORT

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CORPORATE PROFILE

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

The Group's property projects are distributed in 23 cities, including Beijing, Shanghai, Shenzhen, Tianjin, Chongqing, Suzhou, Hangzhou, Nanjing, Qingdao, Jinan, Nanchang, and Xiamen, etc. Its products cover a wide range of properties including high-rise residential buildings, low-rise residential buildings, villas, commercial buildings and offices. The Company upholds "We Build to Inspire" (專築您的感動) as its key value proposition, "Creating Smart Living to Help Seize Happiness" (創建智慧生活，讓幸福觸手可及) as mission. The Company was awarded the "2017 Best 50 of China Real Estate Developers" (2017中國房地產開發企業50強) and "Fortune China 500" (財富中國500強) during the year.

As of 31 December 2017, the Group together with its joint ventures and associates owned a land bank with an aggregate planned gross floor area ("GFA") of approximately 15.57 million square metres ("sq.m."), which is believed to suffice the development by the Group in the next three to four years. In the future, China SCE will continue to deepen the strategic plan of "Regional Focused, Nationwide Development" (區域聚焦，全國發展) and secure the regional leading position by implementing more proactive and prudent development strategies. In addition, the Company will strive to become a more competitive developer in the People's Republic of China ("PRC").

Shanghai • SCE Plaza

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Chiu Yeung *(Chairman)*
Mr. Chen Yuanlai
Mr. Cheng Hiu Lok
Mr. Huang Youquan
Mr. Wong Lun (with effect from 1 March 2017)

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Li Siu Po

AUTHORISED REPRESENTATIVES

Mr. Wong Chiu Yeung
Mr. Li Siu Po

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

Mr. Huang Youquan *(Chairman)*
Mr. Ting Leung Huel Stephen
Mr. Lu Hong Te

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISORS AS TO HONG KONG LAWS

Chiu & Partners

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

SCE Tower
No. 2, Lane 1688, Shengchang Road
Hongqiao Business District, Shanghai
China

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2801, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

China
Industrial and Commercial Bank of China Limited
Agricultural Bank of China Limited
Bank of China Limited
China Construction Bank Corporation
Ping An Bank Co., Ltd.
Industrial Bank Co., Ltd.

Hong Kong
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
BOC Hong Kong (Holdings) Limited

INVESTOR RELATIONS

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STOCK CODE

The Stock Exchange of Hong Kong Limited: 1966.HK

COMPANY WEBSITE

www.sce-re.com

FINANCIAL HIGHLIGHTS

SUMMARY OF STATEMENT OF PROFIT OR LOSS

	For the year ended 31 December		
	2017	2016	Change
	RMB'000	RMB'000	(%)
Revenue	**16,105,245**	12,480,683	29.0
Gross profit	**5,485,184**	3,125,693	75.5
Profit for the year	**3,448,551**	2,440,451	41.3
Profit attributable to owners of the parent	**2,840,035**	2,072,284	37.0
Core profit attributable to owners of the parent	**1,903,001**	1,380,107	37.9
Dividend per share	**HK19 cents**	HK14 cents	35.7

SUMMARY OF STATEMENT OF FINANCIAL POSITION

	31 December	31 December	
	2017	2016	Change
	RMB'000	RMB'000	(%)
Total assets	**66,175,008**	50,834,872	30.2
Cash and bank balances	**9,642,125**	8,602,758	12.1
Total debts	**(21,523,080)**	(18,278,355)	17.8
Total liabilities	**(49,617,138)**	(38,763,041)	28.0
Total equity	**16,557,870**	12,071,831	37.2

REVIEW OF SIGNIFICANT EVENTS

JAN

Headquarters stationed in Shanghai

On 3 January 2017, the Group has relocated its headquarters to Shanghai for its business operations. It is a new milestone in the Group's business development and also marked the beginning of a new chapter since it had its second headquarters set up in Shanghai in 2015. The move not only represents the progress made by the Group with its country-wide development strategy, but also points to the Group's intention to keep rolling out concrete plans to further develop the Yangtze River Delta urban cluster.

FEB

Successful Bid for Premium Commercial and Residential Land Parcel in Jinan

On 20 February 2017, the Group made a successful bid for a parcel of premium commercial and residential land in Jinan, Shandong Province at a total consideration of RMB1.37 billion. It occupies a site area of approximately 206,000 sq.m. with an above-ground buildable area of approximately 310,000 sq.m. This does not only represent the Group's first entrance into the Jinan market, but also a further bolstering of the Group's existing advantages in the Bohai Rim Economic Zone. The land parcel is located on the riverside of Xiuyuan River in Jinan, adjacent to the new campus of Shandong University in Zhang Qiu. Two planned metro lines will directly link it to Zhang Qiu.

REVIEW OF SIGNIFICANT EVENTS

MAR

Moody's Investor Services Raised China SCE's Ratings Outlook to "Stable"

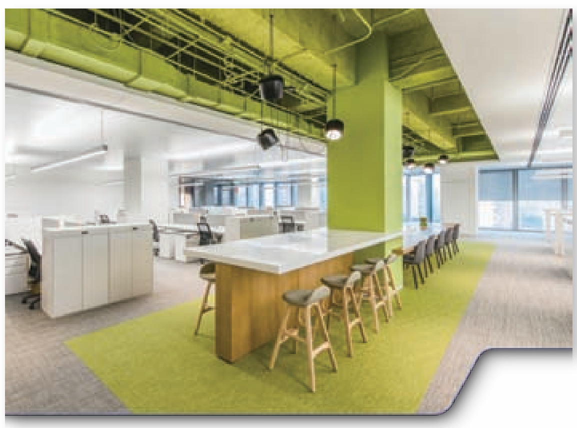
On 1 March 2017, Moody's Investor Services ("Moody's") revised the ratings outlook on the Company to "stable". Moody's also affirmed the Company's "B1" corporate family rating and "B2" senior unsecured debt rating for the bonds issued by the Company. Moody's expects that the Group will show a sustained improvement in its credit metrics, supported by strong revenue growth, improved gross profit margins, as well as prudent land acquisitions and debt management over the next 12 to 18 months. Moody's indicated that the Company's robust liquidity position also supported its "stable" ratings outlook.

Successful Issuance of US$200 Million 5.875% Senior Notes Due 2022

On 6 March 2017, the Company and the subsidiary guarantors entered into the purchase agreement with the initial purchasers in connection with the issue of the senior notes in the principal amount of US$200 million. The five-year senior notes bear interest at a rate of 5.875%. The net proceeds from the issuance of the senior notes is intended to be used for refinancing the Group's certain existing indebtedness and working capital purposes.

Awarded as One of the "2017 Best 50 of China Real Estate Developers"

On 22 March 2017, China Real Estate Association (中國房地產業協會) and China Real Estate Appraisal Center of Shanghai E-House Real Estate Research Institute (上海易居房地產研究院中國房地產測評中心) jointly published the"2017 Best 100 of China Real Estate Developers" (2017中國房地產開發企業100強) list. The Group ranked 44th among the "2017 Best 50 of China Real Estate Developers" (2017中國房地產開發企業50強) and placed second among the "Best 10 of Regional Operations" (區域運營10強).



REVIEW OF SIGNIFICANT EVENTS

APR

Standard & Poor's Ratings Raised China SCE's Ratings Outlook to "Positive"

On 11 April 2017, Standard & Poor's Ratings ("Standard & Poor's") revised the ratings outlook on the Company from "stable" to "positive". Standard & Poor's affirmed its "B" long-term corporate credit rating on the Company and a "B–" long-term issue rating on its senior unsecured notes. Standard & Poor's expected the leverage of the Group will improve over 2017. As such, the Company's rating is likely to be revised upward again in the next 12 months.

Issuance of Additional US$300 Million 5.875% Senior Notes Due 2022

On 20 April 2017, the Company has successfully issued the additional US$300 million 5.875% senior notes due 2022. The additional senior notes will be consolidated and form a single series with the US$200 million 5.875% senior notes issued in March 2017.

MAY

Ranked 40th among the "2017 Best 50 China Real Estate Listed Companies with Strongest Comprehensive Strengths"

On 25 May 2017, China Real Estate Association (中國房地產業協會) and China Real Estate Appraisal Center of Shanghai E-House Real Estate Research Institute (上海易居房地產研究院中國房地產測評中心) jointly organised the "2017 China Real Estate Listed Companies Evaluation Results Conference and Listed Real Estate Enterprises Summit" (2017中國房地產上市公司測評成果發佈會暨上市房企高峰論壇). The Group ranked 40th among the "2017 Best 50 China Real Estate Listed Companies with Strongest Comprehensive Strengths" (2017中國房地產上市公司綜合實力50強) and also ranked second in the "2017 Best 5 China Real Estate Listed Companies in Risk Management"(2017中國房地產上市公司風險控制5強).

JUN

Successful Bid for a Commercial and Residential Land Parcel in Hangzhou

On 21 June 2017, the Group made a successful bid for a parcel of premium commercial and residential land in Binhu New District, Lin'an, Hangzhou at a total consideration of RMB910 million. It occupies a site area of approximately 42,000 sq.m. with an above-ground buildable area of approximately 117,000 sq.m. The accommodation value is at RMB7,785 per sq.m. The land is close to the Lin'an Municipal Government Office. It is the political and economic core of the region. Overseeing the Qingshan Lake Reservoir in the east and a river apart from Baota Mountain in the south, it boasts unique environmental resources and significant geographical advantages.

REVIEW OF SIGNIFICANT EVENTS

JUL

Debuted among the "Fortune China 500"

On 31 July 2017, Fortune China released the 2017 "Fortune China 500" list. The Group has been included on the list of "Fortune China 500" again, demonstrating its strong business capabilities.

AUG

Signed of Strategic Cooperation Agreement with Greystar Capital

On 10 August 2017, the Group signed a strategic cooperation agreement with Greystar Capital, leading to in-depth cooperation between both parties in tapping PRC's long-term rental apartments market. The signing of the agreement is of great significance to the Group as it will optimise the strategic deployment on long-term rental apartments. Meanwhile, the cooperation with Greystar Capital will attract international capital and accelerate the Group's expansion in the long-term rental apartments market. The Group planned to roll out 50,000 long-term rental apartments in cities including Beijing, Shanghai, Shenzhen, Hangzhou, Nanjing, Tianjin, Jinan and Xiamen in the coming three years.

Placement of 400 Million New Shares to Raise HK$1.456 Billion

On 31 August 2017, the Group has successfully placed 400 million new shares, raising a gross proceeds of approximately HK$1.456 billion. The placement not only provides adequate funds for the Group's future development, but also broadens its shareholder base and optimises its capital structure. The placing of new shares received enthusiastic response from many international investors. The placing price was HK$3.64 per share and the placing shares represent approximately 10.46% of the enlarged issued share capital of the Company.

SEP

Residential Units of Polaris in Beijing Launched for Sale

Residential units of Polaris, one of the ultra-prime property projects in Beijing as well as nationwide, were launched for sale in September at an average selling price of RMB135,000 per sq.m. It brings a total subscription amount of approximately RMB2 billion on the debut day, opening a new chapter for luxury residential properties. Polaris is located on North Second Ring Road in Xicheng District, Beijing, neighbouring Desheng Gate and is close to the central administrative district, university district and central park district. Leveraging its advantage in resources to perfectly integrate with the cultural atmosphere in inner city of Beijing, Polaris has attracted considerable market attention. The project is positioned as an ultra-prime residential property and comprises 120 extraordinary residences and 116 SOHO apartments.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the results of the Group for the year ended 31 December 2017.

Wong Chiu Yeung
Chairman

RESULTS AND DIVIDENDS

For the year ended 31 December 2017, the Group recorded a revenue of approximately RMB16.105 billion, representing an increase of approximately 29.0% over last year. Profit attributable to owners of the parent amounted to approximately RMB2.840 billion, representing a growth of approximately 37.0% as compared with last year. Basic earnings per share was approximately RMB79.9 cents, representing an increase of approximately 32.1% over last year. In 2017, the gross profit margin and the net profit margin of the Group were approximately 34.1% and 21.4%, respectively, representing an increase of 9.1 percentage points and 1.8 percentage points over last year, respectively.

In appreciation of the tremendous support of our shareholders, the Board resolved to declare the payment of a final dividend of HK13 cents per ordinary share for the year ended 31 December 2017 to shareholders, totaling approximately HK$497 million, subject to the approval by shareholders of the Company in the forthcoming annual general meeting of the Company. Together with the paid interim dividend of HK6 cents per ordinary share for the year 2017, the full-year dividend payout ratio amounted to 32% of the core profit attributable to owners of the parent.

CONTRACTED SALES

In 2017, the real estate market in China was influenced by the control policies such as "restrictions on property purchase, mortgage, price and sale" and "Policy by City", the differentiation of cities and real estate developers were intensified. Due to the more stringent control policies over the first- and second-tier cities, the growth of transactions volume and selling prices in these cities were affected in a certain extent. On the contrary, some of the third- and fourth-tier cities were stimulated by "spillover effect", transactions volume and selling prices in these cities, especially for the satellite cities of first-tier cities and quality second-tier cities, reached record highs.

CHAIRMAN'S STATEMENT

In 2017, apart from the markets in first-tier cities and quality second-tier cities, the Group together with its joint ventures and associates also proactively launched new projects in satellite cities. During the year, 17 projects were newly launched for sale in 10 cities, namely Beijing, Shanghai, Tianjin, Nanjing, Jinan, Nanchang, Foshan, Quanzhou, Zhenjiang and Zhangzhou. The Group together with its joint ventures and associates outperformed the annual sales target of RMB28.0 billion and achieved record-high contracted sales amount reaching approximately RMB33.247 billion and contracted sales area of approximately 1.91 million sq.m. for the year, representing an increase of approximately 41.3% and 15.1% as compared with that of last year, respectively.

LAND BANK STRATEGY

The Group adopted the strategic approach of "Regional Focused, Nationwide Development" (區域聚焦，全國發展). The Group adhered to the principle of prudent land expansion and would never acquire land with high premium. Under this principle, the Group would only acquire lands which provide high net profit margin and high turnover rate. To date, the Group has already entered into 5 key areas, namely the Yangtze River Delta Economic Zone, the Bohai Rim Economic Zone, the West Taiwan Strait Economic Zone, the Pearl River Delta Economic Zone and Central Western Region. The Group's projects are distributed in 23 cities, including Beijing, Shanghai, Shenzhen, Tianjin, Chongqing, Suzhou, Hangzhou, Nanjing, Qingdao, Jinan, Nanchang, Xiamen and Foshan, etc. In 2017, the Group together with its joint ventures and associates proactively expanded its land banks and acquired 38 projects in total, among which, 14 projects were acquired through acquisition and 24 projects were acquired through bidding. The aggregate land cost was approximately RMB32.167 billion and the aggregate above-ground buildable area was approximately 6.45 million sq.m.

As at 31 December 2017, the Group together with its joint ventures and associates had a land bank with an aggregate planned GFA of approximately 15.57 million sq.m. (the aggregate planned GFA attributable to the Group was approximately 9.70 million sq.m.). From the perspective of geographic distribution, the land bank costs of the Group together with its joint ventures and associates located in the Yangtze River Delta Economic Zone, the Bohai Rim Economic Zone, the West Taiwan Strait Economic Zone, the Pearl River Delta Economic Zone and Central Western Region accounted for approximately 44.4%, 32.9%, 12.7%, 9.3% and 0.7% of the total land bank cost (excluding investment properties) respectively. From the perspective of city tier, the land bank costs of the Group together with its joint ventures and associates located in first-tier, second-tier as well as third- and fourth-tier cities accounted for approximately 23.4%, 52.0% and 24.6% of the total land bank cost (excluding investment properties) respectively.

OPERATION STRATEGY

Over the years, with an aim to meet the diverse market demand, we have built a well-arranged and complementary product line system: rigid demand projects "Four-season (四季)" series, upgrader demand projects "Jing (景)"series and high-end projects "Tian (天)" series. Meanwhile, in order to attract prospective customers, we also adopted the strategy of "launching small size apartments at a relatively low price", as such we increased the proportion of small size apartments.

In November 2017, the Group started to implement the co-investment mechanism of projects. Under such co-investment mechanism, both management of each company of the Group and the management at the headquarters are required to invest in the Group's projects. The aim of this mechanism is to establish a long-term incentive mechanism for each project and contribute good investment returns of our land investments. This mechanism can contribute to the steady growth of our staff and the business of the Group. Moreover, the Group and our staff can establish co-investment relationship as well as share of benefits and risks through this mechanism.

In 2017, in order to enhance the turnover rate of assets and cash collection rate, the Group increased the magnitude of incentives for "quick development" projects and achieved remarkable results.

CHAIRMAN'S STATEMENT

FINANCIAL STRATEGY

The Group's flexibility in its adoption of various financing channels since the Company's listing on the Hong Kong Stock Exchange has been continuously optimising its debt structure which has resulted in continuous decline in the average financing cost of the Group. In 2017, the average financing cost of the Group decreased from approximately 6.8% last year to approximately 6.5%. Moreover, there was continuous improvement in the Group's financial position with its credit rating or outlook upgraded three times by several rating agencies during the year. In March 2017, Moody's upgraded the rating outlook of the Company from "negative" to "stable" with its further affirmation that the Company had a long-term corporate credit rating of "B1". In April this year, Standard & Poor's Rating Services also upgraded the rating outlook of the Company from "stable" to "positive" with its affirmation that the Company had a long-term corporate credit rating of "B". Moreover, Xiamen Zhongjun Industrial Co., Ltd. (廈門中駿集團有限公司), a subsidiary of the Company, also has its corporate long-term credit rating upgraded to "AA+" by Dagong Global Credit Rating Co., Ltd. and the rating outlook of the subsidiary remained "stable".

Regarding the capital market, the Group captured an opportune moment by means of its offshore issuance of US$500 million 5.875% senior notes due 2022, representing the lowest coupon rate in history for the offshore senior notes issued by the Company. Proceeds from the senior notes will be used to refinance certain existing indebtedness and working capital purposes. In August 2017, the Company placed of 400 million new shares at a placing price of HK$3.64 per share by way of top-up placing and raised a gross proceeds approximately HK$1.456 billion. The placement not only provided adequate funds for the Group's future development, but also broadened the shareholder base of the Company and optimised its capital base.

OUTLOOK

Although the real estate control policies were further tightened in the prior year, the overall transaction volumes in the real estate market as well as the selling prices remained at a high level. Looking forward to 2018, we believe that the control policies over the first-tier cities and quality second-tier cities will unlikely be loosened. Moreover, the government of popular cities will speed up the improvement of the long-term mechanism on rental housing as well as increase the supply of lands for rental housing. As such, the land price of first-tier cities and quality second-tier cities may decline, while the transaction volumes in certain third- and fourth-tier cities will remain at a high level. In view of the urbanisation and metropolitan development, we are of the view that the rigid demand and the upgrader demand will remain keen.

In the long run, we remain optimistic about the prospects of real estate markets in first- and quality second-tier cities. Therefore, the Group will adhere to the strategy of "Focusing on First-tier Cities and Quality Second-tier Cities" and its satellite markets and closely monitor for the economically developed regions in strong third-tier cities. 2018 is bound to be a year full of opportunities for land expansion, we will capture the best timing in acquiring land at a lower price. Without affecting the Group's liquidity security, the Group will actively keep an eye on the land market of the target cities in preparation for its growth in future.

CHAIRMAN'S STATEMENT

In terms of launch strategy, the Group aspires to capture the market trend, keep track of the property market development and proactively conduct property launch in second-tier cities and strong third-tier cities. As such, the Group plans to launch over 30 new projects in 2018, which are mainly located in Shanghai, Tianjin, Nanjing, Jinan, Foshan, Quanzhou, Xuzhou and Huizhou, etc.

Based on the key concept of "the Future Determines the Present", the Group is committed to developing new business by establishing the "FUN+ Happy Life Ecosystem" (FUN+ 幸福生活生態圈) in order to proactively respond to the market changes and satisfy the different needs of its customers. In August 2017, the Group signed a strategic cooperation agreement with Greystar Capital, the largest long-term rental apartments property platform in the United States. Under this agreement, the Group planned to roll out long-term rental apartments in first-tier cities and quality second-tier cities including Beijing, Shanghai, Shenzhen, Tianjin, Hangzhou, Nanjing and Xiamen. Meanwhile, the Group strives to deliver the most comfortable and convenient lifestyle experience to its customers. In this regard, the Group will invest substantial amounts on the iFun intelligence technology system, an artificial intelligence system to establish linkages between long-term rental apartments, shared-offices, commercial buildings, property management, fitness and health and medical services, in the coming three years.

APPRECIATION

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

Wong Chiu Yeung
Chairman

Hong Kong, China
14 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2017, the real estate market in the PRC was full of opportunities and challenges. On one hand, some of the local governments of popular cities continued to implement tightened real estate control policies. The policies of restrictions on property purchase, mortgage, price and sale have been adopted. These policies effectively curbed the increase on residential property prices and the property prices in some first-tier and popular second-tier cities slightly declined as well. On the other hand, under the "four-restrictions" implemented in these cities, part of the demand in these markets has been flowing into the third- or fourth-tier cities nearby, increasing the property prices and transaction volume in those third- or fourth-tier cities.

