中國海外發展有限公司
CHINA OVERSEAS LAND & INVESTMENT LTD.

Stock Code: 00688

New Era · New Journey

— Moving Forward To a Better and Faster Development

ANNUAL REPORT 2017

Contents

Lake Mansion, Foshan

Board of Directors and Committees

EXECUTIVE DIRECTORS

Yan Jianguo *Chairman and Chief Executive Officer*
Luo Liang
Nip Yun Wing (resigned w.e.f. 3 April 2018)

NON-EXECUTIVE DIRECTOR

Chang Ying

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lam Kwong Siu
Fan Hsu Lai Tai, Rita
Li Man Bun, Brian David

AUTHORISED REPRESENTATIVES

Yan Jianguo
Luo Liang (appointed w.e.f. 3 April 2018)
Nip Yun Wing (resigned w.e.f. 3 April 2018)

AUDIT AND RISK MANAGEMENT COMMITTEE

Li Man Bun, Brian David*
Lam Kwong Siu
Fan Hsu Lai Tai, Rita

REMUNERATION COMMITTEE

Lam Kwong Siu*
Fan Hsu Lai Tai, Rita
Li Man Bun, Brian David

NOMINATION COMMITTEE

Fan Hsu Lai Tai, Rita*
Lam Kwong Siu
Li Man Bun, Brian David

* *Committee Chairman*

Corporate Information

REGISTERED OFFICE

10/F., Three Pacific Place
1 Queen's Road East, Hong Kong

Telephone	:	(852) 2988 0666
Facsimile	:	(852) 2865 7517
Website	:	www.coli.com.hk

COMPANY SECRETARY

Keith Cheung, Solicitor

REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

Telephone	:	(852) 2980 1333
Facsimile	:	(852) 2810 8185
E-mail	:	is-enquiries@hk.tricorglobal.com

INVESTOR RELATIONS

Corporate Communications Department

Telephone	:	(852) 2988 0666
Facsimile	:	(852) 2865 7517
E-mail	:	coli.ir@cohl.com

PUBLIC RELATIONS

Corporate Communications Department

Telephone	:	(852) 2988 0666
Facsimile	:	(852) 2865 7517
E-mail	:	coli.pr@cohl.com

LEGAL ADVISOR

Mayer Brown JSM

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS (In Alphabetical Order)

Agricultural Bank of China
Bank of China
Bank of Communications Co., Ltd. Hong Kong Branch
Bank of Shanghai Co., Ltd
China Construction Bank Corporation
China Construction Bank (Asia) Corporation Limited
China Development Bank Hong Kong Branch
China Merchants Bank
China Minsheng Banking Corp., Ltd
DBS Bank Ltd., Hong Kong Branch
Industrial and Commercial Bank of China
OCBC Wing Hang Bank Limited
Oversea-Chinese Banking Corporation Limited
Postal Savings Bank of China
Sumitomo Mitsui Banking Corporation
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

Shareholders' Information and Financial Calendar

LISTING

The Company's shares are listed on The Stock Exchange of Hong Kong Limited ("**SEHK**") and certain notes issued by the Company's subsidiaries are listed in SEHK and/or other stock exchange.

STOCK CODE

Shares

SEHK	:	00688
Bloomberg	:	688:HK
Reuters	:	0688.HK

Notes

in USD

	SEHK	Bloomberg	Reuters
Note 1:	China OVS N2011 Code: 4503	EI4567265	XS0508012092
Note 2:	China OVS N2211 Code: 4579	EJ4365304	XS0852986156
Note 3:	China OVS N4211 Code: 4580	EJ4365403	XS0852986313
Note 4:	China OVS N1810 Code: 5987	EJ9002563	XS0984184316
Note 5:	China OVS N2310 Code: 5988	EJ9002621	XS0972980097
Note 6:	China OVS N4310 Code: 5989	EJ9002803	XS0985567881
Note 7:	China OVS N1905 Code: 5745	EK2478924	XS1063561143
Note 8:	China OVS N2405 Code: 5746	EK2478981	XS1063561499
Note 9:	China OVS N3406 Code: 5760	EK3172450	XS1075180379

in Euro

	ISE	SEHK	Bloomberg	Reuters
Note 10:	BYM68V0	CN OVS LD N1907 Code: 5541	AF2041693	XS1236611684

in RMB

	SSE
Note 11:	15 中海 01 Code: 136046
Note 12:	15 中海 02 Code: 136049
Note 13:	16 中海 01 Code: 136646
Note 14:	15 中地 01 Code: 125678
Note 15:	16 中地 01 Code: 135067

Remarks:

Note 1: US$1,000,000,000 5.50 per cent. Guaranteed Notes due November 2020 issued by China Overseas Finance (Cayman) II Limited, a wholly owned subsidiary of the Company.

Note 2: US$700,000,000 3.95 per cent. Guaranteed Notes due November 2022 issued by China Overseas Finance (Cayman) V Limited, a wholly owned subsidiary of the Company.

Note 3: US$300,000,000 5.35 per cent. Guaranteed Notes due November 2042 issued by China Overseas Finance (Cayman) V Limited, a wholly owned subsidiary of the Company.

Note 4: US$500,000,000 3.375 per cent. Guaranteed Notes due October 2018 issued by China Overseas Finance (Cayman) III Limited, a wholly owned subsidiary of the Company.

Note 5: US$500,000,000 5.375 per cent. Guaranteed Notes due October 2023 issued by China Overseas Finance (Cayman) III Limited, a wholly owned subsidiary of the Company.

Note 6: US$500,000,000 6.375 per cent. Guaranteed Notes due October 2043 issued by China Overseas Finance (Cayman) III Limited, a wholly owned subsidiary of the Company.

Note 7: US$800,000,000 4.25 per cent. Guaranteed Notes due May 2019 issued by China Overseas Finance (Cayman) VI Limited, a wholly owned subsidiary of the Company.

Note 8: US$700,000,000 5.95 per cent. Guaranteed Notes due May 2024 issued by China Overseas Finance (Cayman) VI Limited, a wholly owned subsidiary of the Company.

Note 9: US$500,000,000 6.45 per cent. Guaranteed Notes due June 2034 issued by China Overseas Finance (Cayman) VI Limited, a wholly owned subsidiary of the Company.

Note 10: EUR600,000,000 1.75 per cent. Guaranteed Notes due July 2019 by China Overseas Land International (Cayman) Limited, a wholly owned subsidiary of the Company.

Note 11: RMB7,000,000,000 3.40 per cent. Notes with sell back options (particulars as per Note 35 to the Financial Statements) due November 2021 issued by China Overseas Property Group Co., Ltd., a wholly owned subsidiary of the Company.

Note 12: RMB1,000,000,000 3.85 per cent. Notes with sell back options (particulars as per Note 35 to the Financial Statements) due November 2022 issued by China Overseas Property Group Co., Ltd., a wholly owned subsidiary of the Company.

Note 13: RMB6,000,000,000 3.10 per cent. Notes with sell back options (particulars as per Note 35 to the Financial Statements) due August 2026 issued by China Overseas Property Group Co., Ltd., a wholly owned subsidiary of the Company.

Note 14: RMB4,000,000,000 4.80 per cent. Notes with sell back options (particulars as per Note 35 to the Financial Statements) due December 2020 issued by CITIC Real Estate Group Company Limited, a wholly owned subsidiary of the Company.

Note 15: RMB1,000,000,000 4.40 per cent. Notes with sell back options (particulars as per Note 35 to the Financial Statements) due January 2021 issued by CITIC Real Estate Group Company Limited, a wholly owned subsidiary of the Company.

FINANCIAL CALENDAR

Interim results announcement	:	21 August 2017
Share register closed	:	15 September 2017
Interim dividend paid	:	6 October 2017
Final results announcement	:	26 March 2018
Share register closed for Annual General Meeting	:	6 June 2018 to 11 June 2018 *(both days inclusive)*
Annual General Meeting	:	11 June 2018
Share register closed for Final dividend	:	15 June 2018
Final dividend payable	:	6 July 2018

Corporate Structure

PROPERTY DEVELOPMENT*

- Mainland China
- Hong Kong
- Macau

PLANNING AND CONSTRUCTION DESIGN

- Mainland China
- Hong Kong

PROPERTY INVESTMENT

- Mainland China
- Hong Kong
- Macau
- London

* *Property development in 60 major cities in mainland China, including Beijing, Shanghai, Guangzhou, Shenzhen, Changchun, Changsha, Chengdu, Chongqing, Dalian, Dongguan, Foshan, Fuzhou, Haikou, Hangzhou, Harbin, Jiangmen, Jinan, Kunming, Nanchang, Nanjing, Ningbo, Qingdao, Sanya, Shenyang, Suzhou, Taiyuan, Tianjin, Urumqi, Wanning, Wuhan, Wuxi, Xiamen, Xi'an, Yantai, Zhangzhou, Zhaoqing, Zhengzhou, Zhenjiang, Zhongshan, Zhuhai, Changzhou#, Ganzhou#, Hefei#, Hohhot#, Huangshan#, Huizhou#, Jilin#, Jiujiang#, Lanzhou#, Nanning#, Nantong#, Shantou#, Shaoxing#, Weifang#, Xining#, Xuzhou#, Yancheng#, Yangzhou#, Yinchuan#, Zibo# as well as in Hong Kong and Macau.*

\# *The cities where China Overseas Grand Oceans Group Limited ("COGO") has operations.*

Financial Highlights

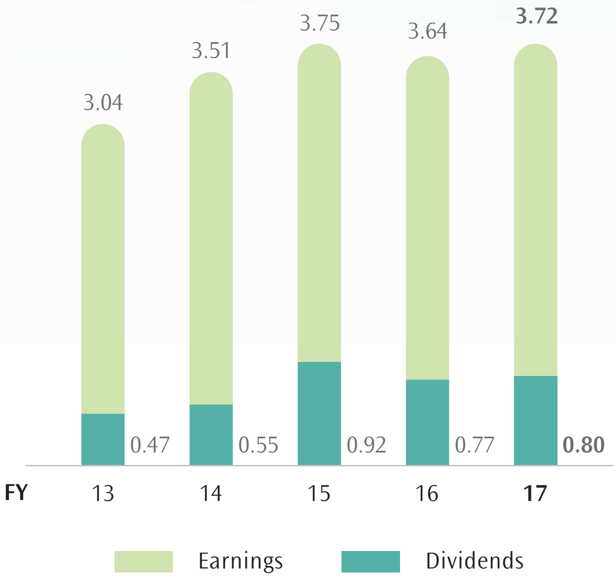
For the year ended 31 December	2017	2016	Change (%)
Financial Highlights *(HK$ billion)*			
Revenue	**166.04**	164.07	+1
Profit attributable to equity shareholders of the Company	**40.77**	37.02	+10
Property sales[1]	**232.07**	210.65	+10
Financial Ratios			
Net gearing ratio *(%)*[4]	**28**	8	+20[2]
Interest cover *(times)*	**8**	6	+2[3]
Dividend payout *(%)*[5]	**26**	27	−1[2]
Financial Information per Share *(HK$)*			
Earnings	**3.72**	3.64	+2
Dividends	**0.80**	0.77	+4
— Interim dividend	**0.35**	0.35	—
— Final dividend	**0.45**	0.42	+7
Net assets[4]	**24.25**	20.29	+20
Land Reserves *(million sq m)*			
Development land bank[4]	**63.75**	56.77	+12

Notes:
1. *Representing the Group together with its joint ventures and associates (collectively the "Group Series of Companies")*
2. *Change in percentage points*
3. *Change in number of times*
4. *These are year end figures*
5. *After deducting the net gain after tax arising from changes in fair value of investment properties and gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition*

Financial Highlights (continued)

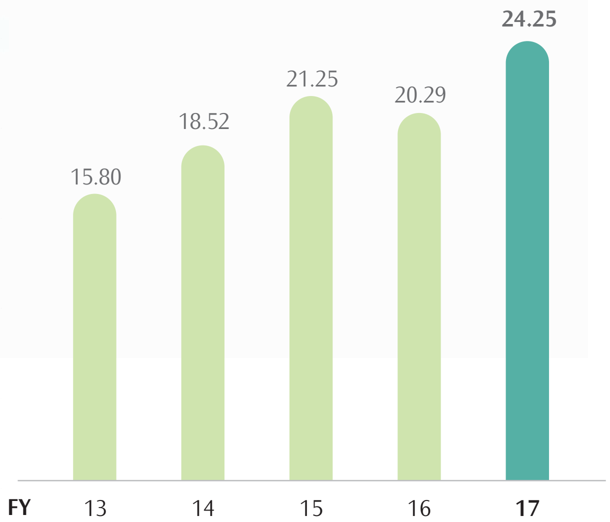
EARNINGS AND DIVIDENDS PER SHARE

HK$



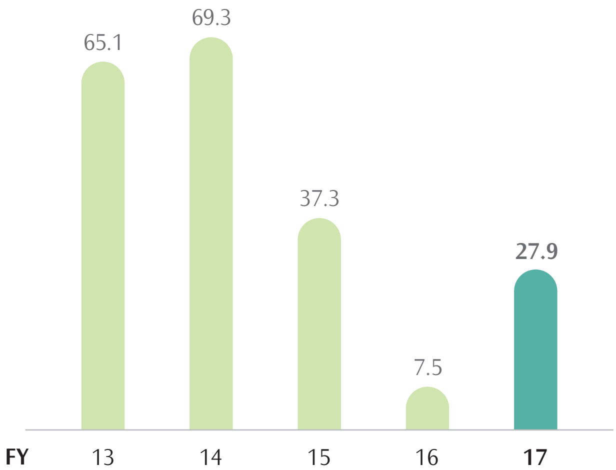
NET ASSETS PER SHARE

HK$



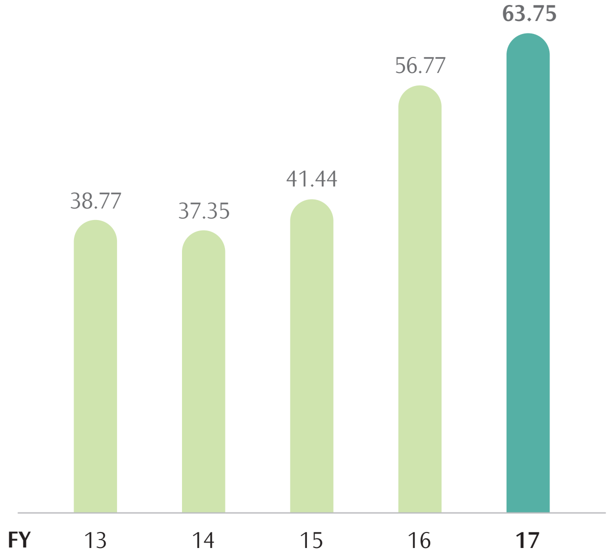
NET GEARING RATIO

%



LAND RESERVES*

million sq m



* *Representing the Group Series of Companies (excluding COGO)*

Group Financial Summary

KEY FINANCIAL INFORMATION AND RATIOS

Financial Year	2013 HK$	2014 HK$	2015 HK$	2016 HK$	2017 HK$
Earnings per share	3.04	3.51	3.75	3.64	**3.72**
Dividends per share	0.47	0.55	0.92	0.77	**0.80**
— Interim dividend	0.18	0.20	0.20	0.35	**0.35**
— Special interim dividend	–	–	0.31*	–	**–**
— Final dividend	0.29	0.35	0.41	0.42	**0.45**
Net assets per share	15.80	18.52	21.25	20.29	**24.25**
Net gearing ratio (%) $\frac{\text{Net debt}}{\text{Shareholders' funds}}$	65.1	69.3	37.3	7.5	**27.9**
Interest cover (times) $\frac{\text{Operating profit} - \text{Total interest income}}{\text{Interest expense**}}$	3	4	5	6	**8**

KEY PROFIT AND LOSS ITEMS

For the year ended 31 December	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000
Revenue	125,973,434	164,654,215	169,561,797	164,068,528	**166,044,963**
Operating profit	34,036,381	49,226,431	50,553,590	57,905,305	**62,874,375**
Profit attributable to equity shareholders	24,837,497	28,682,784	34,643,211	37,020,638	**40,766,835**

KEY STATEMENT OF FINANCIAL POSITION ITEMS

At 31 December	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000
Fixed assets#	46,161,735	60,318,557	69,595,165	70,979,688	**101,274,985**
Long-term investments	21,192,645	21,391,579	20,244,063	16,209,776	**20,777,469**
Other non-current assets	9,995,832	11,135,183	17,305,640	9,186,508	**21,561,825**
Net current assets	184,561,316	199,433,619	289,944,207	275,308,831	**295,247,940**
Non-current liabilities	(129,167,803)	(135,089,995)	(181,509,548)	(144,261,444)	**(165,318,789)**
Net assets	132,743,725	157,188,943	215,579,527	227,423,359	**273,543,430**

* *Representing the distribution in specie of China Overseas Property Holdings Limited Shares*
** *Before capitalisation and excluding interest on amounts due to non-controlling shareholders*
# *Representing investment properties and property, plant and equipment*

2017 Business Milestones

January

The Group innovatively enhanced its investment to join forces with Xi'an Qujiang Cultural Industry Investment Group to make a winning bid of RMB1.26 billion for the Qujiang-Yianxiang project, with a total gross floor area of 1.33 million sq m and huge development potential. On 16 February, the Group engaged with leading developers in the industry to form a consortium and acquired the Liangxiang project in Beijing's Fangshan District for RMB930 million on the open market, offering a total gross floor area of 190,000 sq m. In May, as part of a different consortium, the Group successfully offered RMB1.45 billion for the Huaifang project in Fengtai District, with a gross floor area of 261,000 sq m. In June, the Group developed Longyuefu project with a gross floor area of 269,000 sq m, being its first project in Jiangmen. In October, the Group cooperated with Nanjing Anju Construction Group, as part of our focus on cooperation with large local enterprises, to develop the Yianziji project, with a total gross floor area of 274,000 sq m.

▲ Qujiang-Yianxiang project, Xi'an

22 March

China Overseas Property was again acknowledged as "2017 No.1 in Top 30 Listed China Real Estate Companies (Property G30)". In the first half of the year, the Company was also honoured as "No.1 in Top 10 Financial Stability" and "No.1 in Top 10 Economic Value Added" among Hong Kong-listed Mainland Real Estate Companies in 2017, "China Blue Chip Real Estate Developer", and "No.2 in Top 100 Overall Performance". In September, China Overseas Property was acknowledged as among the "Leading Brands of China Real Estate Companies" for the 14th year in a row, with a brand value of RMB59.85 billion ranking as number 1 in the property sector, and "2017 China Real Estate Leading Brand for Customer Satisfaction". China Overseas Commercial Property was honoured as "2017 Top 10 China Commercial Property Brand Value."

▲ Strategic cooperation agreement signed with Shenzhen International Holdings Limited

18 April

The Group and Shenzhen International Holdings Limited signed a strategic cooperation agreement in Hong Kong, under which the two parties will develop strategic cooperation in logistics, property and other areas. In the second half of the year, the Group signed a strategic cooperation agreement with Ping An Real Estate Company Limited ("Ping An Real Estate"), China Life Investment Holding Company ("China Life Investment"), JD.com, Inc. and M (China) Co., Ltd (formerly known as McDonald's (China) Co., Ltd) ("McDonald's (China)"), through which the Group will expand high-quality and premium cooperation resources for its business. The Group is also actively promoting the implementation of the cooperation agreement with Ping An Real Estate. In the second half of the year, it executed the agreement to cooperate in Kunming, Nanjing, Tianjin and other cities to acquire five high-quality projects with a total gross floor area of more than 870,000 sq m.

2017 Business Milestones (continued)

26 May

The Asia Pacific International Property Awards Ceremony, acclaimed as the "Academy Awards" of the property industry, was held in Bangkok, Thailand. The Group won awards for five of its residential and commercial projects: One Blossom Cove in Guangzhou and International Community of Yantai were awarded "Best Residential High-rise Development"; Mid-Town in Zhuhai was awarded "Best Mixed Use Development"; China Overseas Plaza in Beijing was recognised as both "Best Office" and "Best Office Development China (5-star)"; Unipark Shopping Mall in Foshan was awarded the "Best Retail Development". The development and design ideas of the Group were highly recognised by the international authorities, highlighting the Group's influential and standards-setting position in the industry.

▲ Garnering five residential and commercial awards at the Asia Pacific International Property Awards

21 June

With the support of its parent company China State Construction Engineering Corporation ("CSCEC"), the Group signed a strategic cooperation agreement with China Construction Fangcheng Investment and Development, Co., Ltd ("CC Fangcheng"), under which the two parties also signed an agreement to cooperate on the project for Zhengshou Hi-Tech Industries Development Zone.

◀ Signing strategic cooperation agreement with CC Fangcheng

12–22 August

To coincide with the 15th anniversary of "Pilot Training Class" in "Sons of the Sea" in 2017, China Overseas Property successfully held its "Pilot Training Class" in "Sons of the Sea". During this period, the Company conducted more than ten meticulously planned training courses on specialisation, professionalism and our corporate culture. The Company's senior management and renowned external professors together offered a solid foundation for "Sons of the Sea" to build adaptability in their roles and strengthen team-building.

▲ Pilot Training Class of "Sons of the Sea"

2017 Business Milestones (continued)

18 September

A signing and commencement ceremony for the Group's sponsored Jiangkou Hope Schools was held in Jiangkou Town, Ganxian District of Ganzhou City in Jiangxi Province. This marked the donation of the Group's 12th Hope School in mainland China, which is expected to be completed by May 2018 and officially opened in September 2018. On its completion, the school will provide enhanced educational opportunities for local school-aged children, so they can enjoy the benefits of a high-quality education.

Donation of the Group's 12th Hope School in mainland China

Center Villa, Shenyang

October

The Group's Northern regional office and its branches in Qingdao, Shenyang, Dalian celebrated its 10th anniversary. After many years of development, the Group has grown to be the major developer in northern China. Total sales in 2017 were 40% up on the previous year, and the market share has been continually rising, with Harbin, Yantai, Shenyang and Changchun always ranked among the top three in the area.

22 November

The Group's subsidiary, China Overseas Property Group Co., Ltd., joined with other subsidiaries of CSCEC, namely China Construction Third Engineering Bureau Co. Ltd and China Jianyin Investment (Beijing) Co., Ltd., to form a consortium that successfully won the Xiong An Citizens Service Centre project.

Xiong An Citizens Service Centre

2017 Business Milestones (continued)

Qin Emperor Temple project, Chengdu

28 November

The Group won the tender for a 299 acres of parcel of land at the Qin Emperor Temple in Tianfu New Area in Chengdu, with a tender of RMB3,698/sq m of gross floor area, for a total price of RMB4.79 billion. The land transfer agreement clearly indicates that the highest point of the building will be 677 metres, and based on the present planned height, it will be one of the tallest super high-rise buildings in the world.

29 November

At a press conference and the signing ceremony for the 21st Beijing-Hong Kong Economic Cooperation Symposium for two-way investment projects in major business, the Group signed a "Strategic Cooperation Framework Agreement" with Shijingshan District and Miyun District to jointly promote the China Overseas Fintech City Project in Shijingshan and the China Overseas Shennong Resort Project in Miyun.

China Overseas Fintech City Project in Shijingshan, Beijing

Paramount Jade, Jinan

30 November

The Group's sales for the whole Jinan Paramount Jade project surpassed RMB10 billion. The area sold in 2017 was 1.03 million sq m with sales value of RMB11.25 billion, making it number one in China by saleable area and number two by sales value. Paramount Jade is an urban renewal project and was carefully planned and built by the Group, creating a prototype at the Huashan Area, and is becoming a model for green lifestyle in China, demonstrating the Group's powerful integration capacity in the city's operations.

2017 Business Milestones (continued)

1 December

The Group held a signing ceremony for its HK$18 billion syndicated loan in Hong Kong, highlighting not only this record financing amount for the Group in Hong Kong, but also the largest number of participating banks. Additionally, the cost of financing is, as of now, also one of the lowest in the industry.

▲ The HK$18 billion syndicated loan that brought together the largest number of participating banks in Hong Kong

▲ Signing a cooperation agreement with leading global co-working office giant WeWork

1 December

The Group and the world's leading co-working office space giant WeWork signed a cooperation agreement, allowing workspace businesses to make use of China Overseas International Center in Shanghai to build the largest co-working workspace in Asia Pacific. Further, the Group and WeWork will join forces to upgrade office space in Huangpu's central business district.

Chairman's Statement

China Overseas International Center, Shenyang

Chairman's Statement

2017 marks the Group's 25th anniversary of listed status on the Hong Kong Stock Exchange and the Group continued to grow and expand its capacity. The Group is of the view that the China property market has ample room for development. The Board believes that with its solid foundation, worldwide vision and exposure, correct development strategies, appropriate nationwide development strategy plus excellent brand name and financial strength, the Group will continue to enhance its competitiveness in the industry, risks were offset by continuous innovation. In 2018, the Group will achieve concurrent growth in scale and profit to secure better and faster development.

I have pleasure to report to the Shareholders that:

The audited profit attributable to equity shareholders of the Company for the year ended 31 December 2017 increased by 10.1% to HK$40.77 billion; basic earnings per share was HK$3.72; shareholders' funds increased to HK$265.69 billion; net assets per share was HK$24.25; and average return on shareholders' funds was 16.7%. The Board proposed a final dividend of HK45 cents per share.

Chairman's Statement (continued)

1. BUSINESS REVIEW

Macroeconomic Overview and Property Market Performance

In 2017, the global economy performed well, showing 3% growth, the fastest since 2011. Two of the biggest drivers of economic growth, China and the United States, reported 6.9% and 2.3% growth respectively, with China 0.2 percentage point higher than in 2016, outperforming expectations. Under the strong economic performance of China and the United States, worldwide trade and cross-border capital flows recovered significantly, with two-thirds of the world's economies showing higher growth than in last year.

In 2017, in the big picture of China's steady economic progress, the policy of "Properties to live in but not for speculation", meaning that regulatory tightening of the real estate market is still underway, has contributed to significant slowing of growth but also its stabilisation. In 2017, the overall sales area of commodity housing grew 7.7% in comparison with last year, with property sales growth of 13.7%. While the growth was not as fast as in the previous year, de-stocking is well maintained and market health is improving.

Hong Kong's economy is growing steadily with a red-hot real estate market. The competitive land market is reflected in skyrocketing prices in the property and land markets.

Operating Results

In 2017, the sales and profit of the Group experienced steady growth, to reach a new record high. The revenue of the Group was HK$166.04 billion, the gross profit margin increased by 5.1 percentage points from 27.8% last year to 32.9%, and the net profit margin was 24.6%, maintaining its industry leading position. Selling and distribution costs and administrative expenses decreased by 0.5 percentage point from last year's level of 4.0% of revenue to 3.5%, which remained one of the lowest in the industry. The profit attributable to equity shareholders of the Company increased by 10.1% to HK$40.77 billion, and the net profit, after deducting HK$4.37 billion in net gains after tax arising from changes in fair value of investment properties and HK$2.14 billion in a gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition, amounted to HK$34.26 billion. The average return on shareholders' funds for the year was maintained at a relatively high level of 16.7%.

Chairman's Statement (continued)

Property Development

In 2017, the Group Series of Companies' contracted property sales grew, setting another record high for the whole year, in which total contracted property sales amounted to HK$232.07 billion, while the corresponding area sold was 14.46 million sq m.

During the year, through strategic, innovative sales and marketing measures, as well as leveraging the branding advantage of "China Overseas Property" (中海地產), property sales in China have performed well, of which contracted property sales were HK$220.12 billion, and contracted property sales in Hong Kong and Macau were HK$11.95 billion for the year. During the year, deliveries of One Kai Tak picked up well, in a positive response from the market.

In 2017, the Group Series of Companies (excluding COGO) completed projects with a total area of 11.35 million sq m. An additional area of 19.54 million sq m was commenced to develop, an increase of 183.2% compared with the previous year, creating an ideal foundation for accelerated growth in 2018.

The sales value of projects completed and recognised as the Group's revenue during the year was HK$116.21 billion, while the Group's sales of properties completed before the end of 2016 was satisfactory with sales value amounting to HK$45.93 billion. As a result, revenue from property development by the Group was HK$162.14 billion for the year, and mainly due to the improvement in the gross profit margin, segment profit from property development increased by 9.6% to HK$51.45 billion.

Commercial Property

The total income from the Group's commercial properties was HK$2.94 billion, representing an increase of 13.1% compared with that in last year, among which the leasing performance of the Group's investment properties was satisfactory with rental income for the year increased by 14.5% to HK$2.45 billion. Income generated from hotels and other commercial properties amounted to HK$490 million, a year-on-year increase of 6.5%.

During the year, the Group Series of Companies completed construction of four office buildings, four shopping malls and one premium hotel. At the end of 2017, completed commercial properties held by the Group Series of Companies comprised a total of 38 office buildings, being one of the biggest developer of office buildings under single ownership, holding 12 shopping malls, 11 premium hotels. The commercial properties of the Group Series of Companies reached a total area of 3.66 million sq m.

Joint Ventures and Associates

In response to market demand, opportunities for project cooperation increased significantly. The Group commenced cooperation with Ping An Real Estate, a subsidiary of CSCEC and other industry actors. During the year, the Group increased its investments in joint ventures and associates, committing significant resources to the creation of a total of 15 new joint ventures and associates projects. At the end of 2017, the net amount invested by the Group in joint ventures and associates amounted to HK$37.24 billion. The profit contribution from joint ventures and associates in 2017 was HK$1.94 billion. In 2017, COGO — a major associate of the Group, focused on property business in tier-three cities in mainland China, recorded contracted property sales of HK$37.07 billion, revenue of HK$20.28 billion, and a net profit of HK$1.26 billion. The Group earned a net profit of HK$480 million from COGO for the year. In early 2018, COGO raised a total of HK$4.61 billion through a rights issue, further strengthening its financial capability.

▲ China Overseas International Center, Chengdu

Chairman's Statement (continued)

Land Reserve

In 2017, adhering to its prudent investment strategy, the Group acquired 76 parcels of land in 31 cities in mainland China and Hong Kong, adding a total area of 17.41 million sq m. At the end of 2017, the Group Series of Companies (excluding COGO) had a total land reserve of 63.75 million sq m (attributable interest of 53.78 million sq m).

The major associate COGO acquired 10 parcels of land, adding a total area of 2.51 million sq m. At the end of 2017, the total land reserve was 19.03 million sq m (attributable interest of 17.91 million sq m).

The Group Series of Companies have a total land reserve of 82.78 million sq m, which lays a solid foundation for accelerated growth in 2018 and for sustainable development over the next three years.

Group Finance

Adhering to prudent financial management, the Group continued to enhance financial resources, optimise its debt structure and reduce the cost of interest. To promote business development, the Group raised funds in mainland China through various means and successfully took out some of the high-interest RMB loans related to the CITIC Assets Acquisition. In Hong Kong, the Group signed a syndicated loan of HK$18 billion with 15 banks, with the lowest financing costs in the market. The ambitious measures above enabled the Group's financing costs to be reduced from 4.76% in 2016 to 4.27% in 2017.

▲ Signing cooperations agreement with Ping An Real Estate

In 2017, the Group drew down HK$50.20 billion onshore and offshore. Total repayment of matured bank and other borrowings and notes by the Group amounted to HK$54.71 billion. In 2017, the Group recorded sales proceeds collection of HK$163.68 billion for the year. The Group has accumulated a significant war chest of cash for future developments. Major expenditure of the Group for 2017 included land premiums, construction costs, taxes, selling and distribution costs, administrative and finance expenses, including HK$134.62 billion for land premiums and HK$36.76 billion for construction costs. At the end of 2017, the Group had bank and other borrowings and notes payable amounted to HK$103.58 billion and HK$74.66 billion respectively; bank balances and cash amounted to HK$104.05 billion; and the net gearing of the Group stood at 27.9%, a very low level for the industry. In 2017, the Group's investment ratings were affirmed by Moody's, Standard & Poor's and Fitch, at Baa1/Stable, BBB+/Stable and A-/Stable respectively, reflecting the capital markets' recognition of the Group in terms of its leadership in China's property market and financial soundness.