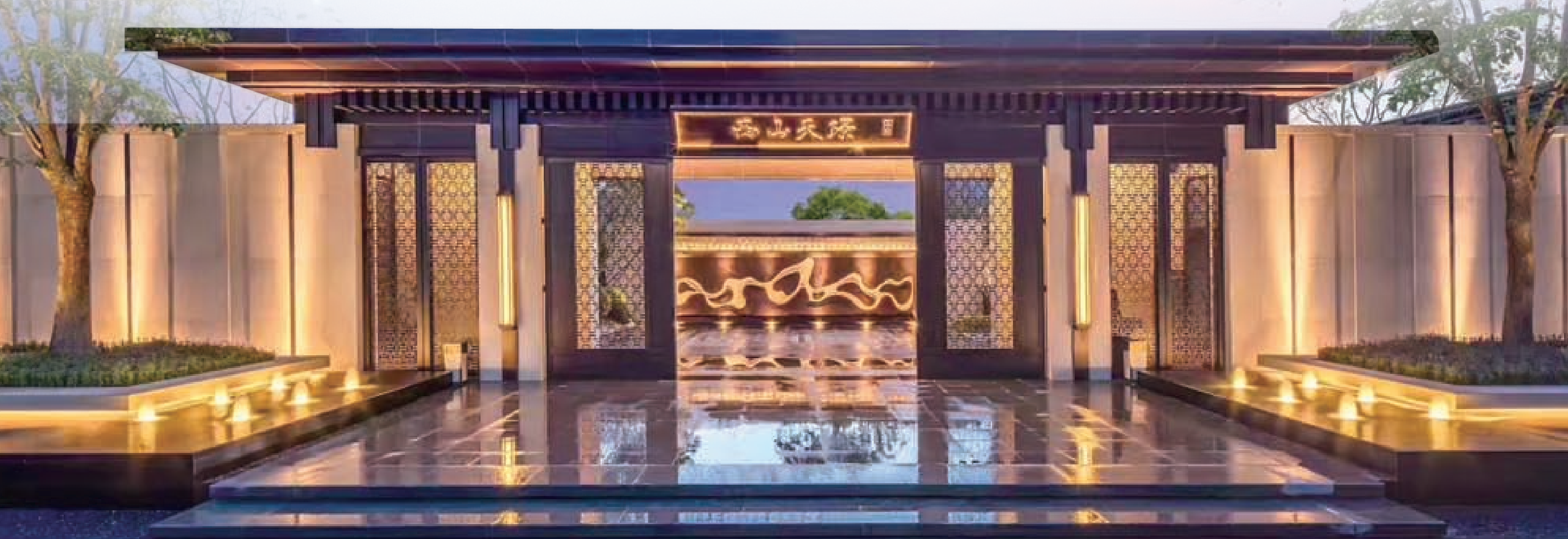
Throughout 2017, the transaction volume and average selling price of commodity housing in the PRC took a moderate upward trend. According to the "National Real Estate Development and Sales in 2017" (《2017年全國房地產開發投資和銷售情況》) issued by the National Bureau of Statistics of the PRC, the sales area of national commodity housing amounted to approximately 1.69 billion sq.m. in 2017, representing an increase of 7.7% as compared with that of last year, of which the sales area of residential housing increased by 5.3% year-on-year. The sales amount of national commodity housing amounted to approximately RMB13,370.1 billion, representing a year-on-year increase of 13.7%, of which the sales amount of residential housing increased by 11.3% as compared with that of last year.

BUSINESS REVIEW

Contracted Sales

During the year of 2017, the Group together with its joint ventures and associates outperformed the annual sales target of RMB28.0 billion and achieved a record-high contracted sales amount reaching approximately RMB33.247 billion (including the contracted sales amount of approximately RMB7.322 billion from the joint ventures and associates) and contracted sales area of approximately 1.91 million sq.m. (including the contracted sales area of approximately 450,000 sq.m. from the joint ventures and associates) for the year, representing an increase of approximately 41.3% and 15.1% as compared with that of last year, respectively. The average selling price of properties was approximately RMB17,365 per sq.m. in the year, representing an increase of approximately 22.5% as compared with that of last year.

Beijing • The Paramount



MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, the Group together with its joint ventures and associates had an aggregate of over 60 projects for sale in 19 cities, among which 17 projects were newly launched in the year, namely The Paramount and Jade Plaza in Beijing, Sky Horizon in Shanghai, Royal Palace and Garden Terrace in Tianjin, 6 Park Square in Nanjing, Parkview Bay in Jinan, Royal Bay and Uptown (Phase 2) in Nanchang, The Riviera in Foshan, Central Unique Mansion, Garden Terrace, Royal Bay and The Paramount in Quanzhou, Sunshine City in Zhenjiang, Sunshine City (Longhai) and Zhangzhou Project in Zhangzhou. The Group's strategy of "Regional Focused, Nationwide Development" (區域聚焦、全國發展) has contributed to the soaring contracted sales amount in the first-tier and second-tier, third-tier and fourth-tier cities.

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

By City

City	Contracted Sales Area (sq.m.)	Contracted Sales Amount (RMB Million)	Percentage of Contracted Sales Amount (%)
Beijing	77,369	6,562	19.7
Shanghai	175,696	7,076	21.3
Shenzhen	19,340	700	2.1
Tianjin	262,915	4,236	12.7
Hangzhou	51,983	820	2.5
Nanjing	44,522	623	1.9
Jinan	19,421	341	1.0
Nanchang	127,997	1,777	5.4
Xiamen	42,368	489	1.5
Quanzhou	648,971	6,509	19.6
Zhangzhou	184,174	2,291	6.9
Others	259,845	1,823	5.4
Total	1,914,601	33,247	100.0

From the perspective of distribution among cities, contracted sales in Beijing and Shanghai have been the most remarkable among the first-tier cities, amounting to approximately RMB6.562 billion and RMB7.076 billion respectively. Projects for sale all have excellent sales amount. In addition, benefited from the spillover effects derived from the first-tier and popular second-tier cities, the projects in Quanzhou and Zhangzhou recorded satisfying sales performance with contracted sales amounting to approximately RMB6.509 billion and RMB2.291 billion respectively, accounting for 19.6% and 6.9% respectively of the contracted sales amount of the Group during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

By Region

Region	Contracted Sales Area (sq.m.)	Contracted Sales Amount (RMB Million)	Percentage of Contracted Sales Amount (%)
Bohai Rim Economic Zone	580,492	12,431	37.4
Yangtze River Delta Economic Zone	283,410	8,632	26.0
West Taiwan Strait Economic Zone	1,016,222	11,104	33.4
Pearl River Delta Economic Zone	34,477	1,080	3.2
Total	1,914,601	33,247	100.0

As various new projects located in Bohai Rim Economic Zone were launched for sale during the year, the proportions of contracted sales amounts of the Group together with its joint ventures and associates in this region has been the highest, which accounted for approximately 37.4%. Immediately after Bohai Rim Economic Zone was the contracted sales amount in the West Taiwan Strait Economic Zone, the contracted sales amount increased by approximately 30.3% to RMB11.104 billion as compared with that of last year. Benefited from spillover effects in Xiamen, Quanzhou achieved remarkable contracted sales of approximately RMB6.509 billion, representing a year-on-year increase of 82.8%.

Shanghai • The Prestige

MANAGEMENT DISCUSSION AND ANALYSIS

By City Tier

City Tier	Contracted Sales Area (sq.m.)	Contracted Sales Amount (RMB Million)	Percentage of Contracted Sales Amount (%)
First-tier cities	272,405	14,338	43.1
Second-tier cities	550,042	8,293	25.0
Third- and fourth-tier cities	1,092,154	10,616	31.9
Total	1,914,601	33,247	100.0

From the perspective of city tier, in 2017, the contracted sales amounts of the Group together with its joint ventures and associates in the first-tier and second-tier cities have been rising as compared to the corresponding period of last year and accounted for 43.1% and 25.0% respectively, by which, significant achievement on the Group's strategy of "Focusing on First-tier Cities and Quality Second-tier Cities" has been demonstrated.

Shanghai • Marina Bay

MANAGEMENT DISCUSSION AND ANALYSIS

Recognised Property Sales Income

In 2017, the Group recorded satisfactory results in recognising property sales income. The Group achieved recognised property sales income of approximately RMB15.574 billion and area of properties delivered of approximately 1.26 million sq.m., representing a year-on-year increase of approximately 33.1% and decrease of approximately 9.8% respectively. The average selling price of properties was approximately RMB12,397 per sq.m. Details of the Group's recognised property sales income are as follows:

By City

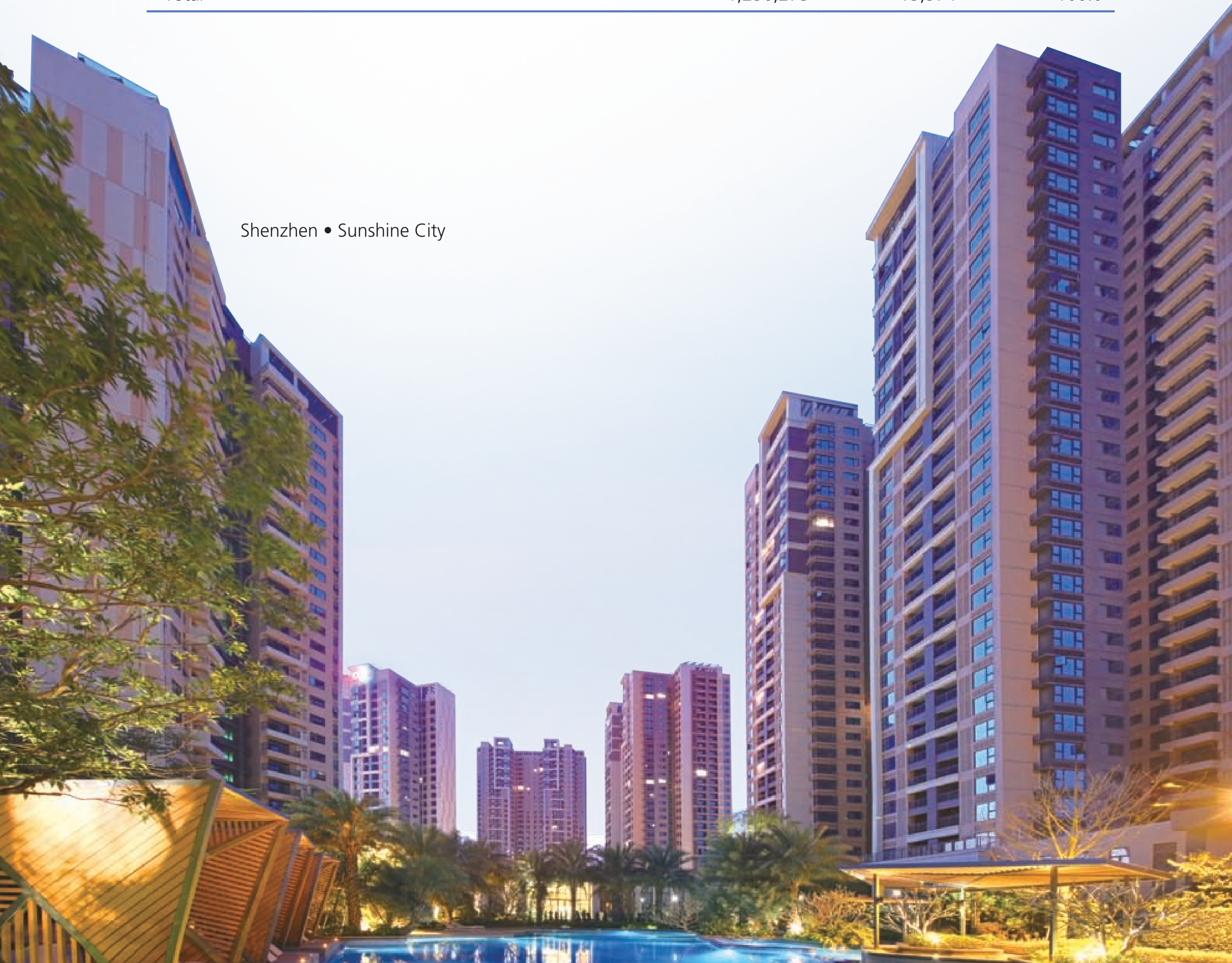
City	Recognised Property Sales Area (sq.m.)	Recognised Property Sales Income (RMB Million)	Percentage of Recognised Property Sales Income (%)
Shanghai	116,371	4,318	27.7
Shenzhen	56,136	1,814	11.7
Quanzhou	510,187	3,760	24.1
Zhangzhou	236,230	2,508	16.1
Yanjiao	144,760	2,135	13.7
Others	192,591	1,039	6.7
Total	1,256,275	15,574	100.0


Shanghai • SCE Plaza

MANAGEMENT DISCUSSION AND ANALYSIS

By Region

Region	Recognised Property Sales Area (sq.m.)	Recognised Property Sales Income (RMB Million)	Percentage of Recognised Property Sales Income (%)
Bohai Rim Economic Zone	307,290	2,980	19.1
Yangtze River Delta Economic Zone	116,371	4,318	27.7
West Taiwan Strait Economic Zone	776,478	6,462	41.5
Pearl River Delta Economic Zone	56,136	1,814	11.7
Total	1,256,275	15,574	100.0



Shenzhen • Sunshine City

MANAGEMENT DISCUSSION AND ANALYSIS

By City Tier

City Tier	Recognised Property Sales Area (sq.m.)	Recognised Property Sales Income (RMB Million)	Percentage of Recognised Property Sales Income (%)
First-tier cities	172,507	6,132	39.4
Second-tier cities	14,085	137	0.9
Third- and fourth-tier cities	1,069,683	9,305	59.7
Total	1,256,275	15,574	100.0

Yanjiao • Sunshine City

MANAGEMENT DISCUSSION AND ANALYSIS

Land Bank

As at 31 December 2017, the Group together with its joint ventures and associates had a land bank with an aggregate planned GFA of approximately 15.57 million sq.m., of which the aggregate planned GFA attributable to the Group was approximately 9.70 million sq.m. and distributed in 23 cities. In 2017, the Group together with its joint ventures and associates acquired 38 projects in total, with an aggregate above-ground GFA of approximately 6.45 million sq.m., at an aggregate land costs of approximately RMB32.167 billion. The average land cost was approximately RMB4,990 per sq.m. The new land acquisitions in 2017 were as follows:

City	Project	Type of Property	Above-ground GFA (sq.m.)	Land Cost (RMB Million)	Average Land Cost (RMB per sq.m.)	Percentage of Interest Attributable to the Group (%)
Bohai Rim Economic Zone						
Tianjin	Tianjin Project	Residential and commercial	173,024	2,690	15,548	13
Tianjin	Parkview Manor	Residential and commercial	231,711	810	3,495	33
Qingdao	Qingdao Project	Residential and commercial	396,800	1,032	2,601	100
Jinan	Parkview Bay	Residential and commercial	308,691	1,368	4,431	45
Jinan	Uptown	Commercial	58,772	128	2,178	100
Jinan	Jinan Project	Residential and commercial	380,340	1,453	3,820	20
Dezhou	The Royal Bay	Residential	320,749	241	752	40
Yangtze River Delta Economic Zone						
Shanghai	Shanghai Project	Commercial	20,581	329	16,000	100
Shanghai	Times Square	Commercial	84,518	964	11,402	28
Suzhou	Suzhou Project (Taicang)	Residential and commercial	102,012	386	3,785	16
Suzhou	Suzhou Project (Wujiang Pingwang)	Residential	57,264	359	6,267	50
Suzhou	Suzhou Project (Wujiang Taihu)	Residential and commercial	43,281	178	4,116	33
Hangzhou	Parkview Bay	Residential and commercial	116,894	910	7,785	96
Hangzhou	Hangzhou Project	Commercial	19,765	84	4,251	100
Nanjing	Royal Terrace	Residential and commercial	148,730	1,910	12,842	50
Nanjing	Nanjing Project (Jiangning Dongshan Enterprise R&D Park)	Residential and commercial	178,229	1,700	9,538	10
Nanjing	Nanjing Project (Jianging South Station)	Residential and commercial	404,786	4,910	12,130	7

MANAGEMENT DISCUSSION AND ANALYSIS

City	Project	Type of Property	Above-ground GFA (sq.m.)	Land Cost (RMB Million)	Average Land Cost (RMB per sq.m.)	Percentage of Interest Attributable to the Group (%)
Nanjing	Nanjing Project (Jiangning)	Commercial	141,299	2,220	15,711	14
Nantong	Nantong Project	Residential and commercial	197,802	640	3,233	13
Xuzhou	Parkview Bay	Residential and commercial	252,196	145	574	70
Xuzhou	Garden Terrace	Residential and commercial	155,167	594	3,828	100
Xuzhou	Golden Riviera	Residential and commercial	234,610	83	356	40
Xuzhou	Parkview Palace	Residential and commercial	49,084	226	4,604	33
Zhenjiang	Sunshine City	Residential and commercial	138,637	476	3,434	96
West Taiwan Strait Economic Zone						
Nanchang	Royal Bay	Residential and commercial	130,753	528	4,038	90
Quanzhou	Garden Terrace	Residential and commercial	77,479	93	1,205	70
Quanzhou	Quanzhou Project (Quanzhou Development Zone)	Residential and commercial	202,995	595	2,931	40
Quanzhou	Imperial Manor	Residential and commercial	164,699	197	1,197	60
Quanzhou	Quanzhou Project (Anxi)	Residential and commercial	181,730	450	2,476	17
Zhangzhou	Sunshine City (Longhai)	Residential and commercial	94,012	607	6,457	90
Zhangzhou	Zhangzhou Project	Residential and commercial	114,923	921	8,014	15
Zhangzhou	Sunshine City (Changtai)	Residential and commercial	37,700	116	3,066	75

MANAGEMENT DISCUSSION AND ANALYSIS

City	Project	Type of Property	Above-ground GFA (sq.m.)	Land Cost (RMB Million)	Average Land Cost (RMB per sq.m.)	Percentage of Interest Attributable to the Group (%)
Pearl River Delta Economic Zone						
Foshan	The Riviera	Residential and commercial	304,700	3,430	11,257	49
Huizhou	Royal Terrace	Residential and commercial	90,483	387	4,280	95
Huizhou	Uptown	Residential and commercial	154,579	285	1,843	96
Huizhou	Huizhou Project	Residential and commercial	147,336	370	2,511	93
Central Western Region						
Chongqing	Chongqing Project (Jiangjin)	Residential and commercial	340,687	177	519	92
Chongqing	Chongqing Project (Shuangfu)	Residential and commercial	188,979	175	929	100
Total			6,445,997	32,167	4,990	

Zhangzhou • Sunshine City

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

The annual revenue increased by approximately 29.0% from approximately RMB12,480,683,000 in 2016 to approximately RMB16,105,245,000 in 2017, which was attributable to the increase in property sales income.

- **Sales of properties**

  Income from property sales increased significantly by approximately 33.1% from approximately RMB11,705,120,000 in 2016 to approximately RMB15,573,839,000 in 2017. Delivered area decreased by approximately 9.8% from 1,392,504 sq.m. in 2016 to 1,256,275 sq.m. in 2017. The average unit selling price increased from approximately RMB8,406 per sq.m. in 2016 to approximately RMB12,397 per sq.m. in 2017.

- **Rental income**

  Rental income decreased by approximately 9.6% from approximately RMB136,636,000 in 2016 to approximately RMB123,499,000 in 2017, which was mainly attributable to the decrease in contribution of rental income from shopping mall of World City in Beijing.

- **Property management fees**

  Property management fees increased significantly by approximately 63.5% from approximately RMB165,335,000 in 2016 to approximately RMB270,295,000 in 2017, which was mainly attributable to the increase in number and floor area of properties under management.

- **Land development income**

  Land development income decreased significantly by approximately 78.4% from approximately RMB397,490,000 in 2016 to approximately RMB85,691,000 in 2017, which was attributable to pre-construction and preparation work provided for certain land parcels in Quanzhou.

- **Project management income**

  The project management income decreased significantly by approximately 31.8% from approximately RMB76,102,000 in 2016 to approximately RMB51,921,000 in 2017, which was attributable to the project management service and other property related service income provided to joint ventures.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit

Gross profit increased significantly by approximately 75.5% from approximately RMB3,125,693,000 in 2016 to approximately RMB5,485,184,000 in 2017. Gross profit margin increased significantly from approximately 25.0% in 2016 to approximately 34.1% in 2017. The increase in gross profit margin was attributable to products with relatively higher gross profit margin being delivered during the year.

Other Income and Gains

Other income and gains decreased significantly by approximately 64.0% from approximately RMB341,472,000 in 2016 to approximately RMB122,812,000 in 2017. The significant decrease in other income and gains was mainly attributable to the inclusion of fair value gain of derivative financial instruments — transactions not qualifying as hedges of approximately RMB139,821,000 in 2016, while there was no such income in 2017.

Changes in Fair Value of Investment Properties

The fair value gains of investment properties increased significantly by approximately 130.3% from approximately RMB548,382,000 in 2016 to approximately RMB1,262,744,000 in 2017. The fair value gains of investment properties during the year were mainly attributable to the value appreciation of the office building of Skyline Tower in Shanghai, shopping mall of Fortune Plaza • World City in Quanzhou, SOHO apartments of The Paramount in Quanzhou and the shopping mall of World City in Quanzhou Nan'an.

Selling and Marketing Expenses

Selling and marketing expenses increased significantly by approximately 30.3% from approximately RMB407,116,000 in 2016 to approximately RMB530,538,000 in 2017. The increase in selling and marketing expenses during the year was mainly attributable to the increase in the number of projects launched for pre-sale.

Administrative Expenses

Administrative expenses increased significantly by approximately 104.2% from approximately RMB471,771,000 in 2016 to approximately RMB963,431,000 in 2017. The increase in administrative expenses was mainly attributable to the inclusion of the equity-settled share option expenses of approximately RMB53,965,000 and exchange loss of approximately RMB135,081,000. In addition, the Group has expanded its operation to several new cities, administrative staff costs in 2017 increased significantly compared to that of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

Finance costs increased by approximately 23.7% from approximately RMB316,894,000 in 2016 to approximately RMB392,048,000 in 2017. Finance costs mainly represented partial borrowing costs which have not been capitalised as certain funds were not used for project developments. Due to the increase in bank and other borrowings (including senior notes and domestic bonds), total interest expense increased significantly by approximately 35.1% from approximately RMB1,161,231,000 in 2016 to approximately RMB1,569,182,000 in 2017.

Share of Profits and Losses of Joint Ventures

Share of profits of joint ventures increased by approximately 1.4% from approximately RMB803,593,000 in 2016 to approximately RMB814,542,000 in 2017. The amount was mainly attributable to the delivery of projects and the increase in the fair value gains of investment properties of joint ventures.

Income Tax Expense

Income tax expense increased significantly by approximately 91.0% from approximately RMB1,053,334,000 in 2016 to approximately RMB2,012,091,000 in 2017. The increase in income tax expense was mainly due to more provision for corporate income tax and land appreciation tax made as a result of increase in income from property sales and significant increase in gross profits margin of projects.

Profit for the Year

Profit for the year increased significantly by approximately 41.3% from approximately RMB2,440,451,000 in 2016 to approximately RMB3,448,551,000 in 2017, which was mainly attributable to the increase in income from property sales and increase in gross profit margin of projects during the year. The core profit margin increased by 1.1 percentage point from approximately 13.8% in 2016 to approximately 14.9% in 2017.