Core Management objectives

(1) Revised strategic plan and optimised organisational structure

In order to align with developments in China's macroeconomy and property market, the Group recently adjusted its strategic planning for 2017–2020, to refocus on residential housing development and speed up development, with a goal to achieve sales value of more than HK$400.0 billion by 2020. Additionally, the Group will continue to increase investment in commercial properties and expand new business lines in education, elderly-care and logistics, building a balanced, healthy and sustainable business structure.

Under the strategic plan, the Group optimised its organisational structure by setting up the Customer Service Department, Innovative Business Development Department, and Overseas Business Department, while changed the Strategies Management Department to Operations Management Department which is responsible for project development, operations

Chairman's Statement (continued)

and management. Additionally, a professional vocational centre has been set up to enhance the breadth and depth of professional management capability across all major business units.

(2) Project-based management, optimised operations system, speed up development progress

The Group further empowered frontline business teams by fully implementing project operations and management structure during the year. Project management is the foundation and core competence of the Group's operations and performance appraisal business unit, comprised of a project director who oversees engineering, design and marketing professionals as a team, with responsibility for the entire lifecycle of project development, operations and management. At the end of 2017, the Group had established more than 190 project-based teams, effectively enhancing decision-making efficiency and execution.

In order to expedite the scaling of its business development, the Group streamlined and optimised project development point-to-point management, established standards-based management to take account of the varying geographical demands of each operation, and implemented a holistic planning and supply, sales and stock information management system. The progress of every point, stock level and sale is now visible, enhancing operational management precision and expediting development progress.

(3) Enhanced quality control for better customer satisfaction

During the year, the Group applied optimised on-site quantity evaluation to enhance unannounced testing and measurement frequency, introducing quality checks at main points to further enhance quality control and strengthen the Group's product quality.

Under the Group's customer-first mission, each of our subsidiaries ran a programme to build customer satisfaction during the year. By listening to our customers' feedback, responding through various channels to meet their expectations, and organising customer care and social events, the Group successfully increased our customers' satisfaction with our product and services.

(4) Strengthened customer research, innovated product design and enhanced value creation

The Group continues to strengthen its understanding of customers and their needs and purchasing power, classifying residential housing into five categories and ten types so that every product can be matched with every customer. By targeting each project with a design and marketing plan, customer needs can be precisely addressed.

The Group continues to invest in product research in order to innovate and create value. The Group is committed to a standards-based model so that geographical and quality variations in product design can be accommodated. Additionally, the Group integrates low-carbon environmental protection, intelligent technology, and new technology applications, as compatible with the maintenance of product quality. During the year, the Group launched Chinese-style and intelligent technology products that have been widely appreciated by customers.

(5) Effective cost control to strengthen our advantage

Cost control is the Group's competitive advantage. Construction is still the biggest cost, after land purchase. The Group has stringently controlled construction costs without compromising the top quality of its product. By strengthening the fairness and timeliness of subcontracting, the Group continues to enhance the types and scale of centralised procurement in order to optimise construction costs. During the year, the Group has effectively controlled the costs of marketing and administration to maintain the industry's highest cost-effectiveness and position as industry leader in cost control.

Chairman's Statement (continued)

(6) **Comprehensive digital information management platform**

Modern information technology allows highly efficient communication of decision-critical information, which effectively increases management accuracy and efficiency. With the aim of building an industry-leading digital information management control system, during the year, the Group implemented 33 new or upgraded IT information systems, setting up digital information management system that is at the forefront of the industry in terms of efficiency and execution.

(7) **Expediting the development of innovative business**

In 2017, innovative businesses were established, focusing on education, elderly care, and logistics, and the Group set up an education group and an elderly-care company, and operate and manage China Overseas Logistics Technology Park located in the Binhai New Area in Tianjin. In 2017, the Group developed and built related innovative business projects in Jinan, Qingdao, Foshan, Chongqing, which are scheduled to start operation in 2018.

Human Resources

The Group's ability to nurture talented people is recognised across the industry, and is the source of the Group's professional competence and competitive edge. Through the "Sons of the Sea" and "Sea's Recruits" schemes — prestigious brands in the industry in human resource recruitment — the Group recruited elite candidates and college graduates respectively. In 2017, the Group continued to expand its operations and enter new cities. Talented people are always in great demand. During the year, the Group recruited more than 1,100 experienced elite staff and more than 400 college graduates, who will join the Group from July 2018.

The Group is committed to career and business training for its employees. During the year, more than 1,800 training sessions were organised, attended by more than 30,000 people.

The Group also operates a scientific performance appraisal system to make the best possible use of our people's capability. The Group implemented across-the-board performance appraisal system targeted to all employees so that good performance is rewarded while underperforming employees are replaced.

Further, the Group is poised to optimise the remuneration and benefits it provides, recognising their importance and will continue to improve the competitiveness of the compensation it offers. During the year, the Group enhanced the compensation structure, increasing the fixed salary proportion and extending transportation and communications allowances to all employees.

At the end of 2017, the Group was rated as high-performing or best employer in independent surveys of the Group's employees.

Corporate Governance

The Board firmly believes that its prime duty is to protect and best utilise the Group's resources to enhance value for shareholders. A high standard of corporate governance is key to improving corporate profits and facilitating sustainable development. Thus, the Group strives to improve corporate governance standards to ensure efficient operation of the Group's businesses and safeguard its assets and shareholders' interests. In 2017, the Group has consistently enhanced corporate transparency and strengthened the Group's internal controls and risk management.

▲ Pilot Training Class of "Sons of the Sea"

Chairman's Statement (continued)

Corporate Social Responsibility

The Group is committed to being a good corporate citizen. The Group has established a well-regulated, formal and branded system to discharge its social responsibilities, especially in the areas of poverty alleviation, disaster relief work, educational subventions, charitable donations and community services. In 2017, the Group continued to build Hope Schools in underdeveloped areas of mainland China, and to mobilise employees to actively participate and devote effort to their local communities, exercising corporate social responsibility.

Adhering to the environmental protection concept of "Smart Technology, Green Health", the Group continued to develop Green Buildings. During the year, the Group obtained Green Building Certification for a total of 14 projects; the green buildings so certified had a total area of 3.23 million sq m. The Group is positively recognised for its energy conservation and environmental protection practices. In 2017, the Group was again selected as a constituent of the Dow Jones Sustainability Indices (DJSI), and for eight consecutive years selected as one of the companies in the Hang Seng Corporate Sustainability Index.

▲ Familles Célèbres, Suzhou, integrates green construction design and technology

Awards

Adhering to the concept of development of "Each and Every Detail of Each and Every Project" ("過程精品 樓樓精品"), in 2017, the Group received awards from international professional institutions for a number of projects. In 2017 International Property Awards, the Group's One Blossom Cove in Guangzhou and International Community in Yantai were awarded Best Residential High-rise Development, Mid-Town in Zhuhai was awarded Best Mixed Use Development, China Overseas Plaza in Beijing was awarded Best Office Development China (5-star), and Unipark Shopping Mall in Foshan was awarded the Best Retail Development.

China Overseas Property was acknowledged as among the "Leading Brands of China Real Estate Companies" for the 14th consecutive year, ranked in the property sector with a brand value of RMB59.85 billion as "No.1 in 2017 Top 100 China Real Estate Brand Value". For 14 years in a row, leveraging its excellent performance, the Company has been voted as the number one "China Blue Chip Real Estate Developer". Due to its excellent financial management capability, the Company was ranked in top in 2017 Hong Kong — listed Mainland Real Estate Companies — "Top 10 Financial Stability" and "Top 10 Economic Value Added" categories, the Company also won "China Employer of the Year 2017". In Hong Kong and internationally, and the Company was awarded the "China Property Award of Supreme Excellence" by the Hong Kong Institute of Financial Analysts and Professional Commentators Limited, and won again in the "Corporate Governance Asia Awards".

Chairman's Statement (continued)

2. PROSPECTS

Macroeconomy

In December 2017, the United Nations published its report on the "World Economic Situation and Prospects 2018", presenting an optimistic view of the global economic situation for the two years ahead, and forecast that global economic growth would be sustained at around 3% in 2018 and 2019. In 2018, the economy in China is firmly following the operational principle of seeking stable progress toward deeper supply-side structural reform, and the Group expects steady growth in the economy, strengthening the macroeconomic environment for the development of China's property market.

Amid the big picture of a stable global economy, risks and challenges remain in 2018, including developments in trade policy, a sudden deterioration of the global financial environment, and increasing geopolitical tensions. The economy of China is also subject to a number of conflicts and issues, and the Central Government has identified "risk prevention" as the primary goal of the "three major battles" going forward. The Group will watch closely for risks and opportunities triggered by changes in China and the international economic environment. The development strategy of the Group will be adjusted reasonably as the situation changes.

Property Market

China's economy is undergoing a transformation from high-speed to high-quality, and now stands at a critical stage of that transformation toward optimised economic structure, exploring opportunities for new sources of growth. The transformation of China's economy has stepped from its high-growth mode into a new era of higher-value economic growth, and the property industry will consequently conform to this new cycle. The Group considers that in 2018 China's property market will present four salient features:

(1) **On industry: The property industry is facing profound reform.** The stance of the Central Government on the property industry has realigned from "Investment and residence are equal" to "Properties to live in but not for speculation", refocusing from "Focused on sales" to "Equal focus on rental and sales". The Central Government will no longer monopolise the supply of land, in a major supply-side reform of land and housing, and the process of implementing long-term property policies, including property taxes, has recently been greatly expedited, which will deeply impact the property market, fundamentally influencing the development and business prospects of the property market, and driving the property industry to a new cycle and remoulding of its the market structure.

(2) **On policy: Real estate control policy will not be relaxed.** Property regulation will not be eased in response to the slowdown in sales growth. mainland China's policy will accelerate financial de-leveraging and further tightening of loan credit, which will adversely impact sales and cash collections in the property industry.

(3) **On markets: Markets will become increasingly differentiated, alongside greater market concentration, together suggesting that only the strongest players in China's property market will survive.** The property market in mainland China in all tiers of cities, and different districts within each city, will become further differentiated. In 2017, commodity housing market share, by sales, held by the top ten property businesses in mainland China rose to 24.1%, from 18.4% in 2016, while the top thirty enterprises rose to 38.5%, from 28.5% in 2016. The Group believes that survival of only the strongest in the property industry in mainland China will be a significant trend in 2018. As one of the leading enterprises in China's property industry, the Group is confident that it can further expand its market share.

Chairman's Statement (continued)

(4) **On customers: Upgrading of residential housing will become a major share of the market.** The property market in mainland China has been developing for more than 20 years, and customers' expectations of quality at a residence have risen too. With a continuing rise in the supply of rental housing and commonly owned properties, there will be fewer first-time buyers for owner occupation; the demand from owners looking to upgrade their residential housing will become an important driver of the market. The Group has a strong track record of developing in the major cities and serving mainstream customers, so we confidently expect to grasp this growing demand for upgrades to residential housing.

Based on the above analysis, the Group is prudently optimistic about mainland China's property market in 2018, which is expected to rise steadily and moderately. The Group will effectively respond to all challenges, seizing opportunities to successfully advance to better and faster development.

In recent years, Hong Kong's economy has grown steadily, and supply and demand in both land and property markets have been brisk. The Group therefore continues to be optimistic about the Hong Kong market.

Core Business Strategy

Overall Business Strategy

In 2018, in response to the transformation of China's economy from high-speed to high-quality, the Group will focus on improving the quality of development projects, directing resources to residential developments, speeding up turnover and expediting the development of scale, while achieving faster growth and an equilibrium between scale and profit. The Group will also seize opportunities for profound reform of China's property industry, by increasing investment in resources and improving the operational quality of commercial properties such as office buildings, hotels, shopping centres, and long-term leased apartments. The Group will develop new business lines in education, elderly care and logistics, continuously increasing the proportion of stable revenue generated by the development and operation of property to successfully advance to better and faster development.

In 2017, the Group accelerated the pace of its land replenishment and project development, and the saleable stock of properties will increase substantially in 2018. In 2017, the Group Series of Companies (excluding COGO) had a total additional land reserve of 17.41 million sq m and the total additional land reserve for the Group Series of Companies was 19.92 million sq m.

In 2018, the Group Series of Companies expect to have saleable stock of properties amounting to approximately HK$555.0 billion to achieve faster sales growth and will strive to achieve contracted property sales of not less than HK$290.0 billion and completed projects with total area of approximately 15.95 million sq m.

Operational Initiatives

Sales as core, achieving faster growth in sales scale

The Group's sales objective for the year is to implement sales scale at a higher growth rate as core, through faster project development, getting housing stock to market more rapidly, optimising sales incentive programmes, committing "Big customer base, Better customer experience and High conversion" as sales strategy. The Group monitors the market carefully, maintaining multiple sales and marketing channels and accelerating sales turnover and cash collections to perfectly balance price and volume.

Multi-channel and diversified investment, steady and efficient increase of land reserves

Through multi-channel investment, the Group will increase land replenishment in 2018, and will continue to enlarge the scale of its investment in land procurement. This ensures the Group has the required land reserves to achieve faster growth under our three-year cycle.

In the open land market, adhering to its prudent investment strategy, the Group will focus on high-value markets in tier-one and tier-two cities with nearby rail connections, accelerate expansion in the central areas of tier-one and tier-two cities, and absorb the land reserve efficiently.

Chairman's Statement (continued)

The Group will further increase land investment in non-open markets such as redeveloping shantytowns in tier-one and tier-two cities and renovating urban areas, increasing land reserves in diversified ways.

The Group will take advantage of our healthy financial position and professional competence to seize opportunities that arise as some competitors succumb to "the survival of the strongest", capitalising asset re-organisation of property industry and actively seeking merger and acquisition opportunities to accelerate development.

In 2018, the Group will continue to increase its investment in the Hong Kong and Macau markets. By actively participating in the bidding for government land, urban renewal projects and cooperative development, the Group strives to enlarge the scale of its land reserve and its development activity in Hong Kong and Macau.

Accelerating the development of commercial property and new business to elevate the level of sustainable operating income

The Group will continue to speed up development of commercial properties, focusing on Grade A office buildings under China Overseas Series, Unipark, Unipark Shopping Mall, and star-rated hotels to enhance operational and economic benefits and create a strong commercial brand. At the end of 2017, commercial properties held by the Group Series of Companies with a total area of 5.53 million sq m were under development or to-be-developed, including 31 office buildings, 12 shopping malls, 14 hotels and 12 apartment buildings. The Group expects annual income from commercial properties to exceed HK$5 billion by 2020, and to rise to HK$10 billion by 2023.

▲ China Overseas Uni ELITE, Chengdu

The Group will seize the opportunity to support the Central Government's new emphasis on rental property development and reform of land supply to enter the market for long-term leasing of apartments and build up our brand, taking a balanced approach to the rental market, to further expand its rental income.

The Group will further accelerate its development of properties in the education, elderly-care and logistics sectors. The Group's planned new businesses include primary and secondary schools, kindergartens, extracurricular schools, outdoor camps, healthy living centres, day care centres, apartments for the elderly, nursing homes and logistics parks. Some projects will commence operation in 2018 and over the next few years, which will signal the Group's entry into new growth areas.

In 2017, the Group won "Xiong An's First Tender", and participated in the project to invest in and develop the Xiong An Citizens Service Centre in Xiong An New Area. The business model for the development of various properties and city construction in Xiong An New Area offers a benchmark for urban construction of China in future. The experience gained from the investment and development in the Xiong An New Area will facilitate the Group to become the leader in comprehensive urban development and property operations, and be able to lead and replicate such success all over the country.

Maintaining high quality development, continuous provision of quality products and services to customers

The Group is committed to the maxim of "customer first" in providing better products and better service to our customers. The Group employs a variety of means to enhance product and service quality, customer satisfaction and loyalty in order to further expand its customer base for property development, commercial property operations and new business areas.

The Group continues to invest in customer research in order to capitalise on the market demand for property upgrades. By investing more in product research, we can focus more on high-value development to serve high-value customers and those wanting to upgrade, in conjunction with environmental protection, low-carbon approaches, smart technology and new technology applications, further enhancing the value of our product in order to maintain our industry-leading profitability.

Chairman's Statement (continued)

Continuous improvement of operational efficiency and cost-competitiveness

The Group further improved project operations and management by enhancing the professional capability of our project management teams, optimising project management and decision-making efficiency, implementing holistic planning and a supply, sales and stock information management system, so that the Group can strengthen its operations management capability and facilitate development.

The Group continues to strengthen our cost control advantage. By improving construction and design standards and expanding the base and scale of the purchasing materials, our cost control will be further enhanced. The Group will continue to manage expenditure on marketing, management and financial operations to increase the cost-effectiveness that makes us the leader in cost control so that we are able to increase value for our shareholders.

Continue to build comprehensive digital information management system to improve management efficiency

The Group believes that the era of rapid growth in the property market in China has ended. In future, as the industry growth rate slows further, the business must be equipped with outstanding management ability. Thus, the Group believes that a digital information system will support the future technological and management direction, and that this is the most efficient way to improve management efficiency. The Group has now established digital information systems for progress management, cost and quality control management, design and planning management, and marketing and inventory management, representing an industry-leading digital management capability. The Group is very confident that a comprehensive digital information system will be in place by 2020, enabling the Group to enhance management efficiency and create optimal value for our shareholders by fine-tuning management control capabilities.

Enhancing personnel training, improving performance appraisal and incentive system, rolling out a share options incentive scheme

As an experienced leader in the real estate business for more than 30 years, the Group is well-placed, with the best team members and state-of-the-art management experience. In 2018, the Group expects to further improve its employee satisfaction and employee care with a wide variety of training and education opportunities to establish a coherent talent system that not only allows us to understand the spectrum of ability of people from all walks of life, and their individual career needs, but also offers an across-the-board performance appraisal system targeted to all employees that is fair and reasonable. Additionally, we continue to improve our remuneration and compensation system in order to build a team with professionalism, loyalty and efficiency.

The Group sets up a share options incentive scheme to directly reward over 400 middle and senior management of the Company, as well as managers, technical experts and related professionals who directly contribute to the Company's business development. The purpose of the share options incentive scheme is to encourage core leaders to share the achievements of the Group's innovation and the outcome of its expedited development, so as to secure better and faster development for the Group and to ensure the Group's long-term sustainable development.

Prudent financial management through efficient risk control

The Group will continue to enhance its financial management capability, adhere to prudent financial management, stick firmly to the principle of "Cash is king, receipts determine payments". The Group will continue to explore new fundraising channels and make full use of its fundraising platforms onshore and offshore. To ensure solid and plentiful funding for its business development, the Group will speed up asset turnover, improve its debt structure, and enhance its ability to protect its resources, ensuring satisfactory cash flow and prudent financial management in order to manage market risk.

Chairman's Statement (continued)

▲ Inspiration for better livings has brought about 2017's corporate vision

Corporate Vision

The Group is of the view that the China property market has ample room for development. In 2017, the Group continued to grow and expand its capacity. The Board believes that with its solid foundation, worldwide vision and exposure, correct development strategies, appropriate nationwide development strategy plus excellent brand name and financial strength, the Group will continue to enhance its competitiveness in the industry, risks were offset by continuous innovation. In 2018, the Group will achieve concurrent growth in scale and profit to secure better and faster development.

2017 marks the Group's 25th anniversary of listed status on the Hong Kong Stock Exchange. As one of the few property conglomerates to have encountered several property cycles, the Group is a leading enterprise in mainland China, Hong Kong and Macau markets. In response to the profound reform of China's property market, the Group has wisely adjusted its mission under its commitment to being an exceptional global property development corporation. The Group continues to endeavor to develop into an evergreen enterprise in the long term, and is committed to its mission of "To envision delightful space and create infinite value". The Group will continue to apply its longstanding maxim of "Exercise caution in details and implementation. Build a strong foundation to seek greater success", aiming to achieve the goal that is mutually beneficial for the Group, its shareholders, business associates, staff and the community.

APPRECIATION

Last but not least, I would like to take this opportunity to express my heartfelt appreciation to my fellow directors and the entire staff for their dedication, professionalism and determination to succeed and would like to express my gratitude to the shareholders and business associates for their support and trust.

By Order of the Board
China Overseas Land & Investment Limited
Yan Jianguo
Chairman and Chief Executive Officer

Hong Kong, 26 March 2018

Management Discussion and Analysis

One Regent, Hangzhou

Management Discussion and Analysis

OVERALL PERFORMANCE

▲ Glory Mansion, Foshan

OVERALL PERFORMANCE (CONTINUED)

The Group performed satisfactorily in 2017. The revenue of the Group was HK$166.04 billion (2016: HK$164.07 billion), representing an increase of 1.2% year-on-year. The operating profit was HK$62.87 billion (2016: HK$57.91 billion), representing an increase of 8.6% year-on-year. Profit attributable to equity shareholders of the Company increased by 10.1% to HK$40.77 billion, of which HK$4.37 billion was related to the net gain after tax arising from changes in fair value of investment properties and HK$2.14 billion was a gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition. Basic earnings per share was HK$3.72 (2016: HK$3.64). At the end of 2017, the shareholders' funds of the Company amounted to HK$265.69 billion (2016: HK$222.25 billion), representing an increase of 19.5% compared with the previous year.

In 2017, with the appreciation of RMB, the Group recorded exchange gains amounting to HK$2.14 billion (2016: exchange losses of HK$2.58 billion), of which exchange gains of HK$2.46 billion (2016: exchange losses of HK$1.27 billion) was recognised in profit and loss for the year, and exchange losses of HK$320 million (2016: HK$1.30 billion) were capitalised to properties under development.

Management Discussion and Analysis (continued)

OVERALL PERFORMANCE (CONTINUED)

PROPERTY DEVELOPMENT

During the year, the sales and profit of the Group experienced satisfactory growth. Revenue from property sales was HK$162.14 billion (2016: HK$159.89 billion), mainly related to property projects including One Kai Tak in Hong Kong, One Blossom Cove in Guangzhou, La Cite and Lane No.9 in Tianjin, The Seaside and Mangrove Bay in Zhuhai, King's Mansion and Golden Pavilion in Beijing, Paramount Jade in Jinan, The Grace in Nanjing, Glorious City in Hainan, La Cite in Taiyuan, Dragon Bay in Suzhou, The Phoenix and Lake Mansion in Foshan.

Profit from property sales (including the Group's share of profits of joint ventures and associates) amounted to HK$51.45 billion (2016: HK$46.94 billion), an increase of 9.6% compared with the previous year.

PROPERTY INVESTMENT

The rental income of the Group for the year was HK$2.45 billion (2016: HK$2.14 billion), an increase of 14.5% compared with the previous year. The rise in rental income was mainly due to higher monthly rents from new leases and renewals, and improved occupancy rates. Segment profit amounted to HK$10.0 billion, which included the gain arising from changes in fair value of investment properties amounting to HK$5.95 billion (attributable to shareholders of the Company after tax was HK$4.37 billion) and a gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition amounting to HK$2.14 billion.

OTHER OPERATIONS

Revenue from other operations amounted to HK$1.45 billion (2016: HK$2.04 billion), which was mainly related to income from Hua Yi design, property management businesses and hotel operation. Revenue from hotel operation and the operation and management of other commercial properties amounted to HK$490 million (2016: HK$460 million), an increase of 6.5% year-on-year.

MAJOR RISKS AND UNCERTAINTIES

The business and prospects of the Group mainly depend on the performance of the property market in mainland China, Hong Kong and Macau and are therefore affected by the risks associated with the property market in mainland China, Hong Kong and Macau, such as policy changes, exchange rate fluctuations, interest rate changes, adjustments of tax rules, and imbalances in supply and demand. In addition, the operation of the Group is also unavoidably affected by various industry-specific risk factors in property development, property investment and related businesses. Also, misconducts from buyers, tenants, and strategic business partners or other related factors may have negative impact to various extents on its operation. The Group has formulated accident prevention systems and policies and endeavours to avoid occurrence of unexpected financial loss, litigation or reputational damage. In future, the Group will closely monitor changes in these risks and the environment. It will also pay attention to interest rate risk and foreign exchange risk and take early measures to reduce the impact on its business.

▲ One Kai Tak (I & II), Hong Kong

Management Discussion and Analysis (continued)

OVERALL PERFORMANCE (CONTINUED)

CONCLUSION

In 2017, the core policy of "Properties to live in but not for speculation", meaning that regulatory tightening of the property market is still underway in mainland China, has contributed to a significant slowing of growth but also its stabilisation. The Central Government is regulating cities by their type and nature, and transaction levels for commodity housing have experienced stable growth in volume and prices. Prices were higher early in the year but fell away in the later months which held growth down. In 2017, the overall sales area of commodity housing grew 7.7% in comparison with the previous year, with property sales growth of 13.7%. With the concurrent implementation of regulations and market effects, growth in mainland China's property market is stabilising healthily.

Hong Kong's economy is growing steadily with a red-hot real estate market. The competitive land market is reflected in skyrocketing prices for property and land.

In 2017, the Group adhered to its prudent investment strategy, effectively replenished its land reserves, enhanced its customer research, maintained research and development and innovation, provided customer satisfaction, built a comprehensive digital operations and management platform, and fully optimised process management in order to improve quality, progress and cost control and the Group's ability to generate value. In 2017, the Group's strategic and business goals were achieved through stable and healthy operations and enhanced efficiency. Key performance indicators achieved satisfactory results, including contracted property sales value, sales proceeds collections, gross profit, operating profit, land reserves and return on shareholders' funds.

Management Discussion and Analysis (continued)

LAND RESERVE

Violet Palace, Harbin

LAND RESERVE (CONTINUED)

Annual Summary

- The Group acquired 76 parcels of land, adding a total area of 17.41 million sq m, with attributable interest of 14.63 million sq m, more than the total of land acquisitions on the open market in 2015 and 2016. 75 parcels of land were acquired in 31 cities in mainland China, a total area of 17.29 million sq m with attributable interest of 14.59 million sq m; One parcel of land was acquired in Hong Kong, a total area of 115,000 sq m with attributable interest of 38,000 sq m

- COGO, an associate of the Group, acquired 10 parcels of land in eight tier-three cities in mainland China, adding 2.51 million sq m to its land reserves

- At the end of 2017, the Group Series of Companies (excluding COGO) have a total land reserve of 63.75 million sq m (attributable interest of 53.78 million sq m). COGO has a total land reserve of 19.03 million sq m (attributable interest of 17.91 million sq m)

Management Discussion and Analysis (continued)

LAND RESERVE (CONTINUED)

In 2017, transactions on the open market for land were red-hot in mainland China. The total income from land transfer in 300 cities reached RMB4,012.3 billion, an increase of 36% year-on-year, and a total area of 3.25 billion sq m. The transacted amounts and gross floor area of land acquisitions are two benchmarks that reflect increased concentration of land acquisition among the TOP20 listed property developers.

Based on the principle of win-win cooperation, the Group commenced cooperation with Ping An Real Estate and other TOP20 real estate developers to make bids as an efficient supplement to our land acquisition, assuring the land premium rate stands at a low level.

During the year, the Group acquired 76 parcels of land in 31 cities in mainland China, including Beijing, Shanghai, Guangzhou, Nanjing, Suzhou, Wuhan, Fuzhou, Xi'an, Chongqing, Zhengzhou and Qingdao, and also Hong Kong, adding a total area of 17.41 million sq m, outperforming the investment goal of 16.0 million sq m that was set for the year.

On 28 November 2017, the Group won the tender for a 299 acre of parcel of land at the Qin Emperor Temple in Tianfu New Area in Chengdu, with a tender of RMB3,698/sq m of gross floor area, for a total price of RMB4.79 billion. That parcel of land includes a landmark architectural feature. The land transfer agreement clearly indicates that the highest point of the building will be 677 metres, and based on the present planned height, it will be one of the tallest super high-rise buildings in the world.

COGO actively acquired premium parcels of land in order to meet the future strategic needs. During the year, COGO added a land reserve of 2.51 million sq m in eight tier-three cities in mainland China.

In 2017, the Group and COGO acquired its first land parcels in Xining, Zhenjiang, Zhangzhou, Zhaoqing and Jiangmen, increasing the Group Series of Companies' market presence to 62 cities worldwide to include nearly all tier-one to tier-three cities in mainland China and several international cities.

In 2017, Hong Kong's property market performed strongly. Following the active participation of mainland property developers, the land market is extraordinarily active. The Hong Kong Special Administrative Region Government brought only 16 parcels of land to market — the least in the last seven years, however, sales value surpassed the 2016 record of HK$109.5 billion by over 60% to reach HK$180.1 billion. During the year, the Group joined forces with Sino Land Company Limited and K.Wah International Holding Limited, in an equal partnership, to win the tender for a land parcel at Kam Sheung Road on Hong Kong's West Rail at HK$8.33 billion for a total area of 115,000 sq m, in which the Group's attributable interest is 38,000 sq m.

The land parcels now hold by the Group in Hong Kong and Macau are of premium quality with total area amounting to 223,000 sq m, representing 0.4% of total land reserves, which are expected to generate attractive returns for the Group.

At the end of 2017, the Group Series of Companies (excluding COGO) had a total land reserve of 63.75 million sq m (attributable interest of 53.78 million sq m) in 38 cities in mainland China, Hong Kong and Macau. The land reserves in mainland China are relatively balanced between Hua Bei region, Hua Nan region, Western region, Northern region and Hua Dong region, with the proportion of 24.9%, 22.4%, 20.5%, 19.5% and 12.3% respectively.

Management Discussion and Analysis (continued)

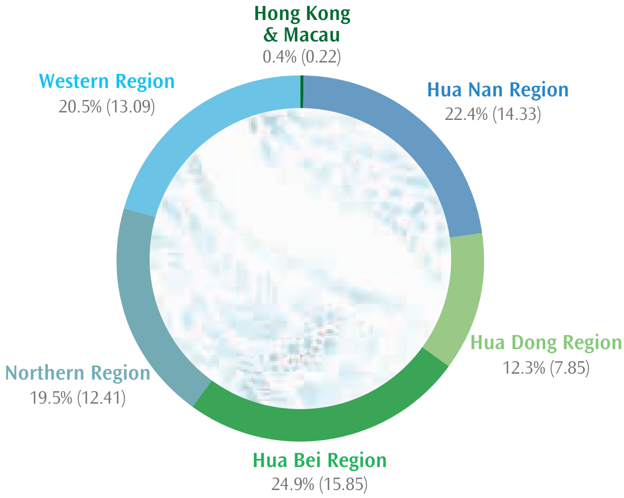
LAND RESERVE (CONTINUED)

Going forward, the Group will maintain its rational investment strategy. Based on the principle that investment risk must be under control, the Group will actively acquire land reserves by accessing open markets, strategic partnerships, mergers and acquisitions, and integrated primary and secondary land developments to reinforce and increase its market share. Also, the Group will continue to explore the profitability model of its properties, and continue to improve its operational and financing capabilities.

In the first two months of 2018, the Group acquired 15 parcels of land with a total area amounting to 4.6 million sq m in Foshan, Hangzhou, Beijing, Guangzhou, Shenzhen, Kunming, Urumqi, Shenyang, Chongqing, Wuhan, Xi'an and Jinan. Over the same period, COGO acquired one parcel of land with a total area amounting to 270,000 sq m.