Profit Attributable to Owners of the Parent

Profit attributable to owners of the parent increased significantly by approximately 37.0% from approximately RMB2,072,284,000 in 2016 to approximately RMB2,840,035,000 in 2017. Basic earnings per share amounted to approximately RMB79.9 cents in 2017. Core profit attributable to owners of the parent increased significantly by approximately 37.9% from approximately RMB1,380,107,000 in 2016 to approximately RMB1,903,001,000 in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash Position

As at 31 December 2017, the Group's cash and bank balances were denominated in different currencies as set out below:

	2017	2016
	RMB'000	RMB'000
Renminbi	**8,447,052**	8,534,948
Hong Kong dollars	**815,394**	13,968
US dollars	**379,679**	53,842
Total cash and bank balances	**9,642,125**	8,602,758

According to the relevant laws and regulations of the PRC, certain property development companies of the Group are required to place certain amounts of cash and bank deposits into designated bank accounts to provide guarantees for the development of the relevant properties. The Group also places certain deposits in banks in the PRC to secure certain bills issued from banks in the PRC. As at 31 December 2017, the amount of restricted cash and pledged deposits was approximately RMB1,471,342,000 (31 December 2016: approximately RMB1,128,823,000) and approximately RMB25,300,000 (31 December 2016: approximately RMB261,941,000), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowings and Pledged Assets

The maturity of the borrowings of the Group as at 31 December 2017 is as follows:

	2017 **RMB'000**	2016 RMB'000
Bank and other borrowings:		
Within one year or on demand	**4,481,209**	3,427,434
In the second year	**6,514,771**	3,062,222
In the third to fifth years, inclusive	**1,556,755**	5,930,730
Beyond fifth year	**78,720**	–
	12,631,455	12,420,386
Senior notes and domestic bonds:		
Within one year or on demand	**3,477,192**	–
In the second year	**–**	3,470,293
In the third to fifth years, inclusive	**5,414,433**	2,387,676
	8,891,625	5,857,969
Total borrowings	**21,523,080**	18,278,355

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

	2017 **RMB'000**	2016 RMB'000
Bank and other borrowings:		
Renminbi	**10,104,260**	9,403,960
Hong Kong dollars	**–**	113,025
US dollars	**2,527,195**	2,903,401
	12,631,455	12,420,386
Senior notes and domestic bonds:		
Renminbi	**3,477,192**	3,470,293
US dollars	**5,414,433**	2,387,676
	8,891,625	5,857,969
Total borrowings	**21,523,080**	18,278,355

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2017, approximately RMB10,104,260,000 (31 December 2016: approximately RMB9,409,925,000) of bank and other borrowings was secured by the Group's bank deposits, property and equipment, investment properties, prepaid land lease payments, properties under development and completed properties held for sale with a total carrying value of approximately RMB19,497,384,000 (31 December 2016: approximately RMB18,867,129,000), and capital stocks of certain subsidiaries. The senior notes of US$350 million at a coupon rate of 10.0% due 2020 issued in July 2015 (the "2015 Senior Notes"), the senior notes of US$500 million at a coupon rate of 5.875% due 2022 issued in March 2017 and April 2017 (the "2017 Senior Notes") and approximately RMB2,301,298,000 (31 December 2016: approximately RMB2,733,292,000) of bank and other borrowings were guaranteed by certain subsidiaries of the Company and secured by pledges over their capital stocks.

As at 31 December 2017, except for certain bank and other borrowings of approximately RMB5,195,760,000 (31 December 2016: approximately RMB5,175,000,000) bearing interest at fixed interest rates, all the Group's bank and other borrowings bear interest at floating interest rates. The 2015 Senior Notes, the 2017 Senior Notes and the domestic corporate bonds of RMB2 billion at a coupon rate of 5.18% due 2020 issued in October 2015 and the domestic corporate bonds of RMB1.5 billion at a coupon rate of 5.3% due 2020 issued in December 2015 bear interest at fixed interest rates.

Gearing Ratio

The net gearing ratio was calculated by dividing the net amount of borrowings (including bank and other borrowings, senior notes and domestic bonds after deduction of cash and cash equivalents, restricted cash and pledged deposits) by total equity. As at 31 December 2017, the net gearing ratio was 71.8% (31 December 2016: 80.2%).

Exchange Rate Fluctuation Exposures

The Group's business are located in the PRC and all of the Group's revenue and substantially all of the Group's operating expenses are denominated in RMB. The majority of the Group's assets and liabilities are denominated in RMB. As at 31 December 2017, except for certain bank deposits, available-for-sale investments, bank and other borrowings, derivative financial instruments, the 2015 Senior Notes and the 2017 Senior Notes which were denominated in foreign currencies, exchange rate changes of RMB against foreign currencies will not have material adverse effect on the results of operations of the Group.

During 2017, the Group had entered into certain capped forward cross currency swap contracts to mitigate the currency risk exposure of foreign currency denominated indebtedness. As at 31 December 2017, the Group had entered into capped forward cross currency swap contracts with an aggregate contract amount of US$750 million. Save as disclosed above, no other foreign currency hedging arrangement was made as at 31 December 2017. The Group will closely monitor its exposure to fluctuation in foreign currency exchange rates.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2017, the Group provided financial guarantees to the banks in respect of the following items:

	2017 RMB'000	2016 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the Group's properties	**14,947,867**	11,845,901

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

	2017 RMB'000	2016 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the joint ventures' properties	**793,633**	238,418

Furthermore, as at 31 December 2017, the Group provided guarantees to banks in connection with outstanding loan amount of RMB1,934,000,000 (31 December 2016: RMB731,000,000) granted to joint ventures.

CAPITAL COMMITMENTS

As at 31 December 2017, the capital commitments of the Group are as follows:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Capital expenditure for properties under development, prepaid land lease payments and construction of investment properties in Mainland China	**9,686,960**	10,316,388

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

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Capital expenditure for joint ventures' properties under development and construction of investment properties in Mainland China	**185,843**	213,796

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2017, the Group had a total of 4,657 employees (31 December 2016: 3,554 employees). During the year, the total cost of employees was approximately RMB612,570,000 (2016: approximately RMB341,677,000). The Group provides employees with competitive remuneration and benefits and has adopted a share option scheme to provide incentives and rewards to, among others, the employees (please refer to the section headed "Report of the Directors — Share Option Scheme" of this annual report for further details of the share option scheme). The remuneration policy is reviewed on a regular basis based on the performance and contribution of the employees and the industry remuneration level. In addition, the Group also provides various training courses to enhance its employees' skills and capabilities in all aspects. The Group has launched its management trainee programme since 2011 for positions in selected functional areas in order to build pipeline for succession.

Xiamen • The Prestige

MANAGEMENT DISCUSSION AND ANALYSIS

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the senior management of the Group by band and the respective number of persons for the year ended 31 December 2017 are set out below:

Remuneration Bands	Number of Persons
RMB2,000,001 to RMB2,500,000	**5**

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

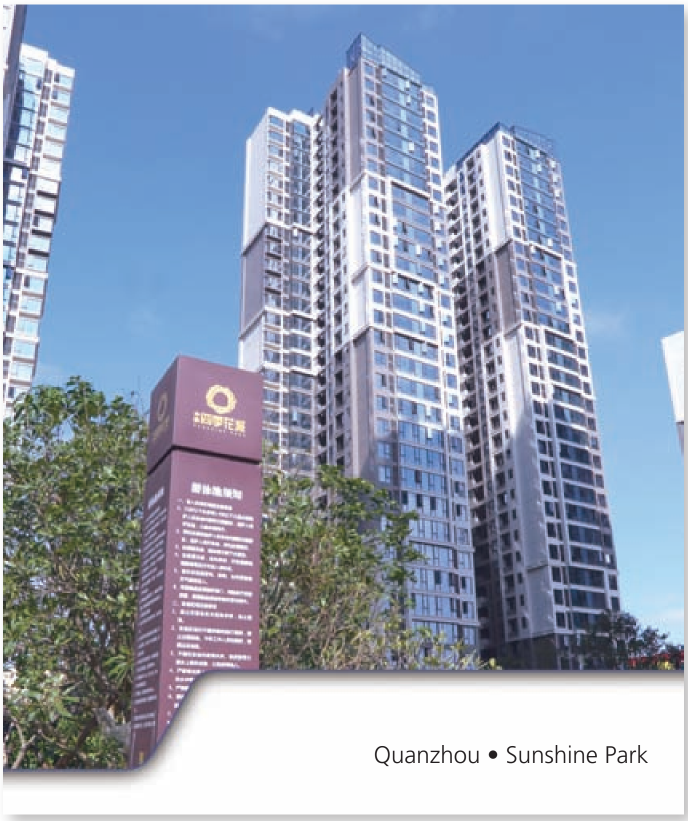
MANAGEMENT DISCUSSION AND ANALYSIS

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

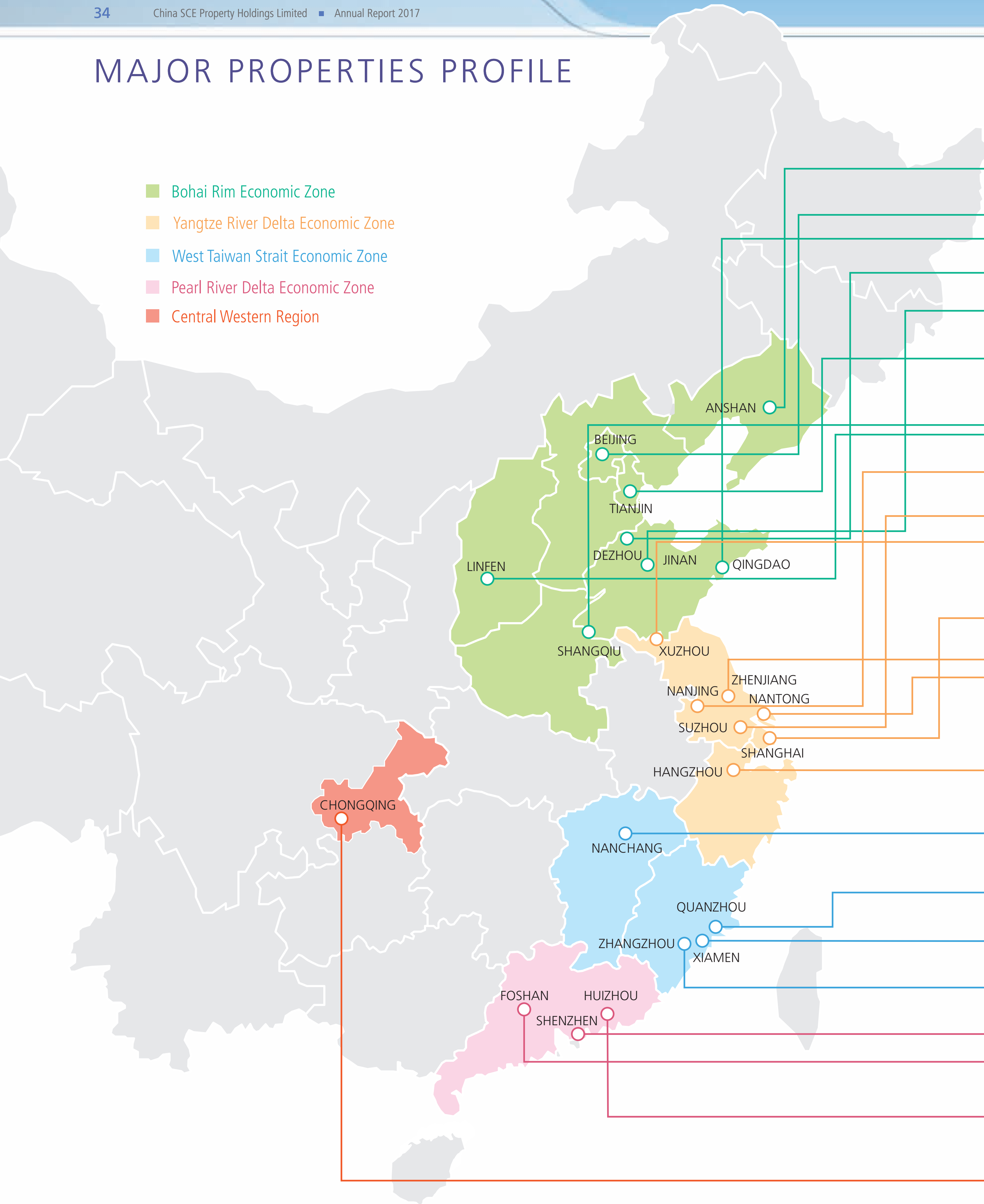
The Group maintains a solid relationship with its existing and prospective customers, which plays a vital role in the development and success of the Group. The Group's "SCE Club" ("中駿會") is established for such purpose. By persisting on the idea and objective of "Leading a Life Full of Love and Thoughtful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

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



Quanzhou • Sunshine Park

MAJOR PROPERTIES PROFILE



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

Dezhou:
The Royal Bay

Jinan:
Parkview Bay
Uptown

Tianjin:
Marina Bay
Royal Palace
Garden Terrace

Nanjing:
6 Park Square
Royal Terrace

Shanghai:
SCE Plaza Phase 2
Sky Horizon
The Royal Bay
The Glamour
The Paramount
Shanghai Project

Nantong:
Nantong Project

Xuzhou:
Parkview Bay
Golden Riviera
Garden Terrace
Parkview Palace

Hangzhou:
The Royal Green
Parkview Bay

Nanchang:
Uptown
The Royal Bay

Xiamen:
SCE Building Phase 1
SCE Building Phase 2

Shenzhen:
Sunshine City Phase 3

Huizhou:
Royal Terrace
Uptown
Huizhou Project

Foshan:
The Riviera

Beijing:
World City
Polaris
Sunshine Mansion
Royal Terrace
The Paramount

Qingdao:
Qingdao Project

Shangqiu:
Royal Terrace

Linfen:
SCE International Community Phase 4
SCE International Community Phase 5
SCE International Community (Except Phases 1-5)

Suzhou:
Suzhou Project (Kunshan)

Zhenjiang:
Sunshine City

Quanzhou:
Fortune Plaza • World City
Fortune Plaza • Marina Bay
Fortune Plaza • Imperial Terrace
SCE Mall
The Paramount
SCE Plaza
SCE Mall (Shishi)
Parkview Palace
Gold Coast Phase 1
Gold Coast Phase 2
Gold Coast (Except Phases 1&2)
World City (Nan'an)
Parkview Bay
Garden Terrace
Imperial Manor
Quanzhou Project (Quanzhou Development Zone)

Zhangzhou:
Sapphire Boomtown Phase 3
Sunshine City Phase 3
Sunshine City (Longhai)
Sunshine City (Changtai)

Chongqing:
Chongqing Project (Jiangjin)
Chongqing Project (Shuangfu)

MAJOR PROPERTIES PROFILE

Project	City	Type of Property	Investment Properties (sq.m.)	Completed Projects Held for Sale (sq.m.)	Project under Development (sq.m.)	Projects Held for Future Development (sq.m.)	Total Planned GFA (sq.m.)	Percentage of Interest Attributable to the Group (%)
Bohai Rim Economic Zone								
World City	Beijing	Commercial	31,192	–	–	–	31,192	100
Polaris	Beijing	Residential and commercial	–	–	45,174	–	45,174	100
Sunshine Mansion	Beijing	Residential	–	–	63,600	–	63,600	100
Royal Terrace	Beijing	Commercial	20,340	–	–	–	20,340	100
The Paramount	Beijing	Residential and commercial	–	–	201,175	152,937	354,112	100
Marina Bay	Tianjin	Residential	–	–	153,504	–	153,504	100
Royal Palace	Tianjin	Residential	–	–	187,055	–	187,055	63
Garden Terrace	Tianjin	Residential	–	–	287,664	–	287,664	51
Qingdao Project	Qingdao	Residential and commercial	–	–	–	396,800	396,800	100
Parkview Bay	Jinan	Residential and commercial	–	–	394,363	–	394,363	45
Uptown	Jinan	Commercial	–	–	–	58,772	58,772	100
The Royal Bay	Dezhou	Residential	–	–	–	320,749	320,749	40
Royal Spring City	Anshan	Residential, commercial and hotel	–	44,389	–	1,645,139	1,689,528	70
Royal Terrace	Shangqiu	Residential and commercial	–	–	584,992	–	584,992	40
SCE International Community (Except Phases 1 to 3)	Linfen	Residential and commercial	–	21,470	110,971	62,849	195,290	70
Yangtze River Delta Economic Zone								
SCE Plaza Phase 2	Shanghai	Office and commercial	137,733	–	42,255	–	179,988	56
Sky Horizon	Shanghai	Residential and commercial	56,224	–	47,325	–	103,549	100
The Royal Bay	Shanghai	Residential and commercial	–	–	108,124	–	108,124	100
The Glamour	Shanghai	Residential	–	–	19,797	–	19,797	100
The Paramount	Shanghai	Residential, office and commercial	–	–	71,860	–	71,860	100
Shanghai Project	Shanghai	Commercial	–	–	–	27,741	27,741	100
Suzhou Project (Kunshan)	Suzhou	Residential and commercial	–	–	–	582,658	582,658	85
The Royal Green	Hangzhou	Residential and commercial	–	–	181,525	–	181,525	100
Parkview Bay	Hangzhou	Residential and commercial	–	–	–	116,894	116,894	96
6 Park Square	Nanjing	Commercial	–	–	359,880	–	359,880	64
Royal Terrace	Nanjing	Residential and commercial	–	–	–	198,712	198,712	50
Nantong Project	Nantong	Residential and commercial	–	–	–	197,802	197,802	13
Parkview Bay	Xuzhou	Residential and commercial	–	–	–	329,589	329,589	70
Golden Riviera	Xuzhou	Residential and commercial	–	–	–	234,610	234,610	40
Garden Terrace	Xuzhou	Residential and commercial	–	–	–	155,167	155,167	100
Parkview Palace	Xuzhou	Residential and commercial	–	–	–	49,084	49,084	33
Sunshine City	Zhenjiang	Residential and commercial	–	–	174,395	–	174,395	96

MAJOR PROPERTIES PROFILE

Project	City	Type of Property	Investment Properties (sq.m.)	Completed Projects Held for Sale (sq.m.)	Project under Development (sq.m.)	Projects Held for Future Development (sq.m.)	Total Planned GFA (sq.m.)	Percentage of Interest Attributable to the Group (%)
West Taiwan Strait Economic Zone								
Uptown	Nanchang	Residential and commercial	–	–	214,680	–	214,680	100
The Royal Bay	Nanchang	Residential and commercial	–	–	165,849	–	165,849	90
SCE Building Phase 1	Xiamen	Office and commercial	9,224	–	–	–	9,224	100
SCE Building Phase 2	Xiamen	Office and commercial	36,333	–	–	–	36,666	100
Fortune Plaza • World City	Quanzhou	Residential and commercial	203,519	–	–	–	203,519	58
Fortune Plaza • Marina Bay	Quanzhou	Residential and commercial	–	15,858	–	–	15,858	58
Fortune Plaza • Imperial Terrace	Quanzhou	Residential, office and commercial	–	–	–	267,634	267,634	58
SCE Mall	Quanzhou	Residential, office and commercial	23,525	15,121	–	–	38,646	100
The Paramount	Quanzhou	Residential, office and commercial	42,723	–	81,254	–	123,977	100
SCE Plaza	Quanzhou	Office and commercial	34,976	8,005	38,123	–	81,104	100
SCE Mall (Shishi)	Quanzhou	Residential, office and commercial	30,214	22,824	–	–	53,038	60
Parkview Palace	Quanzhou	Residential and commercial	–	–	142,313	–	142,313	60
Gold Coast	Quanzhou	Residential and commercial	15,935	123,745	72,572	814,647	1,026,899	45
World City (Nan'an)	Quanzhou	Residential and commercial	62,295	–	–	208,290	270,585	80
Parkview Bay	Quanzhou	Residential and commercial	–	–	174,083	–	174,083	80
Garden Terrace	Quanzhou	Residential and commercial	–	–	92,203	–	92,203	70
Imperial Manor	Quanzhou	Residential and commercial	–	–	–	215,975	215,975	60
Quanzhou Project (Quanzhou Development Zone)	Quanzhou	Residential and commercial	–	–	–	202,995	202,995	40
Sapphire Boomtown Phase 3	Zhangzhou	Residential and commercial	–	16,320	26,038	–	42,358	100
Sunshine City Phase 3	Zhangzhou	Residential and commercial	–	21,281	–	–	21,281	75
Sunshine City (Longhai)	Zhangzhou	Residential and commercial	–	–	115,618	–	115,618	90
Sunshine City (Changtai)	Zhangzhou	Residential and commercial	–	–	–	37,700	37,700	75
Pearl River Delta Economic Zone								
Sunshine City Phase 3	Shenzhen	Residential and commercial	–	–	–	89,508	89,508	82
The Riviera	Foshan	Residential and commercial	–	–	304,700	–	304,700	49
Royal Terrace	Huizhou	Residential and commercial	–	–	121,583	–	121,583	95
Uptown	Huizhou	Residential and commercial	–	–	–	154,579	154,579	96
Huizhou Project	Huizhou	Residential and commercial	–	–	–	207,500	207,500	93
Central Western Region								
Chongqing Project (Jiangjin)	Chongqing	Residential and commercial	–	–	–	340,687	340,687	92
Chongqing Project (Shuangfu)	Chongqing	Residential and commercial	–	–	–	188,979	188,979	100

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Wong Chiu Yeung (**黃朝陽**), aged 52, is one of the founders of the Group and the chairman of the Board and President of the Company. Mr. Wong was appointed as an executive Director on 30 November 2007, as well as the chairman of the nomination committee of the Company (the "Nomination Committee") and a member of the remuneration committee of the Company (the "Remuneration Committee") and is also the director of certain subsidiaries of the Company established in the PRC, Hong Kong and the British Virgin Islands. Mr. Wong is responsible for formulating business development strategies for the Group, commercial property management and financial investment management. Since his involvement in the development of the Group's first project in 1996, Mr. Wong has been involved in all of the projects developed by the Group thereafter, and has about 22 years of experience in real estate development. Mr. Wong is the vice chairman of Hong Kong Association for the Promotion of Peaceful Reunification of China (中國和平統一促進會香港總會), guest professor of Nanchang University (南昌大學), vice chairman of the board of directors of Quanzhou Normal University (泉州師範學院), chairman of the board of directors of Nan'an Overseas Chinese Middle School (南安華僑中學), permanent honourable chairman of Hong Kong Federation of Fujian Association (香港福建社團聯會). Mr. Wong holds an Executive Master of Business Administration degree of Xiamen University. Mr. Wong is the father of Mr. Wong Lun, executive Director of the Company.

Chen Yuanlai (**陳元來**), aged 51, is one of the founders of the Group and the vice chairman of the Board of the Company. Mr. Chen was appointed as an executive Director on 12 August 2009 and is also the director of certain subsidiaries of the Company established in the PRC, Hong Kong and the British Virgin Islands. Mr. Chen is responsible for formulating business development strategies for the Group. Since his involvement in the development of the Group's first project in 1996, he has been involved in all of the projects developed by the Group thereafter, and has about 22 years of experience in real estate development. Mr. Chen also has extensive experience in investment management and project management through his involvement in all projects developed by the Group. Mr. Chen was a representative of the Second Session of the People's Congress of Fengze District in Quanzhou (泉州市豐澤區第二屆人民代表大會). Mr. Chen completed the Executive Management course in Business Administration of Commercial Real Estate Development and Funding, a one-year programme offered by School of Professional and Continuing Education of Hong Kong University and Fudan University, Shanghai, in May 2008. Mr. Chen has completed an Executive Master of Business Administration programme in Xiamen University.