BREAKDOWN OF LAND RESERVES BY REGION*

million sq m



Hua Nan Region: Shenzhen, Haikou, Wanning, Sanya, Foshan, Guangzhou, Changsha, Xiamen, Fuzhou, Zhuhai, Dongguan, Zhongshan, Zhaoqing, Zhangzhou, Jiangmen

Hua Dong Region: Suzhou, Nanjing, Ningbo, Hangzhou, Nanchang, Shanghai, Wuxi, Zhenjiang

Hua Bei Region: Beijing, Tianjin, Jinan, Taiyuan, Wuhan, Zhengzhou

Northern Region: Changchun, Qingdao, Dalian, Shenyang, Yantai, Harbin

Western Region: Chengdu, Xi'an, Chongqing, Kunming, Urumqi

* *Representing the Group Series of Companies (excluding COGO)*

Management Discussion and Analysis (continued)

LAND RESERVE (CONTINUED)

LAND RESERVES DISTRIBUTION*

Land Parcels added in 2017

Project name		Land Area ('000 sq m)	GFA ('000 sq m)
Hua Nan Region			
Zhongshan	Gangkou Town Project	48	175
Jiangmen	Pengjiang District Project#1	27	97
Jiangmen	Pengjiang District Project#2	47	172
Foshan	Shunde District Project#1	63	244
Foshan	Shunde District Project#2	19	79
Foshan	Nanhai District Project	24	90
Dongguan	Fenggang Town Project	73	218
Dongguan	Dongcheng District Project	16	55
Changsha	Yuelu District Project	148	614
Xiamen	Tongan District Project#1	34	115
Xiamen	Tongan District Project#2	38	130
Zhangzhou	Longwen District Project	41	130
Zhangzhou	Xiangcheng District Project	44	150
Fuzhou	Minhou Town Project	57	215
Fuzhou	Yingqian New District Project	40	135
Fuzhou	Cangshan District Project#1	30	100
Fuzhou	Cangshan District Project#2	27	89
Zhaoqing	Zhaoqing New District Project	91	398
Guangzhou	Liwan District Project	39	267
Sub-total		906	3,473
Hua Dong Region			
Shanghai	Songjiang District Project	139	241
Shanghai	Fengxian District Project	75	186
Nanjing	Qixia District Project	96	381
Nanjing	Yuhuatai District Project	70	330
Nanjing	Jiangning District Project	30	174
Nanjing	Pukou District Project	51	127
Nanjing	Liuhe District Project	42	110
Nanjing	Lukou New Town Project	48	85
Wuxi	Binhu District Project	60	126
Ningbo	Cixishi Mingyuehu Project	153	305
Ningbo	Jiangbei District Project	60	182
Ningbo	Yinzhou New Town Project	26	76
Zhenjiang	Huangshan Xilu Project	163	336
Suzhou	Gongye Yuan District Project	85	222
Suzhou	Wujiang District Project	70	183
Suzhou	Wuzhong District Project	15	78
Suzhou	Gongye Yuan District Project#1	40	67
Suzhou	Gongye Yuan District Project#2	33	56
Suzhou	Gongye Yuan District Project#3	33	55
Sub-total		1,289	3,320

Project name		Land Area ('000 sq m)	GFA ('000 sq m)
Hua Bei Region			
Tianjin	Jingkai District Project	37	94
Tianjin	Binhai New District Project	35	99
Tianjin	Beichen District Project	18	48
Beijing	Fangshan District Project#2	33	134
Beijing	Fengtai District Project	75	261
Beijing	Fangshan District	76	188
Beijing	Daxing District Project	41	137
Beijing	Chaoyang District Project	60	126
Wuhan	Jianghan District Project	27	191
Wuhan	Caidian District Project	35	135
Zhengzhou	Huiji District Project#1	48	312
Zhengzhou	Huiji District Project#2	42	199
Zhengzhou	Huiji District Project#3	8	38
Zhengzhou	Jingkai District Project#1	71	297
Zhengzhou	Jingkai District Project#2	52	214
Sub-total		658	2,473
Northern Region			
Dalian	Ganjingzi District Project	153	533
Changchun	Beihu Keji Kaifa District Project#1	77	246
Changchun	Beihu Keji Kaifa District Project#2	77	246
Changchun	Beihu Keji Kaifa District Project#3	75	182
Changchun	Beihu Keji Kaifa District Project#4	139	413
Changchun	Beihu Keji Kaifa District Project#5	200	517
Qingdao	Jimo City Chuangzhi New District Project	42	99
Harbin	Songbei District Project	93	259
Yantai	Fushan District Project	55	129
Shenyang	Hunnan District Project	26	76
Sub-total		937	2,700

* *Representing the Group Series of Companies (excluding COGO)*

Management Discussion and Analysis (continued)

LAND RESERVE (CONTINUED)

LAND RESERVES DISTRIBUTION* (CONTINUED)

Land Parcels added in 2017 (continued)

Project name		Land Area ('000 sq m)	GFA ('000 sq m)
Western Region			
Chengdu	Tianfu New District Project	200	1,800
Chengdu	Shuangliu District Project	101	438
Chengdu	Longquanyi District Project	66	191
Xi'an	Qujiang District Project	444	1,326
Xi'an	Qujiang District Project#1	124	228
Xi'an	Qujiang District Project#2	69	126
Xi'an	Fengcheng Sanlu Project	53	200
Kunming	Panlong District Project#1	137	247
Kunming	Panlong District Project#2	55	105
Chongqing	Yuzhong District Project	37	218
Chongqing	Jiulongpo District Project	47	189
Urumqi	Shuimogou District Project	74	264
Sub-total		1,407	5,332
Hong Kong & Macau			
Hong Kong	West Rail Kam Sheung Road Project	42	115
Sub-total		42	115
Total		5,239	17,413

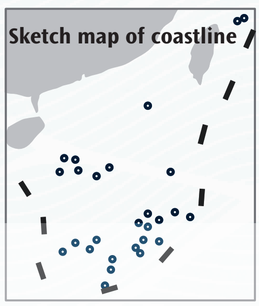
Management Discussion and Analysis (continued)

LAND RESERVE (CONTINUED)

LAND RESERVES DISTRIBUTION* (CONTINUED)

Total Land Reserves

	City	GFA ('000 sq m)
Hua Nan Region	Shenzhen (including Dongguan)	1,189
	Hainan (including Haikou, Wanning and Sanya)	1,562
	Guangzhou	4,587
	Foshan (including Zhongshan, Zhaoqing)	2,560
	Changsha	1,621
	Xiamen (including Zhangzhou)	682
	Fuzhou	1,138
	Zhuhai (including Jiangmen)	989
	Sub-total	14,328
Hua Dong Region	Suzhou (including Wuxi)	3,042
	Nanjing (including Zhenjiang)	2,048
	Ningbo	991
	Hangzhou	298
	Nanchang	603
	Shanghai	873
	Sub-total	7,855
Hua Bei Region	Beijing	3,516
	Tianjin	3,451
	Jinan	6,850
	Wuhan	504
	Zhengzhou	1,061
	Taiyuan	466
	Sub-total	15,848
Northern Region	Changchun	2,744
	Qingdao	2,688
	Dalian	1,739
	Shenyang	3,313
	Yantai	921
	Harbin	1,006
	Sub-total	12,411
Western Region	Chengdu	4,613
	Xi'an	2,574
	Chongqing	3,767
	Kunming	551
	Urumqi	1,584
	Sub-total	13,089
Hong Kong & Macau	Hong Kong	223
	Sub-total	223
	Total	63,754



* Representing the Group Series of Companies (excluding COGO)

LAND RESERVE (CONTINUED)

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT

▲ Cop City Plaza, Tianjin

PROPERTY DEVELOPMENT (CONTINUED)

Annual Summary

- The Group Series of Companies (excluding COGO) had completed projects with area of 11.35 million sq m
- The Group's revenue from property sales was HK$162.14 billion, including sales value of HK$116.21 billion on projects completed in 2017 and sales value of HK$45.93 billion on projects completed before the end of 2016
- The contracted property sales area and amount of the Group Series of Companies reached 14.46 million sq m and HK$232.07 billion respectively
- At the end of 2017, the property sales unrecognised as revenue of the Group Series of Companies (excluding COGO) amounted to HK$143.83 billion.
- The gross profit margin of property development projects remained at industry-leading level; segment profit increased by 9.6% to HK$51.45 billion
- Increased effort towards collecting sales proceeds. Total sales proceeds collections of the Group Series of Companies (excluding COGO) for the year were HK$193.84 billion. At the end of 2017, the pre-sales deposits of the Group Series of Companies (excluding COGO) were HK$100.30 billion

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Undoubtedly, property development will remain the core business of the Group in a long run. During the year, sales value from the Group's residential property set a new record high, with contracted property sales of the Group Series of Companies amounted to HK$232.07 billion, exceeded the sales target of HK$231.0 billion as adjusted upward in mid-year. Total area of property sold was 14.46 million sq m. The sales price was also promising with average selling price of HK$16,046/sq m.

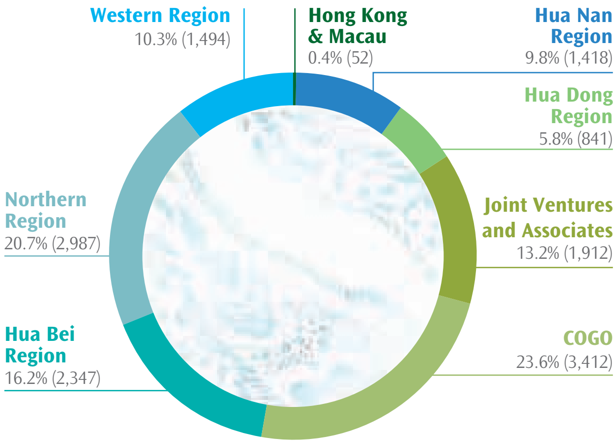
In response to market demand, the Group expedited the development of property projects. In 2017, the total area of the projects completed by the Group Series of Companies (excluding COGO) was 11.35 million sq m. The sales value of HK$116.21 billion from these projects was recognised as the Group's revenue for the year, while sales value of properties completed before the end of 2016 was HK$45.93 billion. Hence, revenue from property development of the Group was HK$162.14 billion and segment profit reached HK$51.45 billion.

At the end of the year, the Group had completed properties with costs of HK$36.58 billion, a low level for the industry. The Group Series of Companies (excluding COGO) accelerated the pace of project development, with an additional area of 19.54 million sq m was commenced to develop, an increase of 183.2% compared with previous year, creating a helpful boost to recognised revenue for 2018. The Group attaches importance to the collection of sales proceeds. The sales proceeds collections of the Group Series of Companies (excluding COGO) for the year reached HK$193.84 billion, and the pre-sales deposits were HK$100.30 billion at end of the year.

In response to market demand, opportunities for project cooperation increased significantly. At the end of 2017, the Group's interest in joint venture projects plus net amounts due from these joint ventures reached HK$16.56 billion, and the profit contribution from joint venture projects was HK$780 million, at a similar level as compared to previous year, contracted property sales was HK$39.30 billion with HK$19.90 billion recognised as revenue. All of the joint ventures have healthy financial positions. At the end of the year, only 3 projects had a total debt of HK$2.92 billion, while total cash held by the projects was HK$6.17 billion. Sales proceeds collections for the year were over HK$17.35 billion. At end of the year, pre-sales deposits received by joint venture projects amounted to HK$9.73 billion.

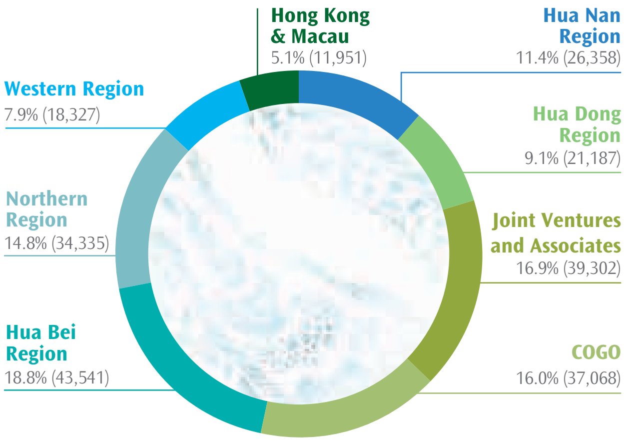
2017 CONTRACTED SALES AREA BY REGION*

'000 sq m



2017 CONTRACTED SALES AMOUNT BY REGION*

HK$ million



* *Representing the Group Series of Companies*

Management Discussion and Analysis (continued)

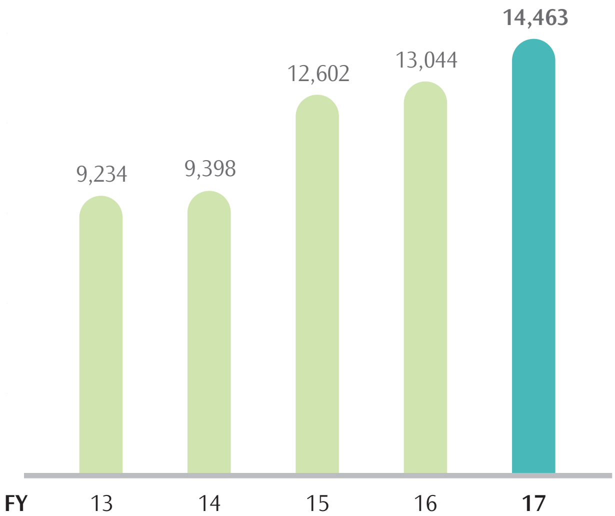
PROPERTY DEVELOPMENT (CONTINUED)

Additionally, COGO, the Group's major associate, generated net profit of HK$1.26 billion, contributed HK$480 million to the Group's profit. In early 2018, COGO raised a total of HK$4.61 billion through a rights issue, further strengthening its financial capability.

The Group is committed to the development of its property business in mainland China, and will continue to implement its strategy across the country. It offers affordable and differentiated housing in those thriving cities. Through innovation, the Group is poised to enhance its competitive advantage, and implement rapid and productive balanced growth that maintains the quality and sustainability of its business.

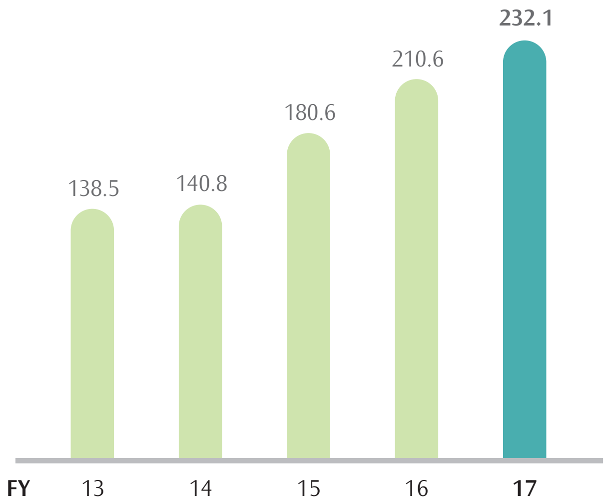
CONTRACTED SALES AREA*

'000 sq m



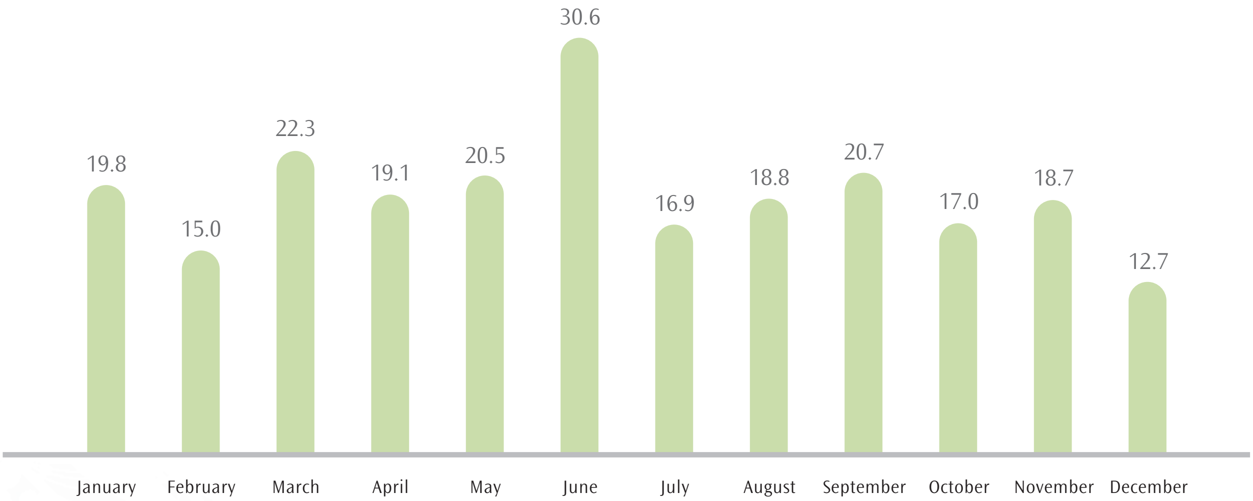
CONTRACTED SALES AMOUNT*

HK$ billion



2017 CONTRACTED SALES AMOUNT BY MONTH*

HK$ billion



* *Representing the Group Series of Companies*

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Area of Projects Completed in 2017 by Region* (unit: '000 sq m)		
	Area	
Hua Nan Region		
Fuzhou	105	
Hainan	306	
Shenzhen	214	
Dongguan	210	
Guangzhou	1,125	
Foshan	906	
Changsha	170	
Zhuhai	630	
Sub-total	**3,666**	**(32.3%)**
Hua Dong Region		
Wuxi	305	
Hangzhou	91	
Suzhou	824	
Nanjing	162	
Nanchang	60	
Shanghai	178	
Sub-total	**1,620**	**(14.3%)**
Hua Bei Region		
Beijing	553	
Tianjin	696	
Jinan	898	
Taiyuan	643	
Sub-total	**2,790**	**(24.6%)**
Northern Region		
Changchun	397	
Dalian	158	
Qingdao	604	
Shenyang	701	
Yantai	276	
Harbin	29	
Sub-total	**2,165**	**(19.1%)**
Western Region		
Urumqi	141	
Chengdu	584	
Xi'an	29	
Chongqing	278	
Sub-total	**1,032**	**(9.0%)**
Hong Kong & Macau		
Hong Kong	82	
Sub-total	**82**	**(0.7%)**
Total	**11,355**	

* *Representing the Group Series of Companies (excluding COGO)*

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction

Hua Bei Region

CITIC Villa, Beijing (100%-owned)

Location:	Sanhaizi East Road, Yizhuang, Daxing District
Project site area:	125,652 sq m
Project GFA:	209,787 sq m

CITIC Villa is located in the prime district of Liangshui River west bank in Yizhuang and adjacent to Beijing Nanhaizi Country Park, the largest wetland park in Beijing, which embraces a graceful environment. The Project is near Beijing Economic and Technological Development Area and the second airport of Beijing where full-fledged commercial and transportation facilities are in place, it is a new international town with complete facilities fully supported by Beijing government. CITIC Villa is an ultra-low density community with well-equipped facilities nearby such as primary and secondary schools, kindergartens, hospitals and large shopping district. The project is developed in three phases. Apart from Phase Three which is still under construction, Phases One and Two are completed and delivered. Phase Three is expected to be completed in 2018 and will provide five high-rises and 22 villas, a total of 211 units. Phase Three was launched for pre-sale on 27 August 2017 and 85 units had been sold with a sell-through of 73% at 31 December 2017.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

Hua Bei Region (continued)

Paramount Jade, Jinan (100%-owned)

Location:	Licheng District, Jinan
Project site area:	2,564,109 sq m
Project GFA:	7,646,120 sq m

Paramount Jade is located in Licheng District of Jinan, which is one of the key projects vigorously developed by Jinan Municipal Government in recent years. With Huashan as its core and nearby the wetland zone, the project has 1.3 million sq m commercial facilities development under its plan, aiming to construct a mid-to-high end large-scale living quarter integrating green, environmental-friendly, ecological and tourism elements. Paramount Jade is adjacent to city backbone with convenient public transportation system such as rails, lake-round public bus, community bus in place, meeting residents' transportation needs. The project is developed in three zones under 22 land parcels and they are expected to be completed in 2020, 2023 and 2024 respectively, of which, 11 land parcels are under construction, and expect to provide approximately 22,000 high-rise units, 3,300 mid-rise units, 200 multi-storey units and 300 villas respectively. 10 land parcels of 2.6 million sq m have been launched for pre-sale with a sell-through of 85%.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

Hua Bei Region (continued)

City In Park, Tianjin (100%-owned)

Location:	Jinnan District, Tianjin
Project site area:	2,476,886 sq m
Project GFA:	2,963,725 sq m

Located in Tianjia Lake eco-tourism resort, Balitai Town, Jinnan District, Tianjin. The project is situated at the south of Tianjia Lake, which is about 1.5 times in size of the West Lake in Hangzhou, a rare and broad lake view resources in Northern China with cozy humidity and fresh air and provides a more livable environment. The blueprint plan of the entire project is drawn up based on the aesthetic four kilometers bank landscape along Haihe River, complemented by several theme parks to create the first riverside living model in Tianjin. The City In Park project, comprises high-rise units, western-style houses and villas, is developed in seven phases. At present, Phases One to Three are fully inhabited with remaining four phases currently under planning and are expected to be completed by 2019 to 2022 respectively.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

Northern Region

Gate Of Peace, Shenyang (100%-owned)

Location:	Heping District, Shenyang
Project site area:	536,777 sq m
Project GFA:	2,267,408 sq m

Gate of Peace is easily accessible as it is adjacent to the intersection of Metro Line 4 and Line 9, surrounded by over 10 bus lines and is only 10-minute drive to major business zones in Shenyang. The project is developed in four land parcels, of which 3 land parcels are currently under development and the remaining is under plan. All land parcels are expected to be completed by 2019 to 2020. The project consists of high-rise, mid-rise and commercial properties, of which the parts under construction provide a total of 13,140 residential units and 678 shops. Currently, 61% of the residential units and 85% of shops have been sold.

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

Northern Region (continued)

La Cite, Changchun (100%-owned)

Location:	Changchun Economic and Technological Development Area
Project site area:	626,000 sq m
Project GFA:	1,402,376 sq m

The project is situated at Changchun Economic and Technological Development Area which enjoys the full-fledged peripheral living facilities and high-quality education and medical facilities. The project is developed in three phases, which provides a total of over 10,000 residential units and more than 1,400 shops. The project is well-equipped with 3 Kindergartens and 1 supermarket. Phases One and Two have been completed with the remaining still in progress. The whole project is expected to be completed in 2018. As at 31 December 2017, over 85% of the residential units and 80% of shops have been sold.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

Western Region

Glory City, Chengdu (100%-owned)

Location:	Tianfu New District, Chengdu
Project site area:	379,951 sq m
Project GFA:	1,837,425 sq m

Glory City is situated at the core location of Tianfu New District Ecological Area. By adopting the courtyard-style garden-building model and matching with waterscape and vegetation setup, it integrates the main corridor landscape with small courtyards, forming a ritual sense of landscape with private courtyard lifestyle. Glory City is well equipped with 6 kindergartens, 3 primary schools and 1 secondary school under its plan. It also plans to have 1 hospital, 1 retirement land parcel and 4 community service centers. At the same time, Glory City is equipped with comprehensive living facilities such as well-developed diversified zones and supporting facilities, including recreational and sports facilities, commercial complex supporting facilities and intelligent parking spots. The project is developed in four phases, of which, Phase One has been completed by end of 2017 and the remaining three phases are expected to be completed by 2018 to 2020. The project provides a total of approximately 9,901 fully furnished residential units. Its initial launch took place on 30 October 2017 and was greatly received by the market with more than 600 residential units sold out immediately.

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

Hua Dong Region

Old Westgate, Shanghai (100%-owned)

Location:	Huangpu District, Shanghai
Project site area:	68,263 sq m
Project GFA:	351,821 sq m

The Old Westgate project is at the intersection of Jianguo New Road and Zhaozhou Road in Huangpu District, Shanghai. Its surroundings are well-developed communities and various living facilities, such as Xintiandi style shopping centre, Hong Kong Square Shopping Center and other commercial complexes. The project enjoys very convenient traffic as it is close to Metro Line 8, 9, 10 and 13, and is only 3.3 kilometers to Oriental Pearl Tower and 4.6 kilometers to Shanghai Railway Station. The Old Westgate project is developed in two phases. At present, Phase One has been completed and delivered. Phase Two obtained the construction permit on 21 December 2017 and is currently under construction. It will be developed into a fully furnished residential community comprising 6 high-rises. The project will focus on providing three- to four-bedroom design houses of sizes between 139 to 220 sq m. It is expected to be completed in 2021.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

Hua Dong Region (continued)

Nanjing Blossom Land (100%-owned)

Location:	Gulou District
Project site area:	33,204 sq m
Project GFA:	111,769 sq m

Located in Xiaotao Garden of Qinhuai River, Nanjing, the project covers an area of approximately 110,000 sq m. Embraced by the most beautiful mountain, water, city and forest resources in Nanjing's main city. The project plans to build seven small high-rises along Qinhuai River and a four-room bungalow design with sizes of approximately 140 to 195 sq m and adopts the American metropolis architectural style. The whole project is expected to be completed in 2018.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

Hua Nan Region

Coast Mansion in Shenzhou Peninsula, Hainan (100%-owned)

Location:	Shenzhou Peninsula, Wanning
Project site area:	144,750 sq m
Project GFA:	256,241 sq m

Located in the "coastal resort complex", Coast Mansion is a commercial and residential land parcel. By making full use of the superb viewing and landscape value brought by within and beyond sea view and surrounding forest, greenbelt and other landscape resources, and leveraged its visual corridor, the plan is to construct the project into a first-class commercial pedestrian street and a commercial and cultural center with cultural connotation. Its transportation planning also fully demonstrates the green travel principle of "public transportation-domination, walking-friendly". Meanwhile, for its landscape, green corridors will be constructed to create a livable environment. The project is developed in three phases and is scheduled for completion between 2018 and 2019, provides a total of 1,705 units. 180 units were first launched for pre-sale in September 2017 and currently all units are sold out.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

Hua Nan Region (continued)

Foshan Lake Mansion (100%-owned)

Location:	Xiqiao Town, Nanhai District, Foshan
Project site area:	66,753 sq m
Project GFA:	170,615 sq m

Located in Tingyin Lake of Xiqiao Mountain, the National 5A Scenic Spot, Lake Mansion is located at the centre of the core of western development strategy of Nanhai District. According to the development plan of "One Hub Two Wings" of Nanhai District, the Tingyin Lake area where the project is located is the core district of constructing "Lingnan Cultural Tourism RBD". The project adopted the palace clusters of the royal classical Summer Palace as blueprint and nourished with three-way courtyard layout to construct a stylish Chinese classic garden architecture. With a 30% green development, its layout is mixed with all-season sunlight and wind and endeavours to construct a cozy living life style by the lake without excluding non-green development. The project was selected as one of the finalists of "The 12th Kinpan Awards 2017". The project was completed for sale and delivered by the end of 2017.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

Hua Nan Region (continued)

Dongguan • Cloud Hills (100%-owned)

Location:	Fenggang town, Dongguan
Project site Area:	73,071 sq.m
Project GFA:	217,853 sq.m

Located at Guanjingtou Village, Fenggang Town, Dongguan, the project enjoys a favourable location as it is situated at Da Yun New Town zone, the junction of Longgang district in Shenzhen and Fenggang district in Dongguan. It is close by the main transportation facilities in Shenzhen and is 17 km to Pingshan Station, 32 km to Shenzhen North Station, 29 km to Luohu border, 34 km to Futian District centre and 53 km to Shenzhen Baoan Airport. The project plans to include education, commercial, medical care and other facilities in Da Yun zone. Located at the first station of eastward route in Shenzhen and Fenggang, the economic circle centre of Shenzhen, Dongguan and Huizhou, it is an important stop of the "Eastward Shift Strategic Action Plan". The project is expected to be completed by the beginning of 2019.

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

Hong Kong and Macau

Taipo Lai Chee Shan Project (80%-owned)

Location:	Lai Chee Shan, Taipo
Project site area:	37,696 sq m
Project GFA:	107,100 sq m

Taipo Lai Chee Shan project is situated at Shan Tong Road, Lai Chee Shan, Taipo, with a total area of over 37,000 sq m, planning to provide more than 1,500 residential units. To accommodate the needs of different types of customers, the project will mainly offer one-bedroom to three-bedroom housing design and small amount of Simplex. It also has over 400 parking spaces. Taipo Lai Chee Shan project is currently under construction and is expected to roll out for new dwelling pre-sale in the fourth quarter of 2018, which by then will become the largest new premise site in Tai Po since the past twenty years. The project is expected to be completed by 2021.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT (CONTINUED)

Project Introduction (continued)

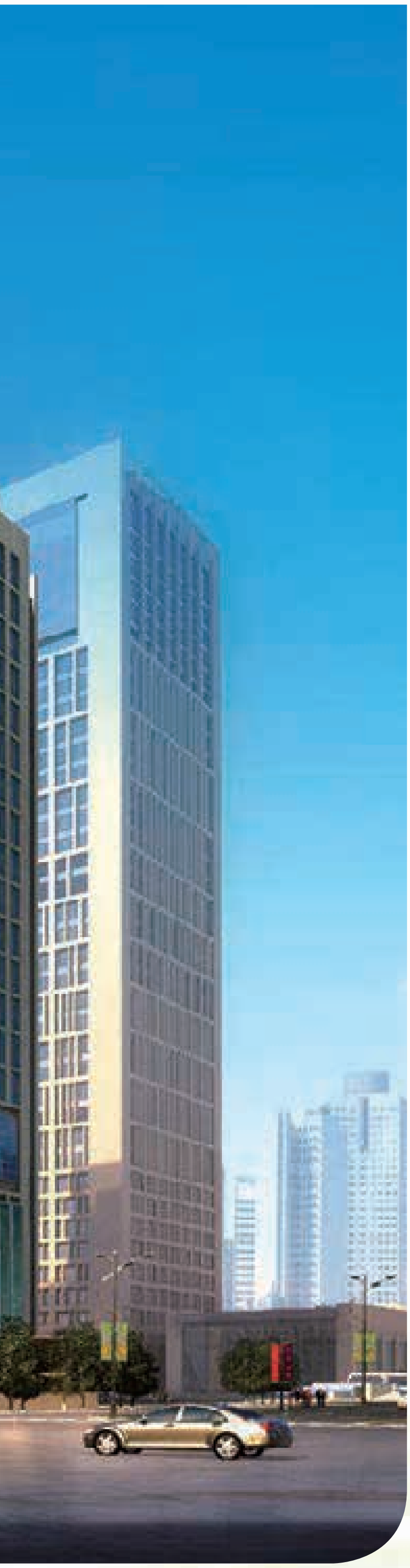
Name of property and location	Group's interest %	Intended use	City	Site Area	GFA	Progress
Paramount Jade, Licheng District	100	Residential/Commercial	Jinan	2,564,109	7,646,120	Under Construction
City In Park, Jinnan District	100	Residential	Tianjin	2,476,886	2,963,725	Under Construction
Gate of Peace, Heping District	100	Residential/Commercial	Shenyang	536,777	2,267,408	Under Construction
Glory City, Tianfu New Area	100	Residential	Chengdu	379,951	1,837,425	Under Construction
La Cite, Economic and Technological Development Area	100	Residential/Commercial	Changchun	626,000	1,402,376	Under Construction
International Community, High-tech District	100	Residential/Commercial	Yantai	451,575	1,379,651	Under Construction
One Blossom Cove, Liwan District	100	Residential/Commercial	Guangzhou	180,000	1,305,548	Under Construction
La Cite, Xinwu District	100	Residential/Commercial	Wuxi	245,185	845,310	Under Construction
Triumph City, Tianxin District	99.46	Residential/Commercial	Changsha	325,166	494,823	Under Construction
Rose Garden, Economic and Technological Development Area	100	Residential	Nanchang	161,105	376,761	Under Construction
Old Westgate, Huangpu District	100	Residential	Shanghai	68,263	351,821	Under Construction
Glory Mansion, Runzhou District	100	Residential	Zhenjiang	162,780	335,992	Under Construction
Glory Mansion, Daoli District	100	Residential/Commercial	Harbin	75,320	325,549	Under Construction
Unione, Jianxing West Road	100	Residential	Ningbo	76,789	267,921	Under Construction
Glory Mansion, Shunde District	100	Residential/Commercial	Foshan	64,264	258,979	Under Construction
Coast Mansion, Shenzhen Peninsula	100	Residential/Commercial	Wanning	144,750	256,241	Under Construction
Cloud Hills, Fenggang Town	100	Residential/Commercial	Dongguan	73,071	217,853	Under Construction
CITIC Villa, Daxing District	100	Residential	Beijing	125,652	209,787	Under Construction
Wujiang District Project, Wujiang District	100	Residential	Suzhou	69,559	182,822	Under Construction
Lake Mansion, Nanhai District	100	Residential/Commercial	Foshan	66,753	170,615	Completed
King Palace, Jin'an District	100	Residential/Commercial	Fuzhou	38,258	168,459	Under Construction
Uni park, Qianshan Yanhe Road	100	Residential/Commercial	Zhuhai	17,181	123,099	Under Construction
Blossom Land, Gulou District	100	Residential	Nanjing	33,204	111,769	Under Construction
Taipo Lai Chee Shan Project, Taipo	80	Residential	Hong Kong	37,696	107,000	Under Construction

Management Discussion and Analysis (continued)

INVESTMENT PROPERTIES

▲ No. 4 parcel at south section of Aonan Community, Beijing

Management Discussion and Analysis (continued)



INVESTMENT PROPERTIES (CONTINUED)

Annual Summary

- Annual rental income from investment properties was HK$2.45 billion
- Increase in fair value of investment properties amounted to HK$5.95 billion, mainly attributable to completed investment properties such as Beijing China Overseas Plaza, No.4 parcel at south section of Aonan Community, Beijing and Zhuhai China Overseas Plaza, as well as investment properties under construction such as Taiyuan La Cite, Nanjing Meijiatang project and Beijing Shijingshan Project JA
- The Group Series of Companies had commercial properties amounted to 3.66 million sq m at the end of 2017
- The Group Series of Companies have a total area of commercial properties of 5.53 million sq m currently under development or to be developed

Management Discussion and Analysis (continued)

INVESTMENT PROPERTIES (CONTINUED)

The Group has always attached great importance to commercial properties and is committed to the strategy of increasing the weight of its commercial properties. With the continuous development and operation of China Overseas Commercial, the Group will continuously increase its weights on commercial properties. The Group strives to develop a series of high-quality commercial properties. With many commercial properties completed in 2017, coupled with the acquisition of China Overseas International Center in Jianguo East Road, Shanghai during the year, the Group held an aggregate area of 3.66 million sq m of commercial properties in mainland China, Hong Kong, Macau and London.