Cheng Hiu Lok (**鄭曉樂**), aged 53, is one of the founders of the Group and the vice chairman of the Board of the Company. Mr. Cheng was appointed as an executive Director on 12 August 2009 and is also the director of certain subsidiaries of the Company established in the PRC, Hong Kong and the British Virgin Islands. Mr. Cheng is responsible for formulating business development strategies for the Group. Since his involvement in the development of the Group's first project in 1996, he has been involved in all of the projects developed by the Group thereafter. Mr. Cheng has about 22 years of experience in real estate development. Mr. Cheng also has extensive experience in investment management, project management and construction management through his involvement in the projects developed by the Group. Mr. Cheng completed his college education at Fujian Normal University (福建師範大學) in 1987.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Huang Youquan (**黃攸權**), aged 49, is an executive Director and the vice president of the Company. Mr. Huang was appointed as an executive Director on 1 May 2011 and was appointed as the chairman of the Corporate Governance Committee with effect from 1 January 2017. He is also the director of certain subsidiaries of the Company established in the PRC and Hong Kong. Mr. Huang is responsible for the financial management of the Group. Before joining the Group in 2003, Mr. Huang was the audit manager and assistant to the head of the Xiamen office of Fujian Hongshen Accounting Firm (福建弘審會計師事務所有限公司廈門分公司). Mr. Huang graduated from the Department of Mathematics of Xiamen University with a Bachelor's degree in Science in 1991. Mr. Huang is a PRC Certified Public Accountant and a member of the Fujian Institute of Certified Public Accountants. Mr. Huang has completed an Executive Master of Business Administration programme in Xiamen University.

Wong Lun (**黃倫**), aged 30, is an executive Director and the assistant president of the Company. Mr. Wong was appointed as an executive Director of the Company with effect from 1 March 2017. He is also the director of certain subsidiaries of the Company established in the PRC, Hong Kong and the British Virgin Islands. Mr. Wong is responsible for financial investment and asset management of the Group. Mr. Wong joined the Group in September 2010. Mr. Wong graduated from the School of Engineering of University of Warwick with a Bachelor's degree of Science in Engineering and Business Studies in 2010. Mr. Wong is currently attending an Executive Master of Business Administration Programme in China Europe International Business School. Mr. Wong Lun is the son of Mr. Wong Chiu Yeung, an executive Director and chairman of the Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ting Leung Huel Stephen (**丁良輝**), aged 64, MH, FCCA, FCPA (Practising), CTA (HK), ACA, FHKIoD, was appointed as an independent non-executive Director of the Company on 6 January 2010 and is also the chairman of the audit committee of the Company (the "Audit Committee"), a member of the Remuneration Committee and Corporate Governance Committee. Mr. Ting is an accountant in public practice and has more than 30 years of experience in this field. Currently, he is a partner of Ting Ho Kwan & Chan, Certified Public Accountants (Practising). Mr. Ting is a non-executive director of Chow Sang Sang Holdings International Limited (0116) and an independent non-executive director of six other companies listed on the Hong Kong Stock Exchange, namely Tong Ren Tang Technologies Co. Ltd. (1666), Tongda Group Holdings Limited (0698), New Silkroad Culturaltainment Limited (formerly known as JLF Investment Company Limited) (0472), Computer and Technologies Holdings Limited (0046), Texhong Textile Group Limited (2678) and Dongyue Group Limited (0189).

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Lu Hong Te (呂鴻德), aged 57, was appointed as an independent non-executive Director of the Company on 6 January 2010 and is also a member of the Audit Committee, Nomination Committee and Corporate Governance Committee. Mr. Lu obtained a Bachelor's degree in Industrial and Information Management from National Cheng Kung University in 1983, and a Master's degree and a Doctoral degree in Marketing from the Graduate Institute of Business Administration of the College of Management of National Taiwan University in 1985 and 1992, respectively. Mr. Lu is a professor at the Department of Business Administration of Chung Yuan Christian University in Taiwan, specialising in marketing management and corporate competitive strategies. He also serves as a visiting professor at institutions including National University of Singapore, Nanyang Technological University's EMBA Center and Xiamen University's EMBA Center. Mr. Lu is an independent non-executive director of Capxon International Electronic Company Limited (0469), ANTA Sports Products Limited (2020), China Lilang Limited (1234) and Cosmo Lady (China) Holdings Company Limited (2298), the shares of which are listed on the Hong Kong Stock Exchange. Mr. Lu is also an independent director of three companies in Taiwan, namely Firich Enterprises Co., Ltd. (8076), Lanner Electronics Inc. (6245), the shares of which are listed on the Taipei Exchange and Uni-President Enterprises Corporation (1216), a company which is listed on the Taiwan Stock Exchange Corporation. From May 2006 to January 2014, Mr. Lu was an independent director of Aiptek International Inc. (6225), a company which is listed on the Taiwan Stock Exchange Corporation.

Dai Yiyi (戴亦一), aged 50, was appointed as an independent non-executive Director of the Company on 6 January 2010 and is also the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. Dai is a full-time professor of the Executive Master of Business Administration programme of the School of Management of Xiamen University and the Chairman of the Board of the Jin Yuan Research Institute of Xiamen University. Mr. Dai also serves as an adjunct professor for real estate CEO programmes hosted by Tsinghua University and Peking University. Mr. Dai has been a consultant with the Fujian Real Estate Association since 2005. Mr. Dai is the vice dean of the School of Management of Xiamen University between January 2008 and December 2015. Mr. Dai is an independent non-executive director of two companies listed on the Hong Kong Stock Exchange, namely Mingfa Group (International) Company Limited (0846) and Cosmo Lady (China) Holdings Company Limited (2298), and is an independent director of Fujian Septwolves Industry Co., Ltd. (002029) and Xiamen C&D Inc. (600153), which are listed on the Shenzhen Stock Exchange and the Shanghai Stock Exchange, respectively. From May 2008 to May 2014, Mr. Dai was an independent director of Xiamen International Trade Group Corp., Ltd. (600755), which is listed on the Shanghai Stock Exchange. From May 2013 to May 2017, Mr. Dai was an independent director of New Hua Du Supercenter Co., Ltd. (002264), a company which is listed on the Shenzhen Stock Exchange. Mr. Dai graduated from Xiamen University with a Bachelor's degree in Economics in 1989, and received a Doctoral degree in Economics from Xiamen University in 1999. He also completed training at the 6th Ford Program of the Sino-American Economics Training Centre of Renmin University of China. Mr. Dai was awarded a certificate as a PRC certified property valuer in 1997.

SENIOR MANAGEMENT

Zheng Quanlou (鄭全樓), aged 46, is the vice president of the Company. He is responsible for operation plan and design management of the Group. Before joining the Group in November 1998, Mr. Zheng was the on-site manager of Quanzhou Dong Hai Development Company Limited (泉州市東海開發有限公司). Mr. Zheng completed his college education in construction engineering at College of Architecture and Civil Engineering of Fujian (福建省建築高等專科學校) in 1992 and obtained his Bachelor's degree from the Department of Civil Engineering of Fujian Agriculture and Forestry University in 2009. Mr. Zheng is a PRC Registered Cost Engineer, and serves as an expert of bid evaluation of construction project in Quanzhou since 2006. Mr. Zheng has completed an Executive Master of Business Administration programme in Xiamen University.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Wang Meng (王勐), aged 31, is the vice president of the Company. He is responsible for land development, marketing management and asset management of the Group. Before joining the Group in March 2015, Mr. Wang was the marketing director of Longfor Properties Co. Ltd. Mr. Wang graduated from North China University of Technology with a Bachelor's degree in Arts in 2009.

Tang Xiaojuan (湯筱娟), aged 45, is the assistant president of the Company. She is responsible for property management of the Group. Prior to joining the Group in August 2002, Ms. Tang served as the office manager of Xiamen Yong Hong Ji Real Estate Development Company Limited (廈門永宏基房地產開發有限公司). Ms. Tang graduated from the Department of International Trade and Economics in Jiangxi University of Finance and Economics (江西財經學院) with a Bachelor's degree in Economics in 1994. Ms. Tang has completed an Executive Master of Business Administration programme in Xiamen University.

Ku Weihong (庫衛紅), aged 49, is the assistant president of the Company. She is responsible for managing daily operation of the office of President of the Group, including legal affairs as well as administrative and human resources management of the Group. Prior to joining the Group in November 2010, Ms. Ku served as the chief legal officer of Powerlong Real Estate Holdings Limited. Ms. Ku graduated from the Department of Law of Peking University with a Bachelor's degree in Law in 1990. Ms. Ku holds the lawyer qualification certificate of the PRC and has extensive experience in legal affairs. Ms. Ku has completed an Executive Master of Business Administration programme in Beijing University.

Li Siu Po (李少波), aged 49, is the financial controller and company secretary of the Company. He is responsible for the financial reporting, equity and debt financing, investor relations and company secretarial work of the Group. Before joining the Group in January 2008, Mr. Li was a manager of one of the international CPA firms. Mr. Li graduated from the Department of Accounting in The Hong Kong Polytechnic University with a Bachelor's degree in Accountancy in 1994. Mr. Li is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Li has extensive experience in financial management and auditing.

COMPANY SECRETARY

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

CORPORATE GOVERNANCE REPORT

The Board of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2017.

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

During the year ended 31 December 2017, the Company and the Board had been in compliance with the code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Listing Rules, save as disclosed in the paragraphs headed "Chairman and Chief Executive Officer" below.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

THE BOARD OF DIRECTORS

Board Composition

The members of the Board of the Company during the year ended 31 December 2017 are set out below:

Executive Directors
Mr. Wong Chiu Yeung *(Chairman)*
Mr. Chen Yuanlai
Mr. Cheng Hiu Lok
Mr. Huang Youquan
Mr. Wong Lun (with effect from 1 March 2017)

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

CORPORATE GOVERNANCE REPORT

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Biography of Directors and Senior Management" in this annual report. Mr. Wong Chiu Yeung is the father of Mr. Wong Lun, both of whom are executive Directors. Save as disclosed above, there is no financial, business, family or other material/relevant relationships between Board members.

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

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

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

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

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

Directors' Responsibilities

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

CORPORATE GOVERNANCE REPORT

Directors' Attendance Record at Meetings

Pursuant to the provision A.1.1 of the CG Code, the board of issuers should meet regularly and board meetings should be held at least four times a year. For the year ended 31 December 2017, the Company has held five board meetings, and passed two written resolutions. It is considered that the Directors were well acknowledged to the operation of the Group for the year under review. The attendance of each Director for the board meetings and general meeting of the Company is contained in the following table:

	Number of Attendances/ Number of Board Meetings	Written Resolutions	Number of Attendance/ Total Number of General Meeting
Executive Directors:			
Mr. Wong Chiu Yeung	4/4	2/2	0/1
Mr. Chen Yuanlai	4/4[1]	2/2	0/1
Mr. Cheng Hiu Lok	4/4[1]	2/2	0/1
Mr. Huang Youquan	4/4[1]	2/2	1/1
Mr. Wong Lun (with effective from 1 March 2017)	1/1[1]	0/0	1/1
Independent non-executive Directors:			
Mr. Ting Leung Huel Stephen	5/5	2/2	1/1
Mr. Lu Hong Te	5/5	2/2	0/1
Mr. Dai Yiyi	5/5	2/2	0/1

[1] Except for chairman of the Company, Mr. Wong Chiu Yeung, all executive Directors absented themselves from the board meeting held on 16 August 2017 in which the composition, duties and responsibilities of the executive Directors were discussed.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

CORPORATE GOVERNANCE REPORT

COMPLIANCE OF NON-COMPETITION DEED

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

The Company has received a confirmation from Mr. Wong Chiu Yeung for his compliance with the terms of the Non-competition Deed during the year ended 31 December 2017 and up to the date of this report. All the independent non-executive Directors have reviewed the matters relating to enforcement of the Non-competition Deed and consider that the terms of the Non-competition Deed have been complied with by Mr. Wong Chiu Yeung.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

REMUNERATION COMMITTEE

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

CORPORATE GOVERNANCE REPORT

The prime duties of the Remuneration Committee are:

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

During the year under review, the Remuneration Committee held one meeting to discuss the 2016 management bonus and 2017 salary under the service contracts for executive Directors. Details of the attendance by members of the Remuneration Committee are set out as below:

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

NOMINATION COMMITTEE

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

The prime duties of the Nomination Committee are:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- to assess the independence of the independent non-executive Directors; and
- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors, succession planning for Directors in particular the chairman and chief executive officer and the policy concerning the diversity of Board members.

CORPORATE GOVERNANCE REPORT

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

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

The Company and the Nomination Committee periodically review the Board Diversity Policy, and monitor the progress on achieving the following measurable objectives (the "Measurable Objectives") which are set for implementing diversity on the Board. For the year ended 31 December 2017, the Board has adopted and the Company has achieved the following Measurable Objectives:

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

The prime duties of the Audit Committee are:

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

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

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

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

During the year under review, the Audit Committee held two meetings to review the 2016 annual report and the 2017 interim report of the Company. Details of the attendance by members of the Audit Committee are set out as below:

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE COMMITTEE

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

The prime duties of the Corporate Governance Committee are:

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

- to review and approve the annual corporate governance report and related disclosures in the annual and interim reports of the Company and monitor and ensure compliance with relevant requirements under the Listing Rules or the rules of any other stock exchange in respect of which the securities of the Company are listed or quoted, or other laws, regulations, rules and codes as may be applicable to the Company;

- to make sure that appropriate monitoring systems are in place to ensure compliance against the relevant internal controls systems, processes and policies, and in particular to monitor the implementation of the Company's plans to maintain high compliance with its own risk management standards;

- to review and monitor the training and continuous professional development of directors and senior management; and

- to review the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual reports.

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

	Number of Attendance/ Total Number of Meeting
Mr. Huang Youquan	1/1
Mr. Ting Leung Huel Stephen	1/1
Mr. Lu Hong Te	1/1

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

For the year under review, the fees paid to the auditors of the Company, Ernst & Young, in respect of the audit services and non-audit services provided to the Company amounted to approximately RMB3,600,000 and approximately RMB2,906,000, respectively. Non-audit services mainly consisted of advisory and other reporting services.

The Audit Committee is responsible to recommend to the Board on matters related to the appointment, re-appointment and removal of the auditors. The Audit Committee recommended the re-appointment of Ernst & Young as the external auditors of the Group for the year ending 31 December 2018, subject to the approval of the shareholders at the annual general meeting of the Company.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2017, and confirm that the financial statements give a true view of the financial positions and results of the Group as at the date and for the year of the date ended, and are prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The statement of the external auditors of the Company, Ernst & Young, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 65 to 69 of this annual report.

INTERNAL CONTROLS

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

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

Besides, the Company has also appointed Ernst & Young (China) Advisory Limited to examine and evaluate the internal control system of the Group for the year. The 2017 internal control assessment report revealed that no material control weakness was identified.

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

CORPORATE GOVERNANCE REPORT

The Company has the procedures and internal controls for the handling and dissemination of inside information. In practice, employees of the Group who become aware of any events and/or matters which he/she considers potentially inside information, will report to the designated personnel of the Company who, if considered appropriate, will pass such information to the Board for the purpose of considering and deciding whether or not such information constitutes inside information and disclosure of which shall be made immediately.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

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

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

Date	Description	Place
16 January 2017	Barclays Asia Credit Corporation Day 2016	Hong Kong
28 February–3 March 2017	Non Deal Roadshow	Hong Kong/Singapore
20–21 April 2017	HSBC 7th Annual Greater China Property Conference	Hong Kong
13–14 June 2017	HSBC Asia Credit Conference	Hong Kong
22–23 June 2017	Citi Asia Pacific Property Conference 2017	Hong Kong
22–27 August 2017	Non Deal Roadshow	Hong Kong/Singapore
20–21 September 2017	Non Deal Roadshow	Shanghai/Shenzhen
31 October 2017	CITI China Investor Conference 2017	Macau
16–17 November 2017	Nomura Asian High Yield Corporate Day	Hong Kong

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

1. Procedures for shareholders to convene an extraordinary general meeting

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

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

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

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

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

2. Procedures for raising enquiries

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

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

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

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Please refer to the subsections headed "Business Review", "Environmental Policies and Performance", "Compliance with Relevant Laws and Regulations" and "Key Relationships with Employees, Customers and Suppliers" in the section headed "Management Discussion and Analysis" of this annual report for a business review of the Group for the year ended 31 December 2017.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the Group's financial position at that date are set out in the financial statements on pages 70 to 176.

An interim dividend of HK6 cents per ordinary share was paid on 9 October 2017. The Directors recommend the payment of a final dividend of HK13 cents per ordinary share in respect of the year to shareholders whose names appear on the register of members on 11 May 2018 subject to approval by shareholders of the Company in the forthcoming annual general meeting of the Company.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities, perpetual capital instruments and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on pages 177 to 178. This summary does not form part of the audited financial statements.

PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTIES

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

PROPERTIES UNDER DEVELOPMENT

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

REPORT OF THE DIRECTORS

COMPLETED PROPERTIES HELD FOR SALE

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 35 to the financial statements.

PRE-EMPTIVE RIGHTS

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company's reserves available for distribution calculated in accordance with the provisions of the Companies Law of the Cayman Islands amounted to approximately RMB1,760,214,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately RMB61,534,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, sales to the Group's five largest customers accounted for less than 30% of the Group's total revenue for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

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

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:
Mr. Wong Chiu Yeung
Mr. Chen Yuanlai
Mr. Cheng Hiu Lok
Mr. Huang Youquan
Mr. Wong Lun (with effect from 1 March 2017)

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

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

Accordingly, Mr. Wong Chiu Yeung, Mr. Huang Youquan and Mr. Ting Leung Huel Stephen will retire as Directors at the forthcoming annual general meeting of the Company and being eligible, will offer themselves for re-election at the meeting.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 38 to 41 of this annual report.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Wong Chiu Yeung, Mr. Chen Yuanlai and Mr. Cheng Hiu Lok, being executive Directors, has entered into a service contract with the Company for a term of three years commencing from 5 February 2010. Mr. Huang Youquan, being an executive Director, has entered into a service contract with the Company for a term from 1 May 2011 to 4 February 2013. Each of their service contracts is renewable automatically upon the expiry of the then current term of appointment, subject to termination by either party giving not less than three months' written notice. Mr. Wong Lun, being an executive Director, has entered into a service contract with the Company for a term from 1 March 2017 to 29 February 2020. Each of their service contracts is renewable automatically upon the expiry of the then current term of appointment, subject to termination by either party giving not less than three months' written notice.

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

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

REMUNERATION POLICIES AND DIRECTORS' REMUNERATION

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as the transactions set out in note 48 to the financial statements and the transaction specified in the paragraph headed "Connected Transaction" in this section, no Director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 December 2017 and up to the date of this report, there was or is permitted indemnity provision (within the meaning in Section 469 of the Hong Kong Companies Ordinance) in accordance with the articles of association of the Company being in force.

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

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

At 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, were as follows:

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

	Interest in Shares			
Name of Director	**Beneficial Owner**	**Interest of Controlled Corporation**	**Total Number of Shares Held or Interested**	**Percentage of the Company's Issued Share Capital**
Mr. Wong Chiu Yeung ("Mr. Wong")	–	2,000,000,000 (Note 1)	2,000,000,000	52.30%
Mr. Chen Yuanlai ("Mr. Chen")	20,000,000	144,000,000 (Note 2)	164,000,000	4.29%
Mr. Cheng Hiu Lok ("Mr. Cheng")	–	144,000,000 (Note 3)	144,000,000	3.77%

Long positions in share options of the Company:

Name of director	**Number of share options directly beneficially owned**	**Percentage of the Company's Issued Share Capital**
Mr. Huang Youquan	34,000,000	0.89%

REPORT OF THE DIRECTORS

Note 1: These 2,000,000,000 Shares were registered in the name of Newup Holdings Limited ("Newup"). Mr. Wong held 100% of the entire issued share capital of Newup and was deemed to be interested in the 2,000,000,000 Shares held by Newup pursuant to the SFO.

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

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

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

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

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

REPORT OF THE DIRECTORS

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

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

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

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

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

Further details of the Scheme as to the value of the share options granted are disclosed in note 36 to the financial statements. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

During 2016, the Company granted 284,000,000 share options under the Scheme to the Group's employees (including director). As at 31 December 2017, the Company had 284,000,000 share options (31 December 2016: 284,000,000 share options) outstanding under the Scheme.

REPORT OF THE DIRECTORS

CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

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

At 31 December 2017, the interests or short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Long positions:

Name	Capacity and Nature of Interest	Number of Shares Held or Interested	Percentage of the Company's Issued Share Capital
Newup (Note)	Beneficial owner	2,000,000,000	52.30%

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

Save as disclosed above, as at 31 December 2017, no person, other than a Director or chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares, and Debentures" above, had registered an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTION

As disclosed in note 48 to the financial statements, certain related party transactions of the Group during the year ended 31 December 2017 constitute connected transactions or continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements applicable to such transactions in accordance with Chapter 14A of the Listing Rules.

PLACING OF AND SUBSCRIPTION FOR SHARES

As disclosed in the announcement of the Company dated 1 September 2017 (the "Announcement"), on 31 August 2017, the Company, Newup and certain financial institutions as placing agents (the "Placing Agents") entered into a placing and subscription agreement, pursuant to which (i) the Placing Agents agreed to place, on a fully underwritten basis, 400,000,000 existing Shares to independent investors at a price of HK$3.64 per Share on behalf of Newup (the "Placing"); and (ii) Newup subscribed for 400,000,000 new Shares, which had a nominal value of HK$40,000,000 and a market value of HK$1,600,000,000 based on the closing price of HK$4.00 per Share on 31 August 2017, at a price of HK$3.64 per Share (the "Subscription"). The Placing Shares represented approximately 11.68% of the then existing issued share capital of the Company and approximately 10.46% of the issued share capital of the Company as enlarged by the Subscription. The Subscription Shares were issued by the Company under the general mandate granted by the Shareholders to the Directors pursuant to the resolution of the Shareholders passed in the annual general meeting held on 12 May 2017. The net price of the Subscription was approximately HK$3.59 per Share.

The Placing and Subscription were undertaken to supplement the Group's long term funding of its expansion and growth plan. The Directors considered that the Placing and Subscription would provide an opportunity to raise further capital for the Company whilst broadening the Shareholder base and the capital base of the Company. The Company intends to use the estimated net proceeds of the Subscription of approximately HK$1,436,142,000 for the Company's development purposes and as general working capital of the Company. The net proceeds from the Subscription of approximately HK$1,436,142,000 (equivalent to approximately RMB1,223,306,000) had been fully utilised for the Company's development purposes and as general working capital of the Company as disclosed in the Announcement.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

REPORT OF THE DIRECTORS

DISCLOSURE PURSUANT TO RULES 13.18 OF THE LISTING RULES

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

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

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

As disclosed in the announcement of the Company dated 14 March 2018, pursuant to an agreement (the "2018 Facility Agreement") dated 14 March 2018 entered into by and among, inter alia, the Company as borrower, certain of its subsidiaries as original guarantors, and a syndicate of banks, the banks have agreed to grant to the Company a HK$3,172,100,000 and US$9,000,000 dual tranche term loan facility (the "2018 Facility") to refinance existing financial indebtedness and finance the general corporate funding requirements of the Group.