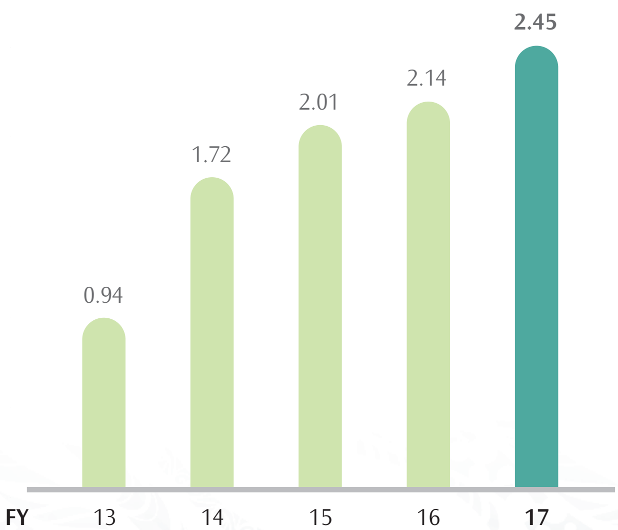
The overall occupancy rate of the Group's investment properties remained satisfactory. Total rental income for the year was HK$2.45 billion, representing a year-on-year increase of 14.5%. Segment profit amounted to HK$10.0 billion, which included an increase in fair value of investment properties of HK$5.95 billion (net gain after deferred tax attributable to shareholders was HK$4.37 billion) and a gain arising from fair value re-measurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition of HK$2.14 billion.

China Overseas Commercial continued to excel its dominance in office space dimension layout with the value of its commercial property continued to increase. At the end of 2017, a total area of 2.29 million sq m of China Overseas Grade A office space was put into operation by China Overseas Commercial, covering 12 major cities in China. Relying on the huge customer resources of China Overseas Grade A office space, China Overseas Commercial consolidated the national enterprise leasing information related to its project, enhanced strategic contact with existing tenants and achieved cross-regional interaction in leasing. With the broad capital management concept, the Group continued to evaluate and optimise the structure of tenants to achieve simultaneous enhancement of customer brand and rental income while ensuring continuous assets appreciation of office buildings. In September 2017, in the "2017 China Real Estate Brand Value Appraisal" jointly organised by China Real Estate Association and China Real Estate Appraisal, China Overseas Commercial not only won the No. 3 honour in "Best 10 of Commercial Real Estate Enterprises Brand Value" but also awarded the special featured brand enterprise of "Commercial Property Operation" brand with its outstanding commercial property management and operational service capabilities.

The Group proactively followed the sharing economic trend and market reform to propell the complete business ecosystem development, rapidly expanded the "Officezip" co-working office brand layout, established presence in economically vigorous cities such as Beijing, Shanghai, Chengdu, Jinan, Wuhan and Nanjing. In 2007, Officezip 2.0 was rolled out robustly to integrate the brand concept of "Cohesion-Connection" in transforming the business ecosystem reform from space to co-working office.

RENTAL INCOME

HK$ billion



Management Discussion and Analysis (continued)

INVESTMENT PROPERTIES (CONTINUED)

Furthermore, in September 2017, the Group signed strategic cooperation agreement with McDonald's (China). Both parties will conduct in-depth cooperation and layout in the business complexes, community businesses and office buildings segments in over 60 core cities in mainland China. By that time, the Group will leverage the brand value, expansion pace, and operation capabilities of McDonald's to further expand its integrated operations in core cities.

For shopping malls, the Group strictly abided the philosophy of "mutualism, sharing, and mutual success", strived to achieve brand mutualism to enable consumers to share experience, achieved mutual success and profitability in operation, and constantly made breakthrough development in many aspects such as investment solicitation, operation and promotion. By leveraging the three specialty product lines of "Unipark", "Uni ELITE" and "UniFANs", the "UNI Shopping Mall" accelerated it layout in cities like Beijing, Shanghai, Chengdu, Nanjing, Jinan, Changsha, Foshan, Zhuhai, Suzhou, Ningbo and Dalian, covered over ten millions customer base. For industry certification, Foshan Unipark and Zhuhai Mid-Town won the fiercely competitive "2017 APPA International Real Estate Awards", and was awarded the "Best Commercial Retail Project Award" and "Best Hybrid Project Award" respectively.

To enhance the value of property assets and raise rental price, the Group carried out a string of asset enhancement measures for certain properties during the year. The Group established an energy consumption information platform for every project it operates, collected and analysed energy consumption data of the entire life-cycle of various commercial projects, and provided precise and reasonable energy conservation management measures. It is expected that energy consumption costs in public areas of each commercial project could be saved in the platform's first launching year. In addition, to improve the business environment of Unipark Shopping Mall, Nanjing, through re-adjusting part of its design style, it had greatly escalated the brand awareness and positioning attraction of Unipark. The Group also successfully introduced high-quality tenants to enhance its property brand. In future, the Group will continue to focus on property quality, commercial facilities, soft services and tenant quality to increase the asset value of its properties to support the continuous growth in rental income.

Looking ahead, pursuant to our strategic development of the "13th Five-Year Plan", commercial properties will be our core business segment. This segment will implement well-chosen cities, well-chosen locations, lean management, innovative business format and brand operation, increase investments in commercial properties, and develop new business format to improve business operation capability comprehensively. It will also achieve breakthrough in operation and management capacities, build up first-class business team, set up business operation system featuring China Overseas' characteristics, develop commanding China Overseas Commercial products, improve business project quality and operational efficiency, establish industry-leading commercial properties brand influence, constantly increase the weighs of stable income brought by property development and operation to secure a better and faster development.

▲ Strategic corporation with McDonald's (China)

Management Discussion and Analysis (continued)

INVESTMENT PROPERTIES (CONTINUED)

COMPLETED INVESTMENT PROPERTIES

The Group's completed office buildings and commercial properties are premium assets in well-chosen locations with easy accessibility and outstanding building quality which attract large-scale domestic enterprises, multi-national companies, brands and financial institutions.

China Overseas International Center, Shanghai and Uni ELITE are located in Jianguo East Road, Huangpu District, Shanghai, with a total area of 156,000 sq m. It is a new generation of urban complexes, including international Grade A office buildings and large shopping malls and meet the various needs of surrounding residents. The project occupies the inner ring core and is inside Xintiandi business district. It occupies the prime location of the main urban business backbone development and forms a tripartite pillar together with People's Square and Lujiazui business districts. Backed by its location and traffic advantage, it enjoys multi-dimensional transportation with easy accessibility piercing the entire city. The project comprises two international Grade A office buildings of 130 meters high and adopts advanced design concepts with many high-tech smart equipment. Its ground floor to second floor, named Uni ELITE, are for commercial use and the rest are office buildings. The office building is obtained a LEED Gold standard accreditation with 6,000 sq m of green parks. It has cosy, beautiful and pleasant environment, allow tenants to enjoy a relaxing arena in addition to its spacious and bright working environment. As the commercial podium of China Overseas International Center, Uni ELITE also enjoys its prime location and shares 722 parking lots with office buildings. Unlike traditional shopping malls, Uni ELITE is an open design in first floor basement as well as two floors above ground level. Uni ELITE will bring designer customisation, creative groceries, floriculture, new concepts of sports and other latest trendy brands together to lead the re-upgrading of people and cultural living of Xintiandi business district. The project won the "2017 Magnolia Award for Construction Project in Shanghai (Municipal Quality Project)" during the year, which is well recognised within the industry.

▲ Metro Mansions, Beijing

The business complex of No. 4 parcel at south section of Aonan Community, Beijing was also completed by the end of December 2017. The project comprises two international Grade A office buildings and a large shopping mall, namely China Overseas International Center and Beijing Uni ELITE, with a total area of 128,000 sq m. It is located at the north of the central axis of Beijing, centring at Tiananmen Square and Imperial Palace. It is adjacent to Olympic Park, enjoying premier geographical location. The location has always been an important activity venue for imperial and state affairs, economic and cultural life since ancient times. Target customers of office buildings are government enterprises and global top 500 customers as well as local high-tech enterprises. Target shopping mall customers are radiated at international middle-class and urban elites.

Other investment properties including China Overseas Property Building, China Overseas Plaza and China Overseas Property Plaza in Beijing, Chengdu China Overseas International Center Phases One and Two, China Fortune Tower in Shanghai and four investment properties in London continued to generate stable rental income for the Group on the back of high occupancy rates.

Management Discussion and Analysis (continued)

INVESTMENT PROPERTIES (CONTINUED)

MAJOR COMPLETED INVESTMENT PROPERTIES

	Name of property and location	Group's interest %	City	Year of expiry of lease term	Total area sq m
(a)	China Overseas Plaza Jianguomenwai Avenue, Chaoyang District, Beijing	100	Beijing	2053	145,332
(b)	China Overseas Property Plaza West Bin He Road, Yong Ding Men, Dongcheng District, Beijing	100	Beijing	2043	87,699
(c)	No.4 parcel at south section of Aonan Community Olympic Cultural Business District, South Section of Olympic Cultural Park, Chaoyang District, Beijing	100	Beijing	2050	128,018
(d)	China Overseas Building Lao Gu Cheng Village JB parcel, Shijingshan District, Beijing	100	Beijing	2053	44,247
(e)	China Overseas Property Building 96 Taipingqiao Avenue, Xicheng District, Beijing	100	Beijing	2051	24,668
(f)	China Overseas International Center Phase One No. 199 Jincheng Road, Gaoxin District, Chengdu	100	Chengdu	2047	138,675
(g)	China Overseas International Center Phase Two No. 199 Jincheng Road, Gaoxin District, Chengdu	100	Chengdu	2047	67,903
(h)	China Overseas International Center Phase Three No. 199 Jincheng Road, Gaoxin District, Chengdu	100	Chengdu	2047	181,054
(i)	Blocks F and G, West Lot of China Overseas International Center Jiaozi Road, Gaoxin District, Chengdu	100	Chengdu	2051	143,692
(j)	Block J, Renhe No. 39 parcel of China Overseas International Center Jiaozi Road, Gaoxin District, Chengdu	100	Chengdu	2052	90,283
(k)	China Overseas Building No. 76 Yanji Road, Shibei District, Qingdao	100	Qingdao	2047	61,319
(l)	Unipark Shopping Mall Jiu Qu Zhuang Road, Shizhong District, Jinan	100	Jinan	2049	76,288
(m)	China Overseas Plaza Jiu Qu Zhuang Road, Shizhong District, Jinan	100	Jinan	2049	103,588

Management Discussion and Analysis (continued)

INVESTMENT PROPERTIES (CONTINUED)

MAJOR COMPLETED INVESTMENT PROPERTIES (CONTINUED)

	Name of property and location	Group's interest %	City	Year of expiry of lease term	Total area sq m
(n)	China Overseas Building No. 3, Furong South Road, Yanta District, Xi'an	100	Xi'an	2080	34,932
(o)	China Overseas International Center No.905A, Nandi West Road, Heping District, Shengyang	100	Shenyang	2050	114,590
(p)	Unipark Shopping Mall No.39 Qingliangmen Street, Gulou District, Nanjing	100	Nanjing	2048	131,875
(q)	China Overseas Building No.257 Hanjiang Ave, Hanyang District, Wuhan	100	Wuhan	2053	61,279
(r)	China Overseas Plaza Bai Shi Road, Xiangzhou District, Zhuhai	100	Zhuhai	2060	227,759
(s)	Unipark Shopping Mall No.18 Guinanzhong Road, Nanhai District, Foshan	100	Foshan	2052	130,598
(t)	Unipark Shopping Mall No.111 Zhongyi Two Road, Tianxin District, Changsha	100	Changsha	2046	203,758
(u)	China Fortune Tower 1568–1588, Century Avenue, Pudong New District, Shanghai	51	Shanghai	2054	95,622
(v)	China Overseas International Center Intersection of Jianguo East Road and Huangpi South Road, Huangpu District, Shanghai	100	Shanghai	2056	126,255
(w)	Uni ELITE Intersection of Jianguo East Road and Huangpi South Road, Huangpu District, Shanghai	100	Shanghai	2046	29,466
(x)	Lane No.9 Intersection of Dongting Road and Heiniucheng Road, Hexi District, Tianjin	100	Tianjin	2055	135,265
(y)	Ascott Macau R. Cidade de Braga, Nape, Macau	100	Macau	2049	15,886
(z)	One Finsbury Circus One Finsbury Circus, London, U.K.	100	London	Freehold	19,260
(aa)	61 Aldwych 61 Aldwych, London, U.K.	100	London	Freehold	16,482
(ab)	Carmelite House 50 Victoria Embankment, Carmelite House, London, U.K.	100	London	Freehold	12,447
(ac)	One South Place (The Helicon) 1 South Place, London, U.K.	100	London	Freehold	21,150

Management Discussion and Analysis (continued)

INVESTMENT PROPERTIES (CONTINUED)

INVESTMENT PROPERTIES UNDER CONSTRUCTION

Currently, the area of commercial properties under development and to be developed by the Group Series of Companies amounts to 5.53 million sq m, covering cities such as Beijing, Chengdu, Tianjin, Nanjing, Taiyuan and Zhuhai. It is expected that the total income of commercial properties of the Group will exceed HK$5 billion by 2020 and reach HK$10 billion by 2023.

Taiyuan China Overseas International Center at Wanbailin District, Taiyuan is expected to be completed by the end of 2018. The project comprises two 230-meter high Grade A office buildings and an auxiliary five-storey commercial podium. It has 53 floors above the ground and four floors of basement. The project is equipped with 50 elevators and escalators, with ancillary commercial facilities including catering, conference center and health center in plan. The project is positioned as high-end landmark office buildings in Taiyuan core district targeted at customers of large and medium enterprises in the region, Chinese and foreign enterprises that have just set foot in Taiyuan business market as well as other enterprises that have higher requirements for corporate image and office building operation.