The 2018 Facility is for a term of three years and six months commencing from the date on which the first utilisation of the 2018 Facility is made under the 2018 Facility Agreement, and is guaranteed by certain subsidiaries of the Company and secured by pledges over their capital stocks.

The 2018 Facility Agreement contains a requirement that Wong Family, (a) must remain the single largest shareholder in the Company; (b) must hold legally and beneficially and directly or indirectly 40% or more of all classes of the Company's voting share capital and/or must directly or indirectly control (as defined in the Code on Takeovers and Mergers) the Company; and (c) Mr. Wong or a member of the Wong Family must remain to be the chairman of the Board of the Company. A breach of such requirement will constitute an event of default under the 2018 Facility Agreement, and as a result, the 2018 Facility will be liable to be declared immediately due and payable.

As at the date of this annual report, Mr. Wong and his associates jointly own approximately 52.30% of the voting share capital of the Company.

REPORT OF THE DIRECTORS

FUTURE DEVELOPMENT OF THE GROUP'S BUSINESS

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

AUDITORS

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

ON BEHALF OF THE BOARD
Wong Chiu Yeung
Chairman

Hong Kong
14 March 2018

INDEPENDENT AUDITOR'S REPORT

EY安永

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

OPINION

We have audited the consolidated financial statements of China SCE Property Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 176, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Estimation of fair value of investment properties The Group has various investment properties in Mainland China. Such investment properties are measured at fair value and the aggregate carrying amounts of these investment properties were RMB10.2 billion as at 31 December 2017. Significant estimation and judgement are required by management to determine the fair value of the investment properties. To support management's determination of the fair value, the Group engaged an external valuer to perform valuations on the investment properties at the end of the reporting period. The accounting policies and disclosures for the estimation of fair value of investment properties are included in notes 3, 4 and 15 to the consolidated financial statements.	We evaluated the objectivity, independence and competency of the valuer. We also involved our internal valuation specialists to assist us to assess the methodologies and assumptions adopted in the valuation for estimating the fair value of the investment properties.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Anthony S.T. Leung.

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

14 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	6	**16,105,245**	12,480,683
Cost of sales		**(10,620,061)**	(9,354,990)
Gross profit		**5,485,184**	3,125,693
Other income and gains	6	**122,812**	341,472
Changes in fair value of investment properties, net	15	**1,262,744**	548,382
Selling and marketing expenses		**(530,538)**	(407,116)
Administrative expenses		**(963,431)**	(471,771)
Other expenses		**(332,561)**	(129,454)
Finance costs	7	**(392,048)**	(316,894)
Share of profits and losses of:			
Joint ventures		**814,542**	803,593
Associates		**(6,062)**	(120)
PROFIT BEFORE TAX	8	**5,460,642**	3,493,785
Income tax expense	11	**(2,012,091)**	(1,053,334)
PROFIT FOR THE YEAR		**3,448,551**	2,440,451
OTHER COMPREHENSIVE INCOME/(LOSS):			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income/(loss) of joint ventures		**46,017**	(38,837)
Share of other comprehensive income/(loss) of associates		**157**	(95)
Exchange differences on translation of foreign operations		**578,541**	(428,055)
Available-for-sale investments:			
Change in fair value		**52,051**	–
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**676,766**	(466,987)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gain on property revaluation		**82,872**	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**82,872**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**759,638**	(466,987)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,208,189**	1,973,464

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Note	**2017 RMB'000**	2016 RMB'000
Profit attributable to:			
Owners of the parent		**2,840,035**	2,072,284
Holders of perpetual capital instruments		**51,975**	49,967
Non-controlling interests		**556,541**	318,200
		3,448,551	2,440,451
Total comprehensive income attributable to:			
Owners of the parent		**3,516,512**	1,666,544
Holders of perpetual capital instruments		**51,975**	49,967
Non-controlling interests		**639,702**	256,953
		4,208,189	1,973,464
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB79.9 cents**	RMB60.5 cents
Diluted		**RMB78.4 cents**	RMB60.5 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property and equipment	14	**104,894**	109,030
Investment properties	15	**10,251,718**	7,429,400
Prepaid land lease payments	16	**5,414,497**	7,328,897
Intangible asset	17	**3,489**	3,653
Properties under development	18	**1,524,085**	1,222,958
Contract in progress	19	**340,667**	366,824
Investments in joint ventures	20	**3,308,894**	1,290,028
Investments in associates	21	**115,265**	114,195
Available-for-sale investments	22	**229,541**	141,739
Derivative financial instruments	23	**–**	139,821
Prepayments and deposits	26	**2,948,515**	1,519,782
Deferred tax assets	33	**344,923**	247,971
Total non-current assets		**24,586,488**	19,914,298
CURRENT ASSETS			
Properties under development	18	**21,740,001**	14,798,538
Completed properties held for sale	24	**2,967,252**	4,572,534
Trade receivables	25	**57,634**	185,034
Prepayments, deposits and other receivables	26	**2,881,509**	1,596,669
Due from related parties	27	**3,468,627**	534,162
Prepaid income tax		**831,372**	630,879
Restricted cash	28	**1,471,342**	1,128,823
Pledged deposits	28	**25,300**	261,941
Cash and cash equivalents	28	**8,145,483**	7,211,994
Total current assets		**41,588,520**	30,920,574
CURRENT LIABILITIES			
Trade and bills payables	29	**3,152,203**	2,595,347
Other payables and accruals	30	**20,136,559**	14,440,593
Interest-bearing bank and other borrowings	31	**4,481,209**	3,427,434
Derivative financial instruments	23	**40,364**	–
Senior notes and domestic bonds	32	**3,477,192**	–
Due to related parties	27	**1,707,222**	1,567,671
Tax payable		**1,643,712**	854,664
Total current liabilities		**34,638,461**	22,885,709
NET CURRENT ASSETS		**6,950,059**	8,034,865
TOTAL ASSETS LESS CURRENT LIABILITIES		**31,536,547**	27,949,163

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	**2017 RMB'000**	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**31,536,547**	27,949,163
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**8,150,246**	8,992,952
Derivative financial instruments	23	**149,031**	–
Senior notes and domestic bonds	32	**5,414,433**	5,857,969
Deferred tax liabilities	33	**1,226,399**	993,847
Provision for major overhauls	34	**38,568**	32,564
Total non-current liabilities		**14,978,677**	15,877,332
Net assets		**16,557,870**	12,071,831
EQUITY			
Equity attributable to owners of the parent			
Issued capital	35	**329,804**	295,732
Reserves	37	**12,128,322**	8,112,085
		12,458,126	8,407,817
Perpetual capital instruments	38	**700,000**	900,000
Non-controlling interests		**3,399,744**	2,764,014
Total equity		**16,557,870**	12,071,831

Wong Chiu Yeung
Director

Huang Youquan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent															
	Issued capital RMB'000 (note 35)	Share premium account RMB'000	Capital reserve RMB'000 (note 37(b))	Statutory surplus reserve RMB'000 (note 37(c))	Merger reserve RMB'000 (note 37(d))	Available-for-sale investments revaluation reserve RMB'000	Property revaluation reserve RMB'000	Other reserves RMB'000	Share option reserve RMB'000 (note 37(e))	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000 (note 38)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	295,732	1,339,321	(110,322)	645,244	30	–	–	(31,744)	–	(44,811)	(85,662)	4,919,642	6,927,430	1,200,000	3,471,171	11,598,601
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	2,072,284	2,072,284	49,967	318,200	2,440,451
Other comprehensive loss for the year:																
Share of other comprehensive loss of joint ventures	–	–	–	–	–	–	–	(38,837)	–	–	–	–	(38,837)	–	–	(38,837)
Share of other comprehensive loss of associates	–	–	–	–	–	–	–	(95)	–	–	–	–	(95)	–	–	(95)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	–	(366,808)	–	(366,808)	–	(61,247)	(428,055)
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	–	(38,932)	–	–	(366,808)	2,072,284	1,666,544	49,967	256,953	1,973,464
Capital reduction of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(95,600)	(95,600)
Acquisition of non-controlling interests	–	–	(45,517)	–	–	–	–	–	–	–	–	–	(45,517)	–	(604,544)	(650,061)
Acquisition of subsidiaries that are not a business (note 41)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	28,811	28,811
Issuance of perpetual capital instruments	–	–	–	–	–	–	–	–	–	–	–	–	–	900,000	–	900,000
Redemption of perpetual capital instruments	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,200,000)	–	(1,200,000)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(292,777)	(292,777)
Distribution to holders of perpetual capital instruments	–	–	–	–	–	–	–	–	–	–	–	–	–	(49,967)	–	(49,967)
2015 final dividend	–	(143,473)	–	–	–	–	–	–	–	–	–	–	(143,473)	–	–	(143,473)
Transfer to statutory surplus reserve	–	–	–	110,612	–	–	–	–	–	–	–	(110,612)	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	–	–	–	–	2,833	–	–	–	2,833	–	–	2,833
At 31 December 2016	295,732	1,195,848*	(155,839)*	755,856*	30*	–*	–*	(70,676)*	2,833*	(44,811)*	(452,470)*	6,881,314*	8,407,817	900,000	2,764,014	12,071,831

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent															
	Issued capital RMB'000 (note 35)	Share premium account RMB'000	Capital reserve RMB'000 (note 37(b))	Statutory surplus reserve RMB'000 (note 37(c))	Merger reserve RMB'000 (note 37(d))	Available-for-sale investments revaluation reserve RMB'000	Property revaluation reserve RMB'000	Other reserves RMB'000	Share option reserve RMB'000 (note 37(e))	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000 (note 38)	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	295,732	1,195,848*	(155,839)*	755,856*	30*	-*	-*	(70,676)*	2,833*	(44,811)*	(452,470)*	6,881,314*	8,407,817	900,000	2,764,014	12,071,831
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	2,840,035	2,840,035	51,975	556,541	3,448,551
Other comprehensive income for the year:																
Share of other comprehensive income of joint ventures	-	-	-	-	-	-	-	46,017	-	-	-	-	46,017	-	-	46,017
Share of other comprehensive income of associates	-	-	-	-	-	-	-	157	-	-	-	-	157	-	-	157
Change in fair value of available-for-sale investments	-	-	-	-	-	52,051	-	-	-	-	-	-	52,051	-	-	52,051
Gain on property revaluation	-	-	-	-	-	-	82,872	-	-	-	-	-	82,872	-	-	82,872
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	495,380	-	495,380	-	83,161	578,541
Total comprehensive income for the year	-	-	-	-	-	52,051	82,872	46,174	-	-	495,380	2,840,035	3,516,512	51,975	639,702	4,208,189
Capital reduction of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(48,500)	(48,500)
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	763,085	763,085
Acquisition of non-controlling interests	-	-	(118,606)	-	-	-	-	-	-	-	-	-	(118,606)	-	(395,793)	(514,399)
Acquisition of subsidiaries that are not a business (note 41)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	81,572	81,572
Issue of shares (note 35)	34,072	1,189,234	-	-	-	-	-	-	-	-	-	-	1,223,306	-	-	1,223,306
Redemption of perpetual capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	(200,000)	-	(200,000)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(404,336)	(404,336)
Distribution to holders of perpetual capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	(51,975)	-	(51,975)
2016 final dividend	-	(429,439)	-	-	-	-	-	-	-	-	-	-	(429,439)	-	-	(429,439)
2017 interim dividend	-	(195,429)	-	-	-	-	-	-	-	-	-	-	(195,429)	-	-	(195,429)
Transfer to statutory surplus reserve	-	-	-	359,132	-	-	-	-	-	-	-	(359,132)	-	-	-	-
Equity-settled share option arrangements	-	-	-	-	-	-	-	-	53,965	-	-	-	53,965	-	-	53,965
At 31 December 2017	329,804	1,760,214*	(274,445)*	1,114,988*	30*	52,051*	82,872*	(24,502)*	56,798*	(44,811)*	42,910*	9,362,217*	12,458,126	700,000	3,399,744	16,557,870

* These reserve accounts comprise the consolidated reserves of RMB12,128,322,000 (2016: RMB8,112,085,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,460,642**	3,493,785
Adjustments for:			
Finance costs		**392,048**	316,894
Share of profits and losses of:			
Joint ventures		**(814,542)**	(803,593)
Associates	21	**6,062**	120
Bank interest income	6	**(41,085)**	(38,821)
Gain on disposal of items of property and equipment, net	6,8	**(1,601)**	(8,785)
Gain on deemed disposal of a subsidiary upon loss of control	6,42	**(20,903)**	–
Loss on disposal of investment properties, net	8	**10,171**	55
Fair value (gain)/loss of derivative financial instruments			
— transactions not qualifying as hedges	6,8	**332,561**	(139,821)
Premium paid on early redemption of senior notes	8	**–**	129,454
Depreciation	8,14	**21,580**	24,678
Amortisation of prepaid land lease payments	16	**17,271**	21,595
Changes in fair value of investment properties, net	15	**(1,262,744)**	(548,382)
Amortisation of an intangible asset	8,17	**164**	166
Gain on bargain purchase	6,40	**–**	(43,977)
Write down to net realisable value of completed			
properties held for sale	8	**66,698**	34,306
Equity-settled share option expense	36	**53,965**	2,833
		4,220,287	2,440,507
Additions to prepaid land lease payments	16	**(6,626,250)**	(8,155,260)
Increase in properties under development		**(5,168,434)**	(4,134,225)
Decrease/(increase) in contract in progress		**(23,038)**	276,370
Decrease in completed properties held for sale		**10,342,470**	8,912,734
Decrease/(increase) in trade receivables		**127,400**	(7,630)
Increase in prepayments, deposits and other receivables		**(2,445,687)**	(1,066,483)
Increase in trade and bills payables		**352,368**	75,885
Increase in other payables and accruals		**5,409,073**	3,659,650
Increase in provision for major overhauls, net	34	**4,263**	3,789
Cash generated from operations		**6,192,452**	2,005,337
Interest received		**41,085**	38,821
Interest paid		**(1,483,544)**	(1,186,928)
PRC corporate income tax paid		**(810,384)**	(761,470)
PRC land appreciation tax paid		**(516,059)**	(375,537)
Net cash flows from/(used in) operating activities		**3,423,550**	(279,777)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment	14	**(51,215)**	(20,111)
Additions to investment properties	15	**(530,144)**	(183,086)
Proceeds from disposal of investment properties		**7,811**	14,045
Proceeds from disposal of items of property and equipment		**3,146**	11,942
Prepayment for acquisition of subsidiaries		**(955,042)**	–
Acquisition of subsidiaries	40	**–**	(42,962)
Acquisition of subsidiaries that are not a business	41	**(2,258,039)**	(266,598)
Deemed disposal of a subsidiary upon loss of control	42	**(105,619)**	–
Investment in joint ventures		**(1,295,172)**	(24,050)
Investment in an associate		**(7,500)**	(80,000)
Dividend from joint ventures		**202,027**	80,361
Dividend from associates		**525**	540
Decrease/(increase) in advances of loans to joint ventures and associates		**(2,934,465)**	42,188
Purchase of available-for-sale investments		**(48,406)**	(141,739)
Increase in restricted cash		**(342,519)**	(138,866)
Decrease in pledged deposits		**236,641**	160,051
Net cash flows used in investing activities		**(8,077,971)**	(588,285)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior notes		**3,425,443**	–
Issuance costs of senior notes		**(42,207)**	–
Redemption of senior notes		**–**	(2,380,831)
New bank and other borrowings		**8,381,984**	13,161,860
Repayment of bank and other borrowings		**(6,729,895)**	(7,710,954)
Capital contribution from non-controlling shareholders		**763,085**	–
Capital reduction of subsidiaries		**(48,500)**	(95,600)
Acquisition of non-controlling interests		**(238,539)**	(56,061)
Increase in amounts due to related parties, net		**139,551**	1,089,162
Distribution to holders of perpetual capital instruments		**(51,975)**	(49,967)
Proceeds from issuance of perpetual capital instruments		**–**	900,000
Redemption of perpetual capital instruments		**(200,000)**	(1,200,000)
Proceeds from issue of shares		**1,240,221**	–
Share issue expenses		**(16,915)**	–
Dividends paid	53	**(624,868)**	(143,473)
Dividends paid to non-controlling shareholders of subsidiaries		**(404,336)**	(292,777)
Net cash flows from financing activities		**5,593,049**	3,221,359

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**938,628**	2,353,297
Cash and cash equivalents at beginning of year		**7,211,994**	4,835,079
Effect of foreign exchange rate changes, net		**(5,139)**	23,618
CASH AND CASH EQUIVALENTS AT END OF YEAR		**8,145,483**	7,211,994
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	28	**8,145,483**	7,211,994

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION

China SCE Property Holdings Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The addresses of the principal place of business of the Company in the People's Republic of China (the "PRC") and Hong Kong are SCE Tower, No. 2, Lane 1688, Shengchang Road, Hongqiao Business District, Shanghai, China, and Room 2801, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong, respectively.

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

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

Information about subsidiaries

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Jinhui Real Estate Development Co., Ltd.** (北京京匯房地產開發有限公司#)	China	RMB100,000,000	–	100	Property development and property investment
Fujian Zhongjun Industrial Co., Ltd.* (福建中駿置業有限公司#)	China	RMB1,000,000,000	–	100	Investment holding, property development and property investment
Zhongjun (Quanzhou) Real Estate Development Co., Ltd.* (中駿（泉州）房地產開發有限公司#)	China	RMB315,000,000	–	100	Property development and property investment
Shanxi Yuanhong Real Estate Development Co., Ltd.* (山西源宏房地產開發有限公司#)	China	RMB100,000,000	–	70	Property development
Fujian Straits West-Coast Investment Co., Ltd.* ("West-Coast Investment") (福建省海峽西岸投資有限公司#)	China	RMB700,000,000	–	58	Property development and property investment
Quanzhou Puxi Third Property Co., Ltd.*** (泉州市浦西三號置業有限公司#)	China	RMB900,000,000	–	100	Property development and property investment
South Fujian Gold Coast Resort Co., Ltd. Shishi** ("Shishi Gold Coast") (石獅市閩南黃金海岸渡假村有限公司#)	China	RMB800,000,000	–	45	Property development and property investment
Quanzhou Junxiang Real Estate Development Co., Ltd.* (泉州駿祥房地產開發有限公司#)	China	RMB100,000,000	–	51	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shishi Junde Real Estate Development Co., Ltd.* (石獅駿德房地產開發有限公司#)	China	RMB600,000,000	–	60	Property development and property investment
Zhangzhou Junmei Real Estate Development Co., Ltd.*** (漳州駿美房地產開發有限公司#)	China	RMB300,000,000	–	85	Property development
Shanghai Juntai Real Estate Development Co., Ltd.* (上海駿泰房地產開發有限公司#)	China	RMB750,000,000	–	100	Property development
Shenzhen Pacific Prestige Real Estate Development Limited** (深圳泛亞房地產開發有限公司#)	China	HK$160,000,000	–	82	Property development
Sanhe Hengmei Real Estate Co., Ltd.* (三河市恒美房地產有限公司#)	China	RMB100,000,000	–	100	Property development
Zhangzhou Junjing Real Estate Development Co., Ltd.* (漳州駿景房地產開發有限公司#)	China	RMB100,000,000	–	75	Property development
Quanzhou Junhui Real Estate Development Co., Ltd.*** (泉州駿輝房地產開發有限公司#)	China	RMB250,000,000	–	100	Property development and property investment
Tianjin Junrun Real Estate Development Co., Ltd.* (天津駿潤房地產開發有限公司#)	China	RMB100,000,000	–	100	Property development
Shanghai Junfu Real Estate Development Co., Ltd.* (上海駿富房地產開發有限公司#)	China	RMB960,000,000	–	100	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Junyu Real Estate Development Co., Ltd.* (北京駿宇房地產開發有限公司#)	China	RMB400,000,000	–	100	Property development
Beijing Junda Real Estate Development Co., Ltd.* (北京駿達房地產開發有限公司#)	China	RMB30,000,000	–	100	Property development and property investment
Tianjin Junkun Real Estate Development Co., Ltd.* (天津駿坤房地產開發有限公司#)	China	RMB300,000,000	–	51	Property development
Nanchang Junda Real Estate Development Co., Ltd.* (南昌駿達房地產開發有限公司#)	China	RMB100,000,000	–	100	Property development
Shanghai Junwo Real Estate Development Co., Ltd.* (上海駿沃房地產開發有限公司#)	China	RMB480,000,000	–	100	Property development and property investment
Shanghai Heng Zhi Property Co., Ltd.* ("Shanghai Heng Zhi") (上海衡智房地產有限公司#)	China	RMB100,000,000	–	100	Property development
Shanghai Junbo Real Estate Development Co., Ltd.***^ (上海駿博房地產開發有限公司#)	China	RMB209,000,000	–	100	Property development
Shanghai Junming Real Estate Development Co., Ltd.*** (上海駿鳴房地產開發有限公司#)	China	RMB1,100,000,000	–	100	Property development
Hangzhou Bailu Real Estate Development Co., Ltd.*^ ("Hangzhou Bailu") (杭州白鷺房地產開發有限公司#)	China	RMB8,000,000	–	100	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nan'an Junhong Real Estate Development Co., Ltd* (南安駿宏房地產開發有限公司#)	China	RMB150,000,000	–	80	Property development and property investment
Jinan Junquan Real Estate Development Co., Ltd.*^ (濟南駿泉房地產開發有限公司#)	China	RMB700,000,000	–	45	Property development
Nanchang Junjie Real Estate Development Co., Ltd.*** (南昌駿捷房地產開發有限公司#)	China	US$88,790,000	–	100	Property development
Zhangzhou Junfeng Real Estate Development Co., Ltd.* (漳州駿豐房地產開發有限公司#)	China	RMB50,000,000	–	90	Property development
Hangzhou Junjin Industrial Development Co., Ltd.* (杭州駿錦實業發展有限公司#)	China	RMB363,787,500	–	96	Property development
Shanghai Junxian Real Estate Development Co., Ltd.* (上海駿獻房地產開發有限公司#)	China	RMB1,100,000,000	–	100	Property development
Xuzhou Junjia Real Estate Development Co., Ltd*** (徐州駿嘉房地產開發有限公司#)	China	US$90,000,000	–	100	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

* Registered as limited liability companies under the PRC law

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

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

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

^ At 31 December 2017, the equity interests of these companies were pledged to secure certain bank and other borrowings of RMB3,790,998,000 (2016: RMB3,833,292,000) granted to the Group (note 31).

ø As at 31 December 2017, the equity interests of these companies were pledged under share mortgage to the holders of the senior notes of US$350,000,000 at a coupon rate of 10.0% due 2020 issued in July 2015 (the "2015 Senior Notes") and the senior notes of US$500,000,000 at a coupon rate of 5.875% due 2022 issued in March 2017 and April 2017 (the "2017 Senior Notes") (note 32).

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

2.1 BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

Other than as explained below regarding the impact of HKAS 7, the adoption of the above revised standards has had no significant financial effect on these financial statements.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 43 to the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[4]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 No mandatory effective date yet determined but available for adoption
4 Effective for annual periods beginning on or after 1 January 2021

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. During 2017, the Group has performed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Certain equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

In general, the directors of the Company anticipate the application of the expected loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets as at 1 January 2018.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. However, the expected changes in accounting policies, as further explained below, will have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed an assessment on the impact of the adoption of HKFRS 15.

The Group is principally engaged in the business of property development, property investment, property management, land development and project management. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

Accounting for property development

(a) Timing of revenue recognition

Currently, sales of properties is recognised when the significant risks and rewards of ownership of the properties are transferred to the purchasers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the properties, that is when the construction of the relevant properties has been completed and the properties have been delivered to the buyers pursuant to the sale agreements, and the collectability of related receivables is reasonably assured.

Upon the adoption of HKFRS 15, revenue from the sale of properties will be recognised when control over the properties is transferred to the purchasers. Judgement will be required to assess whether control transfers over time or at a point of time. Properties that have no alternative use to the Group due to contractual restriction and when the Group has an enforceable right to payment from the customers for performance completed to date, the Group will recognise revenue as the performance obligations are satisfied over time by applying an input method for measuring progress.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Accounting for property development *(Continued)*

(a) Timing of revenue recognition *(Continued)*

The Group has assessed that the sale agreements used by the Group are standardised in a large extent and in the case of pre-completion sales using standard agreements for sale and purchase, the Group does not have an enforceable right to payment for performance completed to date in accordance with HKFRS 15, and accordingly, the criteria for recognising revenue over time are not met for the majority of the sales of properties. The Group expects to recognise majority of the sale of properties until the point in time at which the Group delivers the properties to the purchasers. The Group does not anticipate that the application of HKFRS 15 will have a material impact on the timing of revenue recognised in the respective periods.

(b) Sales commission

The Group pays commission to the sales agents when agreement for sale and purchase is signed with property buyer. Following the adoption of HKFRS 15, incremental costs of obtaining a contract, including sales commission, if recoverable, are capitalised as an asset and shall be amortised on a systematic basis that is consistent with the transfer of the related property to the customer. Currently, the Group expensed off the sales commission associated with obtaining agreement for sale and purchase with property buyer. Accordingly, the Group expects the recognition of an asset would result in an increase of opening retained profits as at 1 January 2018.

(c) Financing component for sale of completed properties

HKFRS 15 requires property developers to account for the financing component in a contract separately from revenue if the financing effects are significant, subject to a practical expedient where the period between the payment and delivery of properties will be less than one year. Currently, it is expected that the length of time between the payment and delivery of properties of the Group's projects will exceed one year. Accordingly, the financing component is considered to be significant. The amount of the financing component is estimated at the contract inception and the payment plan is confirmed by the property purchaser by using a discount rate that would be reflected in a separate financing transaction between the Group and the customer reflecting the credit characteristics of the Group as well as any collateral or security provided. Interest expense is recognised only to the extent that a contract liability (receipts in advance) is recognised in accounting for the contract with the customer. The Group expects an adjustment to reduce the current year opening retained profits with a corresponding increase in receipts in advance.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17.

Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 46(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB29,282,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Investments in associates and joint ventures *(Continued)*

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

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

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

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

Business combinations and goodwill

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Business combinations and goodwill *(Continued)*

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

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

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

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

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

Fair value measurement

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Fair value measurement *(Continued)*

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Property and equipment and depreciation

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

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

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

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

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

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

Changes in the values of revalued property and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Properties under development

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

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

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

Completed properties held for sale

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

Service concession arrangement

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

Consideration paid by the Group

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

Operating services

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Service concession arrangement *(Continued)*

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

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

Intangible asset (other than goodwill)

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

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

Operating concession

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

Investment properties

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Investment properties *(Continued)*

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

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

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

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

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property and equipment and depreciation" above.

Leases

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Investments and other financial assets *(Continued)*

Available-for-sale financial investments

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

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

Derecognition of financial assets

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale financial investments

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Impairment of financial assets *(Continued)*

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Financial liabilities *(Continued)*

Loans and borrowings

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

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

Senior notes

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

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

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

Financial guarantee contracts

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

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

Hedges of a net investment

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Cash and cash equivalents

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

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

Perpetual capital instruments

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

Provisions

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

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

Income tax

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Income tax *(Continued)*

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Revenue recognition

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

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

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

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

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

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

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

Land development contract

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Land development contract *(Continued)*

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

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

Share-based payments

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

The cost of Equity-Settled Transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 36 to the financial statements.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Share-based payments *(Continued)*

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

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

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

Other employee benefits

Pension schemes

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Borrowing costs

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

Dividends

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

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

Proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Foreign currencies *(Continued)*

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Judgements

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

Classification between investment properties and owner-occupied properties

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

Classification between investment properties and properties held for sale

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

Valuation of properties under development and completed properties held for sale

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Judgements *(Continued)*

Allocation of construction cost on properties under development

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

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

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

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

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

The Group also considers that it controls Quanzhou Vanke Junhe Co., Ltd., Jinan Junquan Real Estate Development Co., Ltd. and Xuzhou Hupeng Fengyuan Commercial Management Co., Ltd. even though it owns less than 50% of its equity interest. Pursuant to the Memorandum and Articles of Association of these companies, the Group is entitled to appoint a majority of directors in the board of directors of these companies. With all the major decisions including operating and financing activities of these companies are being determined by a simple majority vote in the board meetings, the Group is able to control and direct the financing and operating activities of these companies.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Estimation uncertainty

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

Estimation of fair value of investment properties

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

5. OPERATING SEGMENT INFORMATION

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

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

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

During the years ended 31 December 2017 and 31 December 2016, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

6. REVENUE, OTHER INCOME AND GAINS

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

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

	2017 RMB'000	2016 RMB'000
Revenue		
Sales of properties	**15,573,839**	11,705,120
Gross rental income	**123,499**	136,636
Property management fees	**270,295**	165,335
Land development income	**85,691**	397,490
Project management income	**51,921**	76,102
	16,105,245	12,480,683
Other income and gains		
Bank interest income	**41,085**	38,821
Foreign exchange gains, net	**–**	75,382
Forfeiture income on deposits received	**17,061**	5,673
Gain on disposal of items of property and equipment, net	**1,601**	8,785
Gain on deemed disposal of a subsidiary upon loss of control (note 42)	**20,903**	–
Fair value gain of derivative financial instruments		
— transactions not qualifying as hedges	**–**	139,821
Gain on bargain purchase (note 40)	**–**	43,977
Others	**42,162**	29,013
	122,812	341,472

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on bank and other borrowings, senior notes and domestic bonds	**1,567,441**	1,159,771
Increase in a discounted amount of provision for major overhauls arising from the passage of time (note 34)	**1,741**	1,460
Total interest expense on financial liabilities not at fair value through profit or loss	**1,569,182**	1,161,231
Less: Interest capitalised	**(1,177,134)**	(844,337)
	392,048	316,894

NOTES TO FINANCIAL STATEMENTS

31 December 2017

8. PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of properties sold		**10,342,470**	8,912,734
Cost of services provided		**277,427**	442,090
Depreciation	14	**21,580**	24,678
Amortisation of land lease payments	16	**17,271**	21,595
Amortisation of an intangible asset*	17	**164**	166
Provision for major overhauls	34	**5,003**	4,787
Minimum lease payments under operating leases for land and buildings		**15,409**	12,512
Direct operating expenses (including repairs and maintenance) arising from rental-generating investment properties		**441**	298
Auditor's remuneration		**3,600**	3,435
Employee benefit expenses (including directors' remuneration (note 9)):			
Salaries and other staff costs		**494,570**	308,595
Equity-settled share option expense		**53,965**	2,833
Pension scheme contributions		**64,035**	30,249
Less: Amount capitalised		**(143,260)**	(35,259)
		469,310	306,418
Foreign exchange (gains)/losses, net		**135,081**	(75,382)
Fair value gain of derivative financial instruments — transactions not qualifying as hedges		**–**	(139,821)
Fair value loss of derivative financial instruments — transactions not qualifying as hedges**		**332,561**	–
Premium paid on early redemption of senior notes**		**–**	129,454
Write down to net realisable value of completed properties held for sale		**66,698**	34,306
Loss on disposal of investment properties, net		**10,171**	55
Gain on disposal of items of property and equipment, net	6	**(1,601)**	(8,785)

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

** These items are included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income of the Group.

NOTES TO FINANCIAL STATEMENTS

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9. DIRECTORS' REMUNERATION

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

	2017 **RMB'000**	2016 RMB'000
Fees	**717**	708
Other emoluments:		
Salaries, allowances and benefits in kind	**6,586**	6,682
Discretionary performance related bonuses	**8,039**	7,908
Equity-settled share option expense	**6,635**	323
Pension scheme contributions	**97**	117
	21,357	15,030
	22,074	15,738

NOTES TO FINANCIAL STATEMENTS

31 December 2017

9. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2017						
Independent non-executive directors:						
Mr. Ting Leung Huel Stephen	**239**	**–**	**–**	**–**	**–**	**239**
Mr. Lu Hong Te	**239**	**–**	**–**	**–**	**–**	**239**
Mr. Dai Yiyi	**239**	**–**	**–**	**–**	**–**	**239**
	717	**–**	**–**	**–**	**–**	**717**

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

9. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2017						
Executive directors:						
Mr. Wong Chiu Yeung ("Mr. Wong")	–	1,613	2,419	–	16	4,048
Mr. Chen Yuanlai	–	1,311	1,530	–	16	2,857
Mr. Cheng Hiu Lok	–	1,311	1,530	–	16	2,857
Mr. Huang Youquan	–	1,310	1,311	6,635	36	9,292
Mr. Wong Lun*	–	1,041	1,249	–	13	2,303
	–	6,586	8,039	6,635	97	21,357

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

* Mr. Wong Lun was appointed as an executive director of the Company with effect from 1 March 2017.

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

NOTES TO FINANCIAL STATEMENTS

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2016: five) directors, details of whose remuneration are set out in note 9 above.

11. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2016: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the cities in which the Group's subsidiaries operate.

	2017 **RMB'000**	2016 RMB'000
Current charge for the year:		
PRC corporate income tax ("CIT")	**1,232,289**	577,927
PRC land appreciation tax ("LAT")	**645,488**	447,462
Overprovision in prior years, net:		
Mainland China	**(3,967)**	(84,410)
	1,873,810	940,979
Deferred (note 33)	**138,281**	112,355
Total tax charge for the year	**2,012,091**	1,053,334

NOTES TO FINANCIAL STATEMENTS

31 December 2017

11. INCOME TAX *(Continued)*

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

	2017 **RMB'000**	2016 RMB'000
Profit before tax	**5,460,642**	3,493,785
At the statutory/applicable rates of different jurisdictions	**1,483,303**	888,760
Lower tax rates for specific cities	**(66,202)**	(63,498)
Adjustments in respect of current tax of previous periods	**(3,967)**	(84,410)
Profits and losses attributable to joint ventures and associates	**(202,120)**	(200,869)
Income not subject to tax	**(10,898)**	(12,781)
Expenses not deductible for tax	**348,592**	178,138
Tax losses not recognised	**–**	2,180
Tax effect on unrealised profits arising from transactions within the Group	**(22,873)**	1,700
LAT	**645,488**	447,462
Tax effect of LAT deductible for PRC CIT	**(159,232)**	(103,348)
Tax charge at the Group's effective rate	**2,012,091**	1,053,334

The share of tax charge for the year ended 31 December 2017 attributable to joint ventures amounting to RMB203,465,000 (2016: RMB273,126,000). The share of tax credit for the year ended 31 December 2017 attributable to associates amounting to RMB523,000 (2016: tax charge of RMB529,000). Both are included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss and other comprehensive income.

12. DIVIDENDS

	2017 **RMB'000**	2016 RMB'000
Interim — HK6 cents (2016: Nil) per ordinary share	**195,429**	–
Proposed final — HK13 cents (2016: HK14 cents) per ordinary share	**413,984**	429,439
	609,413	429,439

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares of 3,553,155,068 (2016: 3,423,840,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

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

The calculations of the basic and diluted earnings per share are based on:

	2017	2016
	RMB'000	RMB'000
Earnings		
Profit attributable to owners of the parent used in the basic and diluted earnings per share calculations	**2,840,035**	2,072,284

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**3,553,155,068**	3,423,840,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**69,174,117**	–
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**3,622,329,185**	3,423,840,000

NOTES TO FINANCIAL STATEMENTS

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14. PROPERTY AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Transportation equipment RMB'000	Total RMB'000
31 December 2017					
At 1 January 2017:					
Cost	92,722	40,256	44,571	97,872	275,421
Accumulated depreciation	(18,561)	(32,383)	(30,693)	(84,754)	(166,391)
Net carrying value	74,161	7,873	13,878	13,118	109,030
At 1 January 2017, net of accumulated depreciation	74,161	7,873	13,878	13,118	109,030
Additions	3,585	11,151	28,361	8,118	51,215
Acquisition of subsidiaries that are not a business (note 41)	–	–	248	530	778
Surplus on revaluation at date of transfer to investment properties	82,872	–	–	–	82,872
Depreciation	(2,596)	(3,765)	(6,895)	(8,324)	(21,580)
Disposals	(1,002)	–	(509)	(34)	(1,545)
Deemed disposal of a subsidiary upon loss of control (note 42)	–	–	(84)	–	(84)
Transfer to investment properties (note 15)	(115,792)	–	–	–	(115,792)
At 31 December 2017, net of accumulated depreciation	41,228	15,259	34,999	13,408	104,894
At 31 December 2017:					
Cost	49,656	51,407	67,927	100,383	269,373
Accumulated depreciation	(8,428)	(36,148)	(32,928)	(86,975)	(164,479)
Net carrying value	41,228	15,259	34,999	13,408	104,894

NOTES TO FINANCIAL STATEMENTS

31 December 2017

14. PROPERTY AND EQUIPMENT *(Continued)*

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

At 31 December 2017, certain of the Group's buildings with an aggregate carrying amount of RMB30,568,000 (2016: RMB71,821,000) were pledged to banks to secure certain bank and other borrowings granted to the Group (note 45).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

15. INVESTMENT PROPERTIES

	Completed RMB'000	Under construction RMB'000	Total RMB'000
Carrying amount at 1 January 2016	5,484,500	150,000	5,634,500
Additions	4,353	178,733	183,086
Disposals	(14,100)	–	(14,100)
Transfer from properties under development	–	914,613	914,613
Transfer from completed properties held for sale	162,919	–	162,919
Net gain from a fair value adjustment	243,348	305,034	548,382
Transfer	242,380	(242,380)	–
Carrying amount at 31 December 2016 and 1 January 2017	**6,123,400**	**1,306,000**	**7,429,400**
Additions	**8,122**	**522,022**	**530,144**
Disposals*	**(293,842)**	**–**	**(293,842)**
Transfer from properties under development	**–**	**447,156**	**447,156**
Transfer from completed properties held for sale	**760,324**	**–**	**760,324**
Transfer from property and equipment (note 14)	**115,792**	**–**	**115,792**
Net gain from a fair value adjustment	**633,522**	**629,222**	**1,262,744**
Carrying amount at 31 December 2017	**7,347,318**	**2,904,400**	**10,251,718**

* Investment properties with an aggregate carrying amount of RMB275,860,000 were disposed during the year as part of the consideration for the acquisition of the non-controlling interest.

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

The Group's investment properties were revalued on 31 December 2017 based on valuations performed by Cushman & Wakefield, independent professionally qualified valuers, at RMB10,251,718,000 (2016: RMB7,429,400,000).

At 31 December 2017, the Group's investment properties with an aggregate carrying amount of RMB5,771,766,000 (2016: RMB2,708,900,000) were pledged to secure certain bank and other borrowings granted to the Group (note 45).

The Group's completed investment properties are leased to third parties and companies controlled by Mr. Wong and his family members (together with Mr. Wong, the "Wong Family") under operating leases, further summary details of which are included in note 46(a).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

15. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy

For the years ended 31 December 2017 and 31 December 2016, the fair value measurements of all investment properties of the Group were categorised within Level 3 of the fair value hierarchy and details of their movements are disclosed above.

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

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

	Fair value measurement using significant unobservable inputs (Level 3)	
	2017	2016
	RMB'000	RMB'000
Recurring fair value measurement for:		
Office properties	**3,343,992**	1,966,900
Commercial properties	**6,413,726**	5,174,500
Car parking spaces	**494,000**	288,000
	10,251,718	7,429,400

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

15. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(Continued)*

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

	Valuation techniques	Significant unobservable inputs	Range (weighted average) 2017	2016
Office properties	Investment method and direct comparison method (refer below)	Estimated rental value per square metre and per month (RMB)	**42 to 220**	42 to 180
		Capitalisation rate	**4% to 6%**	4% to 6%
		Price per square metre (RMB)	**8,000 to 38,500**	12,500 to 38,000
Commercial properties	Investment method and direct comparison method (refer below)	Estimated rental value per square metre and per month (RMB)	**34 to 605**	36 to 710
		Capitalisation rate	**4% to 6.5%**	5% to 6.5%
		Price per square metre (RMB)	**6,500 to 96,000**	20,000 to 94,000
Car parking spaces	Investment method and direct comparison method (refer below)	Estimated rental value per car parking space and per month (RMB)	**650 to 1,800**	800 to 1,800
		Capitalisation rate	**4% to 6%**	4% to 5%
		Price per car parking space (RMB)	**150,000 to 350,000**	170,000 to 270,000

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

15. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(Continued)*

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

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

16. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**7,350,320**	3,069,407
Additions	**6,626,250**	8,155,260
Acquisition of subsidiaries that are not a business (note 41)	**3,241,060**	685,594
Transfer to properties under development	**(12,557,328)**	(5,187,065)
Transfer from prepayments and deposits	**784,615**	648,719
Recognised during the year	**(17,271)**	(21,595)
Carrying amount at 31 December	**5,427,646**	7,350,320
Current portion included in prepayments, deposits and other receivables	**(13,149)**	(21,423)
Non-current portion	**5,414,497**	7,328,897

At 31 December 2017, certain of the Group's leasehold land with an aggregate carrying amount of RMB1,004,198,000 (2016: RMB5,942,152,000) were pledged to secure certain bank and other borrowings granted to the Group (note 45).

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17. INTANGIBLE ASSET

Operating concession

	2017 RMB'000	2016 RMB'000
Cost at 1 January, net of accumulated amortisation	**3,653**	3,819
Amortisation provided during the year	**(164)**	(166)
At 31 December	**3,489**	3,653
At 31 December:		
Cost	**4,861**	4,861
Accumulated amortisation	**(1,372)**	(1,208)
Net carrying amount	**3,489**	3,653

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

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

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

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18. PROPERTIES UNDER DEVELOPMENT

	2017 RMB'000	2016 RMB'000
Properties under development expected to be completed:		
Within normal operating cycle included under current assets	**21,740,001**	14,798,538
Beyond normal operating cycle included under non-current assets	**1,524,085**	1,222,958
	23,264,086	16,021,496
Properties under development expected to be completed within normal operating cycle and recovered:		
Within one year	**6,972,616**	7,020,941
After one year	**14,767,385**	7,777,597
	21,740,001	14,798,538

At 31 December 2017, certain of the Group's properties under development, including the relevant land use rights, with an aggregate carrying amount of RMB12,162,467,000 (2016: RMB9,545,183,000) were pledged to secure certain bank and other borrowings granted to the Group (note 45).

19. CONTRACT IN PROGRESS

	2017 RMB'000	2016 RMB'000
At 1 January	**366,824**	643,194
Additions	**51,829**	28,327
Transfer to properties under development	**(49,195)**	–
Disposal	**(28,791)**	(304,697)
At 31 December	**340,667**	366,824

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

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

NOTES TO FINANCIAL STATEMENTS

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19. CONTRACT IN PROGRESS *(Continued)*

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

20. INVESTMENTS IN JOINT VENTURES

	2017 **RMB'000**	2016 RMB'000
Share of net assets	**3,320,807**	1,301,941
Due to joint ventures	**(11,913)**	(11,913)
	3,308,894	1,290,028

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

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

Name	**Nominal value of registered/ paid-up capital**	**Place of incorporation/ registration and business**	**Percentage of beneficial interest attributable to the Group**	**Principal activities**
Shanghai Zhongjun Chuangfu Real Estate Co., Ltd. * ("Shanghai Zhongjun Chuangfu") (上海中駿創富房地產有限公司#)	Registered capital of RMB1,800,000,000	China	56[(1)(2)]	Property development and property investment

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

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

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

(2) During the year ended 31 December 2017, the Group's equity interest in Shanghai Zhongjun Chuangfu increased from 50% to 56% upon (i) the acquisition of 10% of its equity interest from a joint venture partner of Shanghai Zhongjun Chuangfu at a consideration of RMB334,000,000, and (ii) disposal of 5.5% equity interest of Cheer Rich Investments Limited ("Cheer Rich") (a 43% owned joint venture of the Group and held 70% of equity interest in Shanghai Zhongjun Chuangfu) to the joint venture partner of Cheer Rich at a consideration of RMB140,140,000.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes:

(a) The following tables illustrate the summarised financial information in respect of Shanghai Zhongjun Chuangfu adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

SUMMARISED FINANCIAL INFORMATION IN RESPECT OF SHANGHAI ZHONGJUN CHUANGFU

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	**53,724**	29,967
Other current assets	**3,044,343**	3,631,915
Current assets	**3,098,067**	3,661,882
Non-current assets	**4,064,943**	1,956,302
Other current liabilities	**(1,839,578)**	(1,631,052)
Current liabilities	**(1,839,578)**	(1,631,052)
Non-current financial liabilities	**(1,210,477)**	(930,871)
Non-current liabilities	**(1,210,477)**	(930,871)
Net assets	**4,112,955**	3,056,261
Reconciliation to the Group's directly held interest in the joint venture (note):		
Proportion of the Group's ownership	**30%**	20%
Carrying amount of the investment	**1,233,886**	611,252
Revenue	**206,446**	4,508,748
Bank interest income	**8,066**	15,892
Depreciation	**(716)**	(720)
Tax expense	**(94,280)**	(894,623)
Profit and total comprehensive income for the year	**1,056,694**	1,267,888

Note: In addition to the directly held 30% (2016: 20%) interest, the Group also indirectly holds an additional 26% (2016: 30%) interest through a joint venture.

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20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: *(Continued)*

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

	2017 **RMB'000**	2016 RMB'000
Share of the joint ventures' profit for the year, net	**519,465**	550,016
Share of the joint ventures' other comprehensive income/(loss)	**46,017**	(38,837)
Share of the joint ventures' total comprehensive income	**565,482**	511,179
Aggregate carrying amount of the Group's investments in the joint ventures	**2,086,921**	690,689

21. INVESTMENTS IN ASSOCIATES

	2017 **RMB'000**	2016 RMB'000
Share of net assets	**115,265**	114,195

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

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

	2017 **RMB'000**	2016 RMB'000
Share of the associates' loss for the year	**(6,062)**	(120)
Share of the associates' other comprehensive income/(loss)	**157**	(95)
Share of the associates' total comprehensive loss	**(5,905)**	(215)
Aggregate carrying amount of the Group's investments in the associates	**115,265**	114,195

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22. AVAILABLE-FOR-SALE INVESTMENTS

	2017 **RMB'000**	2016 RMB'000
Unlisted equity investments, at fair value	**229,541**	141,739

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB52,051,000 (2016: Nil).

The above investments consist of investment in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 **RMB'000**	2016 RMB'000
Capped forward cross currency swap contracts classified as:		
Current liabilities	**(40,364)**	–
Non-current assets/(liabilities)	**(149,031)**	139,821
	(189,395)	139,821

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

These capped forward cross currency swap contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging derivatives amounting to RMB332,561,000 were charged to profit or loss during the year (2016: credit of RMB139,821,000).

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24. COMPLETED PROPERTIES HELD FOR SALE

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

At 31 December 2017, certain of the Group's completed properties held for sale with an aggregate carrying amount of RMB503,085,000 (2016: RMB337,132,000) were pledged to secure certain bank and other borrowings granted to the Group (note 45).

25. TRADE RECEIVABLES

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

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

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

NOTES TO FINANCIAL STATEMENTS

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25. TRADE RECEIVABLES *(Continued)*

An aging analysis of the trade receivables as at the end of the reporting period, based on the revenue recognition date and invoice date, is as follows:

	2017 **RMB'000**	2016 RMB'000
Current to 90 days	**33,228**	123,435
91 to 180 days	**18,022**	3,306
181 to 365 days	**5,037**	54,030
Over 365 days	**1,347**	4,263
	57,634	185,034

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

	2017 **RMB'000**	2016 RMB'000
Neither past due nor impaired	**57,632**	176,520
1 to 6 months past due	**2**	3,305
7 to 12 months past due	**–**	946
Over 1 year past due	**–**	4,263
	57,634	185,034

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

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

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26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments (note (a))	**3,671,864**	1,839,839
Deposits	**642,150**	430,681
Other receivables (note (b))	**1,516,010**	845,931
	5,830,024	3,116,451
Non-current portion	**(2,948,515)**	(1,519,782)
Current portion	**2,881,509**	1,596,669

Notes:

(a) The balances included prepayments for the acquisition of land use rights in Mainland China amounting to RMB1,490,982,000 as at 31 December 2017 (2016: RMB814,291,000).

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

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

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27. BALANCES WITH RELATED PARTIES

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

	2017 RMB'000	2016 RMB'000
Due from related parties:		
Joint ventures	**3,324,752**	532,125
Associates	**143,875**	2,037
	3,468,627	534,162
Due to related parties:		
Companies controlled by the Wong Family	**552**	2,343
Joint ventures	**1,632,899**	1,529,450
Associates	**73,771**	35,878
	1,707,222	1,567,671

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

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

NOTES TO FINANCIAL STATEMENTS

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

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**9,642,125**	8,602,758
Less: Restricted cash (notes)	**(1,471,342)**	(1,128,823)
Pledged deposits (note (e))	**(25,300)**	(261,941)
Cash and cash equivalents	**8,145,483**	7,211,994

Notes:

(a) Pursuant to the relevant regulations in the PRC, certain property development companies of the Group are required to place at designated bank accounts certain amounts of pre-sales proceeds of properties as guarantee deposits for the construction of the related properties. The deposits can only be used for purchases of construction materials and payments of construction fees for the relevant property projects. As at 31 December 2017, such guarantee deposits amounted to RMB848,590,000 (2016: RMB790,511,000).

(b) According to the relevant mortgage facility agreements signed by certain subsidiaries of the Group with their banks, the subsidiaries are required to place at designated bank accounts certain amounts as deposits for potential default of mortgage loans advanced to property purchasers. Such guarantee deposits will be released after the property ownership certificates of the relevant properties are passed to the banks. As at 31 December 2017, such deposits amounted to RMB57,422,000 (2016: RMB38,620,000).

(c) Pursuant to a management agreement entered into between the Sports Bureau and Straits Sports Centre, the fund advanced by the Sports Bureau that is deposited in a designated bank account can only be used for payments of construction costs and expenditures incurred for the construction of the Facilities. As at 31 December 2017, such advance amounted to RMB6,000,000 (2016: RMB6,000,000).

(d) In addition to the restrictions as detailed in notes (a), (b) and (c) above, certain subsidiaries of the Group are also required to place certain of their bank deposit amounts as guarantee deposits for public maintenance funds, or there are restrictions as to the use of certain unutilised bank loan proceeds and proceeds from the perpetual capital instruments (note 38) deposited in the subsidiaries' bank accounts. As at 31 December 2017, the aggregate amount of such deposits amounted to RMB559,330,000 (2016: RMB293,692,000).

(e) The bank deposits were pledged to secure general banking facilities and bills payable granted to the Group (note 45).

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB8,447,052,000 (2016: RMB8,534,948,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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29. TRADE AND BILLS PAYABLES

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

	2017 RMB'000	2016 RMB'000
Within 1 year	**3,014,497**	2,540,470
Over 1 year	**137,706**	54,877
	3,152,203	2,595,347

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

As at 31 December 2017, certain bills payable of the Group with an aggregate amount of RMB204,743,000 (2016: RMB325,417,000) were secured by certain bank deposits of the Group (note 28).

30. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Receipts in advances (note (a))	**15,610,834**	12,394,513
Deposits received	**422,682**	206,921
Accruals	**219,598**	112,157
Advances from non-controlling shareholders (note (b))	**1,964,534**	874,528
Other payables (note (c))	**1,918,911**	852,474
	20,136,559	14,440,593

Notes:

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

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

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

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31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Contractual interest rate (%) per annum	**Maturity**	**RMB'000**	Contractual interest rate (%) per annum	Maturity	RMB'000
Current						
Bank loans — secured	**4.35–5.94**	**2018**	**1,481,312**	2.50–6.00	2017	1,520,305
Bank loans — unsecured	**3.06**	**2018**	**225,897**	2.29–2.35	2017	277,169
Current portion of long term bank loans — secured	**4.35–4.80**	**2018**	**1,036,000**	4.80–5.46	2017	1,165,960
Other loans — secured	**4.75–8.00**	**2018**	**1,738,000**	5.83–8.50	2017	464,000
			4,481,209			3,427,434
Non-current						
Bank loans — secured	**4.35–5.94**	**2019–2027**	**4,076,546**	4.80–5.94	2018–2019	4,766,952
Other loans — secured	**5.70–8.75**	**2019–2020**	**4,073,700**	4.75–8.50	2018–2019	4,226,000
			8,150,246			8,992,952
			12,631,455			12,420,386

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**2,743,209**	2,963,434
In the second year	**3,151,071**	1,836,222
In the third to fifth years, inclusive	**846,755**	2,930,730
Beyond fifth years	**78,720**	–
	6,819,755	7,730,386
Other borrowings repayable:		
Within one year	**1,738,000**	464,000
In the second year	**3,363,700**	1,226,000
In the third to fifth years, inclusive	**710,000**	3,000,000
	5,811,700	4,690,000
	12,631,455	12,420,386

Notes:

(a) Certain of the Group's bank and other borrowings are secured by the Group's bank deposits, property and equipment, investment properties, prepaid land lease payments, properties under development and completed properties held for sale, details of which are disclosed in note 45 to the financial statements.

(b) As at 31 December 2017, certain of the Group's bank and other borrowings with an aggregate amount of RMB3,790,998,000 (2016: RMB3,833,292,000) were secured by share charges in respect of the equity interests of certain subsidiaries of the Group, details of which are set out in note 1 to the financial statements.

(c) Except for certain bank and other borrowings of RMB113,025,000 which were denominated in HK$ as at 31 December 2016 and RMB2,527,195,000 (2016:RMB2,903,401,000) as at 31 December 2017 which were denominated in United States dollars ("US$"), all of the Group's bank and other borrowings were denominated in RMB.

(d) At the end of the reporting period, except for certain bank and other borrowings of RMB5,195,760,000 (2016: RMB5,175,000,000) with fixed interest rates, all of the Group's bank and other borrowings bear interest at floating interest rates.

(e) As at 31 December 2017, the Group's bank and other borrowings of RMB2,301,298,000 (2016: RMB2,733,292,000) were secured by a specific performance obligation imposed on the Wong Family and pursuant to which (i) the Wong Family must remain the single largest shareholder in the Company; (ii) the Wong Family must hold legally and beneficially and directly or indirectly 40% or more of all classes of the Company's voting share capital and/or must directly or indirectly control the Company; and (iii) Mr. Wong or a member of the Wong Family must remain to be the chairman of the Board of the Company.

NOTES TO FINANCIAL STATEMENTS

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32. SENIOR NOTES AND DOMESTIC BONDS

	2017				2016			
	Principal at original currency 'million	**Contractual interest rate (%) per annum**	**Maturity**	**RMB'000**	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000
2015 Senior Notes	**US$350**	**10.00**	**2020**	**2,229,024**	US$350	10.00	2020	2,387,676
2017 Senior Notes	**US$500**	**5.875**	**2022**	**3,185,409**	–	–	–	–
Domestic Bonds	**RMB3,500**	**5.18–5.30**	**2020**	**3,477,192**	RMB3,500	5.18–5.30	2020	3,470,293
				8,891,625				5,857,969
Non-current portion				**(5,414,433)**				(5,857,969)
Current portion				**3,477,192**				–

(a) Senior Notes

The Company, at its option, can redeem all or a portion of the 2015 Senior Notes and the 2017 Senior Notes at any time prior to the maturity date at the redemption prices (principal amount plus applicable premium) plus accrued and unpaid interest up to the redemption date, as set forth in the written agreements between the Company and the trustees of the 2015 Senior Notes and the 2017 Senior Notes.

The 2015 Senior Notes and the 2017 Senior Notes are secured by pledges over the equity interests of certain subsidiaries of the Company (note 1).

In March and April 2017, the Group issued senior notes at coupon rate of 5.875% due 2022 with aggregate principal amounts of US$500,000,000. The Group raised net proceeds of US$492,272,000 (after deduction of underwriting discount and commissions and other expenses).

The fair values of the early redemption options of the 2015 Senior Notes and the 2017 Senior Notes were not significant and therefore were not recognised by the Group on inception and at 31 December 2017.

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32. SENIOR NOTES AND DOMESTIC BONDS *(Continued)*

(b) Domestic Bonds

At the end of the third year subsequent to the inception date in October 2015, Xiamen Zhongjun as the issuer is entitled to adjust the interest rate and the holders of Domestic Bonds may at their options to sell back the bonds to Xiamen Zhongjun in whole or in part at their principal amounts at any time prior to the maturity. In light of the above terms becoming effective for the year ending 31 December 2018, the Domestic Bonds have been classified as current liabilities as at 31 December 2017.

At 31 December 2017, the fair values for the 2015 Senior Notes, the 2017 Senior Notes and the Domestic Bonds amounted to RMB2,436,761,000 (2016: RMB2,674,546,000), RMB3,139,485,000 (2016: Nil) and RMB3,463,250,000 (2016: RMB3,569,000,000), respectively.

The fair values of the 2015 Senior Notes, the 2017 Senior Notes and the Domestic Bonds are based on price quotations from financial institution at the reporting date.

33. DEFERRED TAX

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

Deferred tax liabilities

	Revaluation of properties RMB'000
At 1 January 2016	840,001
Charged to profit or loss during the year	134,841
Acquisition of subsidiaries (note 40)	29,519
At 31 December 2016 and 1 January 2017	1,004,361
Charged to profit or loss during the year	282,245
At 31 December 2017	1,286,606

NOTES TO FINANCIAL STATEMENTS

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33. DEFERRED TAX *(Continued)*

Deferred tax assets

	Unrealised profits arising from intra-group transactions RMB'000	**Provision of LAT** RMB'000	**Losses available for offsetting against future taxable profits** RMB'000	**Total** RMB'000
At 1 January 2016	34,945	71,578	125,027	231,550
Acquisition of subsidiaries (note 40)	–	–	3,917	3,917
Acquisition of subsidiaries that are not a business (note 41)	–	–	532	532
Credited/(charged) to profit or loss during the year	(12,735)	11,481	23,740	22,486
At 31 December 2016 and 1 January 2017	22,210	83,059	153,216	258,485
Acquisition of subsidiaries that are not a business (note 41)	–	–	8,081	8,081
Deemed disposal of a subsidiary upon loss of control (note 42)	–	–	(5,400)	(5,400)
Credited to profit or loss during the year	6,835	86,091	51,038	143,964
At 31 December 2017	29,045	169,150	206,935	405,130

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

	2017 **RMB'000**	2016 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**344,923**	247,971
Net deferred tax liabilities recognised in the consolidated statement of financial position	**1,226,399**	993,847

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33. DEFERRED TAX *(Continued)*

At 31 December 2017, the Group has tax losses arising in Mainland China of RMB846,787,000 (2016: RMB631,911,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of certain of these losses of RMB19,048,000 (2016: RMB19,048,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these tax losses can be utilised.

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

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB8,086,811,000 at 31 December 2017 (2016: RMB7,407,456,000).

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

34. PROVISION FOR MAJOR OVERHAULS

As detailed in note 17 to these financial statements, the Group has contractual obligations to fulfil as a condition of the Operating Concession under the Operating Right Agreement. The obligations are (a) to maintain the Facilities it operates to a specified level of serviceability and (b) to restore the Facilities to a specified condition before they are handed over to the Sports Bureau at the end of the Operating Concession. These contractual obligations to maintain or restore the sports and recreation facilities, except for the upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* , i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

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34. PROVISION FOR MAJOR OVERHAULS *(Continued)*

The movements in the provision for major overhauls of the Facilities for the year are as follows:

	2017 **RMB'000**	2016 RMB'000
At 1 January	**32,564**	27,315
Additional provisions	**5,003**	4,787
Increase in a discounted amount arising from the passage of time (note 7)	**1,741**	1,460
Amount utilised during the year	**(740)**	(998)
At 31 December	**38,568**	32,564

35. SHARE CAPITAL

Shares

	2017 **HK$**	2016 HK$
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000,000**	1,000,000,000
Issued and fully paid:		
3,823,840,000 (2016: 3,423,840,000) ordinary shares of HK$0.10 each	**382,384,000**	342,384,000
Equivalent to RMB'000	**329,804**	295,732

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35. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of movement in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital HK$'000
At 1 January 2016, 31 December 2016 and 1 January 2017	3,423,840,000	342,384,000
Issue of shares (note)	400,000,000	40,000,000
At 31 December 2017	3,823,840,000	382,384,000

Note: During the year ended 31 December 2017, 400,000,000 shares of the Company were placed to certain investors at the subscription price of HK$3.64 per share (the "Placing"). The net proceeds from the Placing is approximately HK$1,436,142,000 (equivalent to RMB1,223,306,000).

Share options

Details of the Company's share option scheme are included in note 36 to the consolidated financial statements.

36. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted at the special general meeting held on 6 January 2010. Employees (including directors) of the Group are included in the eligible participants under the Scheme. A total of 284,000,000 shares will be available for issue under the Scheme, which represented 10% of the aggregate of the shares in issue on the date the shares of the Company commenced trading on the Hong Kong Stock Exchange. Each participant cannot be entitled to more than 1% of the total number of shares in issue in any 12-month period. The option shall expire, in any event, not later than 10 years from the date of grant of the option subject to the provision for early termination set out in the Scheme. The Scheme remains in force until 5 January 2020.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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36. SHARE OPTION SCHEME *(Continued)*

Share options granted to directors, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

The exercise price of the share option is determinable by the directors, but should not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange daily quotation sheet on the date of grant of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the shares of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholder's meetings.

The following share options were outstanding under the Scheme during the year:

	2017		2016	
	Exercise price HK$	**Number of options '000**	Exercise price HK$	Number of options '000
At beginning of year	**2.4**	**284,000**	–	–
Granted during the year	**–**	**–**	2.4	284,000
At end of year	**2.4**	**284,000**	2.4	284,000

NOTES TO FINANCIAL STATEMENTS

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36. SHARE OPTION SCHEME *(Continued)*

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017

Number of options '000	Exercise price HK$	Exercise period
214,000	2.4	23 June 2017 to 5 January 2020
70,000	2.4	23 December 2018 to 5 January 2020
284,000		

2016

Number of options '000	Exercise price HK$	Exercise period
214,000	2.4	23 June 2017 to 5 January 2020
70,000	2.4	23 December 2018 to 5 January 2020
284,000		

The fair value of the share options granted in 2016 was HK$78,448,000 (equivalent to RMB70,281,000) (ranged from HK$0.275 to HK$0.276 each), of which the Group recognised a share option expense of HK$65,866,000 (equivalent to RMB53,965,000) (2016: HK$3,162,000 (equivalent to RMB2,833,000)) during the year ended 31 December 2017.

The fair value of equity-settled share options granted during the prior year was estimated as at the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted and the following table lists the major inputs used:

	2016
Dividend yield (%)	**4.33**
Expected volatility (%)	**25.59**
Risk-free interest rate (%)	**2.1**
Exit rates of the grantees of the options granted under the Scheme (%)	**0**

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36. SHARE OPTION SCHEME *(Continued)*

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 284,000,000 (2016: 284,000,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 284,000,000 additional ordinary shares of the Company and additional share capital of HK$28,400,000 (equivalent to RMB23,652,000) and share premium of HK$653,200,000 (equivalent to RMB543,985,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 284,000,000 share options outstanding under the Scheme, which represented approximately 7.43% of the Company's shares in issue as at that date.

37. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on pages 74 and 75 of the financial statements.

(b) Capital reserve

Capital reserve represents the difference between the amounts of consideration and the carrying values of non-controlling interests acquired or disposed of.

(c) Statutory surplus reserve

Transfers from retained profits to the statutory surplus reserve were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

For the entities concerned, the statutory surplus reserve can be used to cover previous years' losses, if any, and may be converted into capital in proportion to equity holders' existing equity holdings, provided that the balance after such conversion is not less than 25% of their registered capital.

(d) Merger reserve

The merger reserve represents the excess of the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control upon the group reorganisation completed in December 2007.

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37. RESERVES *(Continued)*

(e) Share option reserve

Share option reserve represents the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 3 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.

38. PERPETUAL CAPITAL INSTRUMENTS

	RMB'000
Carrying amount at 1 January 2016	1,200,000
Issuance of perpetual capital instruments	900,000
Redemption of perpetual capital instruments	(1,200,000)
Carrying amount at 31 December 2016 and 1 January 2017	900,000
Redemption of perpetual capital instruments	(200,000)
Carrying amount at 31 December 2017	700,000

The perpetual capital instruments are jointly guaranteed by the Company and certain subsidiaries, secured by pledge of the shares of the subsidiaries. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the issuers of the perpetual capital instruments.

39. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2017	2016
Percentage of equity interest held by non-controlling interests:		
West-Coast Investment	**42%**	42%

NOTES TO FINANCIAL STATEMENTS

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39. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

	2017 **RMB'000**	2016 RMB'000
Profit for the year attributable to non-controlling interests:		
West-Coast Investment	**91,849**	52,917
Accumulated balances of non-controlling interests at the reporting dates:		
West-Coast Investment	**1,056,455**	964,606

The following table illustrates the summarised financial information of West-Coast Investment. The amounts disclosed are before any inter-company eliminations:

	2017 **RMB'000**	2016 RMB'000
Revenue	**205,358**	114,146
Other income	**270,786**	134,050
Total expenses	**(257,457)**	(122,201)
Profit for the year	**218,687**	125,995
Total comprehensive income for the year	**218,687**	125,995
Current assets	**703,862**	194,858
Non-current assets	**3,054,654**	2,671,908
Current liabilities	**(686,686)**	(218,153)
Non-current liabilities	**(556,461)**	(351,931)
Net cash flows from/(used in) operating activities	**148,122**	(202,659)
Net cash flows from/(used in) investing activities	**(156,443)**	131,981
Net cash flows from financing activities	**26,690**	127,600
Net increase in cash and cash equivalents	**18,369**	56,922

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40. BUSINESS COMBINATION

Year ended 31 December 2016

On 25 April 2016, the Group entered into an equity transfer agreement with an independent third party for the acquisition of the entire equity interest in Shanghai Heng Zhi for a consideration of RMB617,010,000. The acquisition was made as part of the Group's strategy to extract the development potential of the land acquired which may potentially bring additional revenue to the Group. The acquisition was completed on 10 July 2016.

The fair values of the identifiable assets and liabilities of Shanghai Heng Zhi as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property and equipment	14	307
Properties under development		1,064,000
Deferred tax assets	33	3,917
Prepayments, deposits and other receivables		5,111
Cash and cash equivalents		7,038
Trade and bills payables		(13,392)
Other payables and accruals		(583,485)
Interest-bearing bank and other borrowings		(360,000)
Deferred tax liabilities	33	(29,519)
Total identifiable net assets at fair value		93,977
Gain on bargain purchase recognised in other income and gains in profit or loss	6	(43,977)
		50,000
Satisfied by:		
Cash		617,010
Shareholders' loans		(567,010)
		50,000

NOTES TO FINANCIAL STATEMENTS

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40. BUSINESS COMBINATION *(Continued)*

Year ended 31 December 2016 *(Continued)*

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	RMB'000
Cash consideration	(50,000)
Cash and cash equivalents acquired	7,038
Net outflow of cash and cash equivalents included in cash flows from investing activities	(42,962)

The results of the subsidiaries acquired during the prior year had no significant impact on the Group's consolidated revenue or profit for the prior year.

41. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS

Year ended 31 December 2017

On 1 May 2017, the Group entered into an equity transfer agreement with four independent third parties for the acquisition of the entire equity interest in Jiangsu Lianqiang Property Co., Ltd. ("Jiangsu Lianqiang") at a consideration of RMB478,746,000. The acquisition was completed on 1 May 2017 and Jiangsu Lianqiang became a wholly-owned subsidiary of the Group.

On 3 May 2017, the Group entered into an equity transfer agreement with three independent third parties for the acquisition of the entire equity interest in Huizhou Chengjing Industrial Co., Ltd. ("Huizhou Chengjing") at a consideration of RMB391,781,000. The acquisition was completed on 3 May 2017 and Huizhou Chengjing became a wholly-owned subsidiary of the Group.

On 13 October 2017, the Group entered into an equity transfer agreement with an independent third party for the acquisition of the entire equity interest in Qingdao Zhong Yutai Property Co., Ltd. ("Qingdao Zhong Yutai") at a consideration of RMB1,030,708,000. The acquisition was completed on 13 October 2017 and Qingdao Zhong Yutai became a wholly-owned subsidiary of the Group.

On 23 October 2017 and 1 November 2017, the Group entered into two equity transfer agreements with two independent third parties for the acquisition of 73.67% and 26.33% equity interest in Huizhou Shahui Industrial Co., Ltd. ("Huizhou Shahui") at a consideration of RMB316,000,000 and RMB104,000,000, respectively. The acquisition was completed on 23 October 2017 and 1 November 2017 and Huizhou Shahui became a wholly-owned subsidiary of the Group.

Save as disclosed above, the Group also acquired certain property development companies at a total consideration of RMB922,347,000 during the year.

NOTES TO FINANCIAL STATEMENTS

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41. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS *(Continued)*

Year ended 31 December 2017 *(Continued)*

The net assets acquired by the Group in the above transactions are as follows:

	Notes	Jiangsu Lianqiang RMB'000	Huizhou Chengjing RMB'000	Qingdao Zhong Yutai RMB'000	Huizhou Shahui RMB'000	Other RMB'000	Total RMB'000
Net asset acquired							
Property and equipment	14	–	5	–	–	773	778
Deferred tax assets	33	257	1,904	87	–	5,833	8,081
Properties under development		2,485	38,718	–	50,000	137,204	228,407
Prepaid land lease payments	16	475,964	345,889	1,032,215	370,000	1,016,992	3,241,060
Prepayments, deposits and other receivables		3	3,916	–	–	170,775	174,694
Cash and cash equivalents		37	1,349	227	332	122,994	124,939
Trade and bills payables		–	–	–	–	(218,940)	(218,940)
Other payables and accruals		(17,668)	–	(220,439)	(24,725)	(831,637)	(1,094,469)
Non-controlling interests		–	–	–	–	(81,572)	(81,572)
		461,078	391,781	812,090	395,607	322,422	2,382,978
Satisfied by:							
Cash		478,746	391,781	1,030,708	420,000	922,347	3,243,582
Shareholders' loans		(17,668)	–	(218,618)	(24,393)	(599,925)	(860,604)
		461,078	391,781	812,090	395,607	322,422	2,382,978

NOTES TO FINANCIAL STATEMENTS

31 December 2017

41. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS *(Continued)*

Year ended 31 December 2017 *(Continued)*

An analysis of the cash flows in respect of the acquisitions is as follows:

	RMB'000
Cash consideration	**(2,382,978)**
Cash and cash equivalents acquired	**124,939**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(2,258,039)**

Prior to completion of the respective acquisitions, these subsidiaries had not carried on any significant business activities except for mainly holding of land. These acquisitions were accounted for by the Group as acquisition of assets, as the operations of these subsidiaries do not constitute a business.

Year ended 31 December 2016

On 31 January 2016, the Group entered into an equity transfer agreement with an independent third party for the acquisition of the entire equity interest in Hangzhou Bailu at a consideration of RMB223,151,000. The acquisition was completed on 31 January 2016 and Hangzhou Bailu became a wholly-owned subsidiary of the Group.

On 18 November 2016, the Group also entered into an equity transfer agreement with three independent third parties for the acquisition of 79.81% equity interest in Fu On International Investment HK Company ("Fu On International"), which owned 80.5% each of Nanjing Guanyu Building Material Industrial Development Co., Ltd. and Nanjing Guanyu Property Development Co., Ltd., at a consideration of RMB348,690,000. The acquisition was completed on 18 November 2016 and Fu On International became a partly-owned subsidiary of the Group.

Prior to completion of the respective acquisitions, Hangzhou Bailu and Fu On International and its subsidiaries had not carried on any significant business activities except for holding a parcel of land in Hangzhou, the PRC, and 5 parcels of lands in Nanjing, the PRC, respectively. These acquisitions were accounted for by the Group as acquisition of assets, as the operations of Hangzhou Bailu and Fu On International do not constitute a business.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

41. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS *(Continued)*

Year ended 31 December 2016 *(Continued)*

The net assets acquired by the Group in the above transactions are as follows:

	Notes	Hangzhou Bailu RMB'000	Fu On International RMB'000	Total RMB'000
Net assets acquired				
Property and equipment	14	–	58	58
Deferred tax assets	33	–	532	532
Properties under development		–	105,914	105,914
Prepaid land lease payments	16	375,302	310,292	685,594
Prepayments, deposits and other receivables		32,012	10,573	42,585
Cash and cash equivalents		7,071	367	7,438
Trade and bills payables		–	(260)	(260)
Other payables and accruals		(406,385)	(132,629)	(539,014)
Non-controlling interests		–	(28,811)	(28,811)
		8,000	266,036	274,036
Satisfied by:				
Cash		223,151	348,690	571,841
Shareholders' loans		(215,151)	(82,654)	(297,805)
		8,000	266,036	274,036

An analysis of the cash flows in respect of the acquisitions is as follows:

	RMB'000
Cash consideration	(274,036)
Cash and cash equivalents acquired	7,438
Net outflow of cash and cash equivalents included in cash flows from investing activities	(266,598)

NOTES TO FINANCIAL STATEMENTS

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42. DEEMED DISPOSAL OF A SUBSIDIARY UPON LOSS OF CONTROL

Year ended 31 December 2017

	Notes	RMB'000
Net assets disposed of:		
Property and equipment	14	**84**
Deferred tax assets	33	**5,400**
Properties under development		**1,926,542**
Prepayments, deposits and other receivables		**68,961**
Prepaid income tax		**41,188**
Cash and cash equivalents		**105,619**
Trade and bills payables		**(14,452)**
Other payables and accruals		**(849,083)**
Interest-bearing bank and other borrowings		**(1,240,000)**
		44,259
Gain on deemed disposal of a subsidiary upon loss of control	6	**20,903**
Reclassification to investment in joint ventures		**65,162**

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary upon loss of control is as follows:

	RMB'000
Cash and cash equivalents deconsolidated and net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary upon loss of control	**(105,619)**

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43. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Note	Interest-bearing bank and other borrowings RMB'000	Senior notes and domestic bonds RMB'000
At 1 January 2017		12,420,396	5,857,969
Changes from financing cash flows		1,652,089	3,383,236
Foreign exchange movement		(201,030)	(374,916)
Interest expense		–	25,336
Deemed disposal of a subsidiary upon loss of control	42	(1,240,000)	–
At 31 December 2017		12,631,455	8,891,625

44. FINANCIAL GUARANTEES

(a) At the end of the reporting period, the Group had financial guarantees which are not provided for in the financial statements as follows:

	2017 RMB'000	2016 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the Group's properties (notes)	14,947,867	11,845,901

NOTES TO FINANCIAL STATEMENTS

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44. FINANCIAL GUARANTEES *(Continued)*

(a) *(Continued)*

Notes:

(i) As at 31 December 2017, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, in the event of default on mortgage payments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks, net of any sales proceeds as described below.

Pursuant to the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans, in the event of default on mortgage repayments by these purchasers, the banks are entitled to take over the legal titles and will realise the pledged properties through open auction or other appropriate means. The Group is responsible for repaying the banks when the proceeds from the auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties.

The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

(ii) The fair value of the guarantees is not significant and the directors of the Company consider that in the event of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalties and therefore no provision has been made in the financial statements for the guarantees.

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

	2017 **RMB'000**	2016 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the joint ventures' properties	**793,633**	238,418

(b) At the end of the reporting period, contingent liabilities not provided for in the financial statements is as follows:

	2017 **RMB'000**	2016 RMB'000
Guarantees given to banks in connection with loan facilities granted to joint ventures	**2,800,000**	1,000,000

As at 31 December 2017, the loan facilities guaranteed by the Group to joint ventures were utilised to the extent of RMB1,934,000,000 (2016: RMB731,000,000).

NOTES TO FINANCIAL STATEMENTS

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45. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group were pledged to secure certain bank and other borrowings granted to the Group:

	Notes	**2017 RMB'000**	2016 RMB'000
Bank deposits	28	**25,300**	261,941
Property and equipment	14	**30,568**	71,821
Investment properties	15	**5,771,766**	2,708,900
Prepaid land lease payments	16	**1,004,198**	5,942,152
Properties under development	18	**12,162,467**	9,545,183
Completed properties held for sale	24	**503,085**	337,132
		19,497,384	18,867,129

46. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to fifteen years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2017 RMB'000	2016 RMB'000
Within one year	**25,305**	33,303
In the second to fifth years, inclusive	**891**	22
	26,196	33,325

NOTES TO FINANCIAL STATEMENTS

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46. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

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

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

	2017 **RMB'000**	2016 RMB'000
Within one year	**15,378**	6,636
In the second to fifth years, inclusive	**13,904**	396
	29,282	7,032

47. COMMITMENTS

In addition to the operating lease commitments detailed in note 46(b) above, the Group had the following capital commitments at the end of the reporting period:

	2017 **RMB'000**	2016 RMB'000
Contracted, but not provided for:		
Capital expenditure for properties under development, prepaid land lease payments and construction of investment properties in Mainland China	**9,686,960**	10,316,388

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

	2017 **RMB'000**	2016 RMB'000
Contracted, but not provided for:		
Capital expenditure for joint ventures' properties under development and construction of investment properties in Mainland China	**185,843**	213,796

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48. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed in note 27 to the financial statements, the Group had the following transactions with related parties during the year:

	Notes	2017 RMB'000	2016 RMB'000
Property rental income from companies controlled by the Wong Family	(i)	**7,624**	6,135
Property management fees from companies controlled by Mr. Wong	(ii)	**4,157**	5,572
Project management income received from joint ventures	(iii)	**51,921**	76,102
Aircraft leasing expense paid to a company controlled by Mr. Wong	(iv)	**4,032**	3,316
Sales agency fees paid to an associate	(v)	**1,689**	–

Notes:

(i) The property rental income were charged at rates ranging from RMB13 to RMB210 (2016: from RMB18 to RMB170) per square metre.

(ii) The property management fees were charged at rates ranging from RMB6 to RMB57 (2016: from RMB13 to RMB60) per square metre.

(iii) The project management income were charged with reference to the contracted sales amount and certain costs incurred in respect of property development projects.

(iv) The leasing expense was charged at US$50,000 (2016: US$50,000) per month.

(v) The sales agency fees were charged at rates ranging from 0.7% to 0.9% of the selling price of the relevant properties.

(b) In the opinion of the directors, the directors of the Company represent the key management personnel of the Group. Further details of the compensation of key management personnel of the Group are set out in note 9 to the financial statements.

Transactions of items (a)(i), (a)(ii) and (a)(iv) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

49. FINANCIAL INSTRUMENTS BY CATEGORY

Except for the derivative financial instruments and the available-for-sale investments, which are measured at fair value, other financial assets and liabilities of the Group as at 31 December 2017 and 31 December 2016 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

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31 December 2017

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments, other than derivative financial instruments, available-for-sale investments and senior notes and domestic bonds, reasonably approximate to their fair values.

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

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of deposits and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2017 was assessed to be insignificant.

Derivative financial instruments, the capped forward cross currency swap contracts, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of capped forward cross currency swap contracts are the same as their fair values.

As at 31 December 2016, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on financial instruments recognised at fair value.

The fair values of the unlisted available-for-sale equity investments are estimated by using prices from recent transaction without adjustment and dividend discount model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the investment.

NOTES TO FINANCIAL STATEMENTS

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50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Below is a summary of significant unobservable inputs to the valuation of available-for-sale investments together with a quantitative sensitivity analysis as at 31 December 2017:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
As at 31 December 2017				
Unlisted available-for-sale equity investments	Dividend discount model	Sustainable dividend growth rate	11%	1% increase/(decrease) in sustainable dividend growth rate would have no material impact on the fair value
		Discount rate	16%	1% increase/(decrease) in discount rate would have no material impact on the fair value

The Group did not have any financial liabilities measured at fair values as at 31 December 2017 and 31 December 2016.

During the year, there were no transfer of fair value measurements between level 1 and level 2 and no transfer into or out of level 3 for both financial assets and financial liabilities (2016: Nil).

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings and senior notes and domestic bonds, amounts due from/to related parties, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions such as capped forward cross currency swap contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The Group's accounting policies related to derivatives are set out in note 3 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Other than deposits held at banks, the Group does not have significant interest-bearing assets. Restricted deposits were held at banks in the PRC at the same savings rate of unrestricted deposits throughout the year. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank and other borrowings with floating interest rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2017		
RMB	**150**	**(73,628)**
HK$	**150**	**–**
US$	**150**	**(37,908)**
RMB	**(150)**	**73,628**
HK$	**(150)**	**–**
US$	**(150)**	**37,908**

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51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2016		
RMB	150	(63,434)
HK$	150	(1,695)
US$	150	(43,551)
RMB	(150)	63,434
HK$	(150)	1,695
US$	(150)	43,551

Foreign currency risk

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange Bureau by complying with certain procedural requirements. However, approval from appropriate PRC governmental authorities is required where RMB is to be converted into a foreign currency and remitted out of China to pay capital account items, such as the repayment of bank and other borrowings denominated in foreign currencies.

The Group's PRC subsidiaries may also retain foreign currencies in their current accounts to satisfy foreign currency liabilities or to pay dividends. Since foreign currency transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange Bureau, this could affect the Group's subsidiaries' ability to obtain required foreign currency through debt or equity financing, including by means of loans or capital contributions from the shareholders.

All the revenue-generating operations of the Group are transacted in RMB. The majority of the Group's assets and liabilities are denominated in RMB except for the Company and certain investment holding companies within the Group operating in Hong Kong, in which bank and other borrowings and senior notes were denominated either in HK$ or US$. The fluctuation of exchange rate of RMB against other foreign currencies will not have material adverse effect on the operating results of the Group.

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51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate against HK$, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax RMB'000
2017		
If HK$ weakens against RMB	**3%**	**(36,949)**
If HK$ strengthens against RMB	**(3%)**	**36,949**

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax RMB'000
2016		
If HK$ weakens against RMB	3%	(44,127)
If HK$ strengthens against RMB	(3%)	44,127

Credit risk

It is the Group's policy that all customers are required to pay deposits in advance of the purchase of properties. In addition, the Group does not have any significant credit risk as the credit given to any individual or corporate entity is not significant. The Group performs appropriate and sufficient credit verification procedures for every credit sale transaction to minimise credit risk. There is no significant concentration of credit risk within the Group.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 44(a).

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

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31 December 2017

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. In the opinion of the directors of the Company, the Group will have adequate sources of funding to finance its operation needs and manage its liquidity position.

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

	2017				
	Within one year or on demand RMB'000	**In the second year RMB'000**	**In the third to fifth years, inclusive RMB'000**	**Over five years RMB'000**	**Total RMB'000**
Interest-bearing bank and other borrowings	**5,237,046**	**6,779,273**	**1,633,676**	**97,545**	**13,747,540**
Senior notes and domestic bonds	**4,070,579**	**414,887**	**6,061,252**	**–**	**10,546,718**
Trade and bills payables	**3,014,497**	**114,361**	**23,345**	**–**	**3,152,203**
Financial liabilities included in other payables and accruals	**4,525,725**	**–**	**–**	**–**	**4,525,725**
Due to related parties	**1,707,222**	**–**	**–**	**–**	**1,707,222**
	18,555,069	**7,308,521**	**7,718,273**	**97,545**	**33,679,408**
Financial guarantees issued: Maximum amount guaranteed	**17,747,867**	**–**	**–**	**–**	**17,747,867**

NOTES TO FINANCIAL STATEMENTS

31 December 2017

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

	2016			
	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	4,316,625	3,501,239	6,229,980	14,047,844
Senior notes and domestic bonds	421,513	3,891,806	2,637,818	6,951,137
Trade and bills payables	2,540,470	35,206	19,671	2,595,347
Financial liabilities included in other payables and accruals	2,046,080	–	–	2,046,080
Due to related parties	1,567,671	–	–	1,567,671
	10,892,359	7,428,251	8,887,469	27,208,079
Financial guarantees issued: Maximum amount guaranteed	12,845,901	–	–	12,845,901

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a net gearing ratio, which is net debt divided by the total equity. Net debt includes total interest-bearing bank and other borrowings, senior notes and domestic bonds (as shown in the consolidated statement of financial position) less cash and bank balances (including restricted cash, time deposits and pledged deposits). Capital comprises all components of equity (i.e., share capital, non-controlling interests, perpetual capital instruments and reserves). The Group aims to maintain a healthy and stable net gearing ratio.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

The net gearing ratios as at 31 December 2017 and 31 December 2016 were as follows:

	Notes	**2017** **RMB'000**	2016 RMB'000
Interest-bearing bank and other borrowings	31	**12,631,455**	12,420,386
Senior notes and domestic bonds	32	**8,891,625**	5,857,969
Less: Cash and bank balances	28	**(9,642,125)**	(8,602,758)
Net debt		**11,880,955**	9,675,597
Total equity		**16,557,870**	12,071,831
Net gearing ratio		**72%**	80%

52. EVENTS AFTER THE REPORTING PERIOD

In March 2018, the Company, as borrower, executed a facility agreement with, among others, various subsidiaries of the Group as guarantors and a syndicate of banks as lender for a three years and six months dual tranche term loan facility in an aggregate amount of HK$3,172,100,000 and US$9,000,000 to refinance existing financial indebtedness and finance the general corporate funding requirements of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2017 **RMB'000**	2016 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**–**	–
Derivative financial instruments	**–**	139,821
Due from subsidiaries	**2,281,469**	2,454,333
Total non-current assets	**2,281,469**	2,594,154
CURRENT ASSETS		
Prepayments	**428**	932
Due from subsidiaries	**6,319,428**	2,489,582
Cash and cash equivalents	**991,519**	6,047
Total current assets	**7,311,375**	2,496,561
CURRENT LIABILITIES		
Other payables and accruals	**70,956**	12,583
Derivative financial instruments	**40,364**	–
Due to subsidiaries	**2,497,463**	223,391
Interest-bearing bank and other borrowings	**1,162,149**	1,046,169
Total current liabilities	**3,770,932**	1,282,143
NET CURRENT ASSETS	**3,540,443**	1,214,418
TOTAL ASSETS LESS CURRENT LIABILITIES	**5,821,912**	3,808,572
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**1,914,045**	2,733,292
Derivative financial instruments	**149,031**	–
Senior notes	**5,414,433**	2,387,676
Total non-current liabilities	**7,477,509**	5,120,968
Net liabilities	**(1,655,597)**	(1,312,396)
EQUITY		
Issued capital	**329,804**	295,732
Reserves (note)	**(1,985,401)**	(1,608,128)
Total equity	**(1,655,597)**	(1,312,396)

Wong Chiu Yeung
Director

Huang Youquan
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2017

53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

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

	Notes	Share premium account RMB'000	Exchange fluctuation reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016		1,339,321	(202,191)	–	(2,170,803)	(1,033,673)
Total comprehensive loss for the year		–	(77,502)	–	(356,313)	(433,815)
2015 final dividend	12	(143,473)	–	–	–	(143,473)
Equity-settled share option arrangements	36	–	–	2,833	–	2,833
At 31 December 2016 and 1 January 2017		1,195,848	(279,693)	2,833	(2,527,116)	(1,608,128)
Total comprehensive income/(loss) for the year		–	145,923	–	(1,141,527)	(995,604)
Issue of shares	35	1,189,234	–	–	–	1,189,234
2016 final dividend	12	(429,439)	–	–	–	(429,439)
2017 interim dividend	12	(195,429)	–	–	–	(195,429)
Equity-settled share option arrangements	36	–	–	53,965	–	53,965
At 31 December 2017		1,760,214	(133,770)	56,798	(3,668,643)	(1,985,401)

54. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 March 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities, perpetual capital instruments and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out as below:

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**16,105,245**	12,480,683	10,690,080	6,887,392	6,588,124
Cost of sales	**(10,620,061)**	(9,354,990)	(7,679,498)	(4,485,001)	(4,742,908)
Gross profit	**5,485,184**	3,125,693	3,010,582	2,402,391	1,845,216
Other income and gains	**122,812**	341,472	80,165	96,836	162,562
Changes in fair value of investment properties, net	**1,262,744**	548,382	398,022	749,701	602,909
Selling and marketing expenses	**(530,538)**	(407,116)	(300,828)	(248,227)	(184,547)
Administrative expenses	**(963,431)**	(471,771)	(398,479)	(343,157)	(301,445)
Other expenses	**(332,561)**	(129,454)	(53,107)	–	(711)
Finance costs	**(392,048)**	(316,894)	(269,041)	(160,388)	(246,103)
Exchange differences arising from retranslation of senior notes, net	**–**	–	(27,918)	19,705	–
Share of profits and losses of:					
Joint ventures	**814,542**	803,593	110,080	21,444	25,772
Associates	**(6,062)**	(120)	(497)	784	1,689
PROFIT BEFORE TAX	**5,460,642**	3,493,785	2,548,979	2,539,089	1,905,342
Income tax expense	**(2,012,091)**	(1,053,334)	(980,435)	(972,048)	(731,078)
PROFIT FOR THE YEAR	**3,448,551**	2,440,451	1,568,544	1,567,041	1,174,264
Attributable to:					
Owners of the parent	**2,840,035**	2,072,284	918,660	900,580	887,816
Holders of perpetual capital instruments	**51,975**	49,967	248,756	68,202	–
Non-controlling interests	**556,541**	318,200	401,128	598,259	286,448
	3,448,551	2,440,451	1,568,544	1,567,041	1,174,264

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES, PERPETUAL CAPITAL INSTRUMENTS AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**66,175,008**	50,834,872	40,276,238	34,443,072	26,928,930
TOTAL LIABILITIES	**(49,617,138)**	(38,763,041)	(28,677,637)	(23,429,314)	(18,426,723)
PERPETUAL CAPITAL INSTRUMENTS	**(700,000)**	(900,000)	(1,200,000)	(1,173,000)	–
NON-CONTROLLING INTERESTS	**(3,399,744)**	(2,764,014)	(3,471,171)	(3,295,670)	(2,763,201)
	12,458,126	8,407,817	6,927,430	6,545,088	5,739,006