In addition, the two Grade A office buildings, namely Tower H and Tower I, under China Overseas International Center, Chengdu are expected to be completed by the end of 2019, with a total area of approximately 170,000 sq m. The project enjoys close geographically advantageous location to the financial headquarters business zone and concentrated residential area and is adjacent to Tianfu New Town business circle. The two office buildings are 160 meters high with seamless connection with metro lines. They will be built to become the landmark international super Grade A office buildings in Chengdu together with other eight buildings of Chengdu China Overseas International Center. All office buildings are equipped with imported Kone elevators and precise floor accessible system (with highest elevator vertical speed of 6 meters), York four-pipe central air conditioning from United States (with fresh air system of 40 cubic meters per hour air output), 10 cm heightened network board for comprehensive wiring of 5A intelligent configuration. At the same time, removable floors and 24-hour cooling water are reserved for prime customers to meet their individualised top business requirements.

Other projects under development are located at prime sites with easy accessibility, all of which are going to provide premium offices and commercial spaces.

▲ China Overseas International Center Tower H, Chengdu

Management Discussion and Analysis (continued)

INVESTMENT PROPERTIES (CONTINUED)

MAJOR INVESTMENT PROPERTIES UNDER CONSTRUCTION

	Name of property and location	Group's interest %	City	Year of expected completion	Year of expiry of lease term	Total area sq m
(a)	China Overseas International Center the south junction of Yingze Bridge West and Jinci Road, Wanbailin District, Taiyuan	100	Taiyuan	2018	2053	271,289
(b)	Block H, West Lot of China Overseas International Center Jiaozi Road, Gaoxin District, Chengdu	100	Chengdu	2019	2051	84,478
(c)	Block I, Renhe No. 39 parcel of China Overseas International Center Jiaozi Road, Gaoxin District, Chengdu	100	Chengdu	2019	2052	92,597
(d)	Project JA Lao Gu Cheng Village JA parcel, Shijingshan District, Beijing	100	Beijing	2019	2055	69,770
(e)	China Overseas International Building Bin He West Road, Tanggu District, Tianjin	100	Tianjin	2019	2049	170,487
(f)	China Overseas Building Qian Shan San Tai Shi Road, Xiangzhou District, Zhuhai	100	Zhuhai	2020	2058	332,621
(g)	Meijiatang project Meijiatang, Rehe South Road, Gulou District, Nanjing	100	Nanjing	2020	2057	156,080

Management Discussion and Analysis (continued)

▲ Project JA at Shijingshan District, Beijing

Management Discussion and Analysis (continued)

OTHER PROPERTY RELATED OPERATIONS

Baoan People's Hospital Expansion, Shenzhen

OTHER PROPERTY RELATED OPERATIONS (CONTINUED)

PLANNING AND CONSTRUCTION DESIGN

Hua Yi is a company of the Group engaging in the provision of design services. It has attained Grade A Architectural Design Qualification and Grade A Urban and Rural Planning Qualification, and is one of the earliest enterprises in the industry passing the ISO9001 Quality Control System Accreditation and also the first batch of enterprises recognised as "National High-Tech Enterprises". Hua Yi gathers nearly 1,000 professional designers and possesses the capability and project experience to apply "Building Information Modelling (BIM) Design" technologies in the entire design process.

Hua Yi actively participates in various types of architectural design both domestic and abroad. Its architectural works spread nationwide with over 2,000 architectural and engineering design projects, covering urban planning, commercial complexes, residential design, office buildings construction, hotel construction, medical, recreational and sports facilities, creative industry parks, urban renovation, etc. Over 170 projects were granted about 390 excellent design awards at national level, provincial level and Shenzhen municipal level. Hua Yi was also honoured with the title of "Top 100 Cultural Creativity Enterprises in Shenzhen" and "Top 100 Famous Modern Construction Design Companies in China".

Boosted by the "Urban Planning — Architectural — double class A" platform, Hua Yi is able to expand its business scope, further enhance its core technological competitiveness and service capabilities to develop a new business model of industrialised construction, thus producing high quality and high standard architectural works which are well recognised within the industry. In 2017, new contracts signed by Hua Yi reached HK$600 million and revenue was HK$230 million.

Hotel Business

At the end of 2017, the Group series of Companies have opened 11 hotels, showing a rapid expansion in hotel assets which became an important part of China Overseas Commercial Properties. To further improve the management efficiency of its hotel assets and build a star-rated hotel product featuring China Overseas characteristics, China Overseas Hotel Management Company (中海發展酒店管理公司) was duly set up during the year, which signified the hotel business of China Overseas is striding forward its "unification, professionalism, platform-based" direction.

China Overseas star-rated hotels integrate boutique-style guest rooms, catering services, leisure facilities and premier services to enable stylish domestic and foreign business and leisure travellers to enjoy comfortable and elegant experience, thus providing high-quality hotel products and services with China Overseas features. At present, the Group's hotels have set their footprints in five major cities including Shenzhen, Beijing, Zhuhai, Macau and Wanning in Hainan, as well as tourist destinations, and have established close cooperative relationships with other internationally-renowned hotel groups. Hotels that are already open for business occupied a project scale of 300,000 sq m with over 2,200 guest rooms. In future, China Overseas hotels will further expand their presence to Xiong An New District, Hangzhou, Chengdu, Fuzhou and other major first and second tier cities in mainland China, actively propelling the development of its self-owned brand, "COLI".

Management Discussion and Analysis (continued)

OTHER PROPERTY RELATED OPERATIONS (CONTINUED)

Long-term Leased Apartment

To comply with a series of national policies in encouraging housing rental market development and seek greater development opportunities in the new real estate leasing era, the Group officially steps foot into the long-term leased apartment segment this year. Leveraged its in-depth policy understanding of "multi-suppliers, multi-channels and dual renting and purchase" and under the guidance of the Group's "13th Five-year" strategic plan, the Group successively completed its strategic layout for over 10 high-quality long-term leased apartment projects in the core first and second-tier cities such as Beijing, Shanghai, Shenzhen, Suzhou and Chengdu at the end of 2017. Currently, the above long-term leased apartments are at the stages of project positioning, in-depth design study and project construction respectively. It is expected that long-term leased apartment projects will be put into operation in 2018 and beyond.

Cultural Business

The Group will focus on the construction of urban cultural ancillary facilities, propell urban development with cultural industry and achieve a win-win situation between social and economic benefits. In 2012, the Group worked with Shenzhen government to construct and operate Shenzhen Contemporary Art Centre and Urban Planning Exhibition Hall (hereinafter referred to as "two pavilions"), using the BOT model. As a non-profit organisations of "public benefiting, academic and service-oriented", the two pavilions are one of the sixty most representative construction projects in Shenzhen's "12th Five-Year Plan" and an important carrier in terms of communication, inheritance and development of Shenzhen contemporary art and urban culture and will be developed to become the cultural landmark and city significance of Shenzhen. With a total gross floor area of about 89,000 sq m, the two pavilions adopted the design philosophy of "huge urban rock", highlighted the concept of low-carbon, environmentally-friendly and energy conservation, and apply various green construction technologies. They were awarded the Design Label with 3-star certified in China Green Building Assessment and was honourably opened on 28 December 2017.

Community Service Center

The joint entity set up among China Overseas Property Group Co., Ltd., a wholly-owned subsidiary of the Group, China Construction Third Engineering Bureau Group Co. Ltd. (中建三局集團有限公司), China Zhongjian Design Co., Limited (中國中建設計集團有限公司) and China Construction Investment Fund Management (Beijing) Co., Ltd. (中建投資基金管理（北京）有限公司) (all the three companies are wholly-owned subsidiaries of China Construction Group), won the first tender of Xiong An New District, the Xiong An Citizens Service Centre project. The project undertakes various functions of Xiong An New District, including government affairs services, planning exhibition, conference organisation and enterprise office business and is the window of Xiong An New District embracing the whole country and globally. The Group will fully devote in the integrated model of the project which covers investment, construction, operation and fund management, and fully display its role as a professional property developer and an operational service provider thereafter.

Education Business

China Overseas Property also devotes itself actively in education industry. It has rich experience in school ancillary construction and operation management, set up high quality ancillary services for kindergartens, primary and middle schools in over hundreds China Overseas communities. Currently, the Group manages and operates three schools with nearly 10,000 students. Thereafter, it will leverage the layout and high-end community resources of China Overseas in several central cities nationwide, aiming at constructing urban comprehensive community. China Overseas is gradually expanding and operating various education industries including kindergartens, extracurricular schools and K12 schools.

Elderly-care Business

China Overseas Property positively develops elderly-care business, which are categorised into three major elderly-care product types, namely urban central community, suburban garden and migrant holidays. Its project includes elderly care residence, elderly-care apartment, elderly-care nursery home, community daily care center, community health management center, CCRC community and all-aged community. The medium-long term plan for China Overseas elderly-care business is by 2025, China Overseas will set up and run various elderly care projects in first-tier and key second-tier cities with higher ageing needs and vigorous demand.

Management Discussion and Analysis (continued)

GROUP FINANCE

FINANCIAL AND TREASURY MANAGEMENT PRINCIPLES

The Group has consistently adhered to the principle of prudent financial and treasury management. In terms of financial management, the experienced professional team in the Finance Department strives to apply appropriate accounting policies and prepare consolidated financial statements to the Board and the management with timely understanding of the Group's operating performance and financial positions. In terms of treasury management, the Group implements central fund allocation by pooling its capital resources wherever practicable in order to reduce idle funds. The Group firmly believes that sales proceeds are the most solid and reliable source of working capital, and therefore puts constant efforts in expediting cash collection and enhancing its ability to protect its assets. Appropriate decisions on fund raising are pursued after taking into account of the financial positions of the Group, cash collection and business investment requirements of future operations as well as future changes in the capital market, subject to a healthy and reasonable level of borrowing and adequate financial resources.

FINANCIAL PERFORMANCE

Shareholders' interests are always the top priority for the Group as it dedicates itself to deliver value to shareholders. The Group continued to achieve satisfactory growth in sales and profit despite more severe control measures and more frequent policy regulations on the property market during the year. By expediting cash collection from sales, focusing on treasury management and using leverage appropriately, the Group managed to record satisfactory return on shareholders' funds and growth in profit against a complicated and fast changing environment and an ever-expanding operational scale.

FINANCIAL CONDITIONS

The Group has been increasing its shareholders' funds in recent years to improve its financial structure and strength, leading to greater capacity for fund raising and investment in the future. Together with the Group's stable profitability and year-on-year accumulation of profit attributable to equity shareholders, the equity attributable to shareholders of the Company increased to HK$265.69 billion at the end of 2017.

The Group's net current assets at 31 December 2017 amounted to HK$295.25 billion, representing an increase of 7.2% as compared to 2016. The Group's current ratio remained at 2.4 times, which was similar to last year. The financing costs of the Group decreased accordingly during the year, resulting in an increase in the Group's interest cover from 6.3 times for the previous year to 8.2 times this year, remaining at a higher level as compared to industry peers.

The Group's interest cover is calculated as follows:

	2017 *(HK$ million)*	2016 *(HK$ million)*
Operating profit	**62,874**	57,905
Deducting:		
Total interest income	**1,537**	2,256
	61,337	55,649
Interest expense*	**7,495**	8,821
Interest cover (times)	**8.2**	6.3

* *Before capitalisation*

Management Discussion and Analysis (continued)

GROUP FINANCE (CONTINUED)

FINANCING AND TREASURY MANAGEMENT

The Group attaches great importance to liquidity management. In addition to maintaining a reasonable level of cash, the Group is also committed to improve the debt structure continuously. During the year, the Group arranged new banking facilities amounting to HK$69.90 billion.

In 2017, the Group conducted refinancing in China to replace some of the high-interest RMB loans related to the CITIC Assets Acquisition by low-interest loans, and early repaid the high-interest trust loans which also came from the CITIC Assets Acquisition. The Group also explored innovatively in its financing model. For instance, with active support from a number of banks, Beijing North Xin An Project was granted banking facilities through the shantytown renovation project. Of which, the lending rates for certain portions are 10% below benchmark interest rate. The above measures had lowered the financial interest expenses effectively.

The Group succeeded to execute a club deal agreement with 15 leading banks in Hong Kong, raising HK$18 billion in December 2017. The borrowing cost is at industry low. This loan made the Group's corporate history as it is the Group's largest banking facility in Hong Kong involving the largest number of banks. The Group will monitor the changes in the financial market closely and consider appropriate financing approaches and opportunities carefully.

As a property developer with sound financial management, the Group requires a strong financial position. Appropriate borrowings will be made but cash flow should mainly be derived from sales. The Group reported satisfactory sales during the year, generating cash collection of HK$163.68 billion. Together with the sales proceeds from joint ventures projects amounting to HK$17.35 billion, the Group had effectively safeguarded the repayments for bank and other borrowings and all expenses, such as land premiums, construction costs and taxes, selling and distribution, administrative and finance expenses. In order to maintain scale expansion and profit growth, in addition to expediting the development and sales of property projects to increase asset turnover rate, the Group's capital expenditure will continue to increase every year, and the Group is also required to increase its net financing each year to support ongoing business development. In the past year, the Group actively participated in the land acquisitions in Hong Kong and mainland China. Despite the increase in capital expenditure, as the Group has always attached importance to cash flow management, it has maintained sufficient cash at the end of the year, so as to seize opportunities for land acquisition in early 2018. Enhancing cash flow management has always been the usual financial policy of the Company. It is expected that notwithstanding the tightening of liquidity for property industry in mainland China in 2018, the amount of cash collection will still be good.

While placing emphasis on the availability of adequate funds and diversified financing sources, the Group also strives to control the gearing level and borrowing costs. The Group's net gearing ratio was 27.9% at 31 December 2017. Interest expenses of the Group for the year amounted to HK$7.49 billion, down by 15.0% as compared to previous year. The weighted average borrowing cost (annual interest expenses divided by weighted average borrowing amount) decreased from 4.76% last year to 4.27% in 2017.

At 31 December 2017, the Group's bank and other borrowings and notes payable amounted to HK$103.58 billion (including RMB bank and other borrowings of RMB55.20 billion) and HK$74.66 billion (US$5.50 billion, EUR1.0 billion and RMB19.0 billion) respectively, with a total of HK$178.24 billion. Secured bank and other borrowings reduced from HK$1.30 billion last year to HK$0.96 billion in 2017, representing 0.5% of total borrowings.

Management Discussion and Analysis (continued)

GROUP FINANCE (CONTINUED)

Repayment schedule	2017 (HK$100 million)	2016 (HK$100 million)
Bank and other borrowings		
Within one year	133.3	344.7
More than one year, but not exceeding two years	104.6	171.0
More than two years, but not exceeding five years	770.3	419.8
More than five years	27.6	27.0
Total bank and other borrowings	1,035.8	962.5
Notes payable		
10-year (US$1.0 billion due November 2020)	77.3	77.2
5-year (US$750 million due February 2017)	–	58.1
10-year (US$700 million due November 2022)	53.9	53.9
30-year (US$300 million due November 2042)	23.0	23.0
5-year (US$500 million due October 2018)	38.7	38.6
10-year (US$500 million due October 2023)	38.5	38.5
30-year (US$500 million due October 2043)	38.4	38.4
5-year (US$550 million due May 2019)	42.6	42.5
5-year (US$250 million due May 2019)	19.4	19.4
10-year (US$450 million due May 2024)	34.7	34.6
10-year (US$250 million due May 2024)	19.7	19.8
20-year (US$500 million due June 2034)	38.4	38.4
4-year (EUR600 million due July 2019)	56.0	48.6
4-year (EUR400 million due November 2019)	37.3	32.4
6-year (RMB7.0 billion due November 2021) (i)	84.3	78.4
7-year (RMB1.0 billion due November 2022) (ii)	12.1	11.2
10-year (RMB6.0 billion due August 2026) (ii)	72.3	67.2
5-year (RMB4.0 billion due December 2020) (i)	48.0	44.4
5-year (RMB1.0 billion due January 2021) (i)	12.0	11.1
Total notes payable	746.6	775.7
Total borrowings	1,782.4	1,738.2
Deducting:		
Bank balances and cash	1,040.5	1,571.6
Net borrowings	741.9	166.6
Equity attributable to owners of the Company	2,656.9	2,222.5
Net gearing ratio (%)	27.9%	7.5%

(i) The notes payable with terms for adjustment of the interest rate and sell back option at the end of the third year from issue date

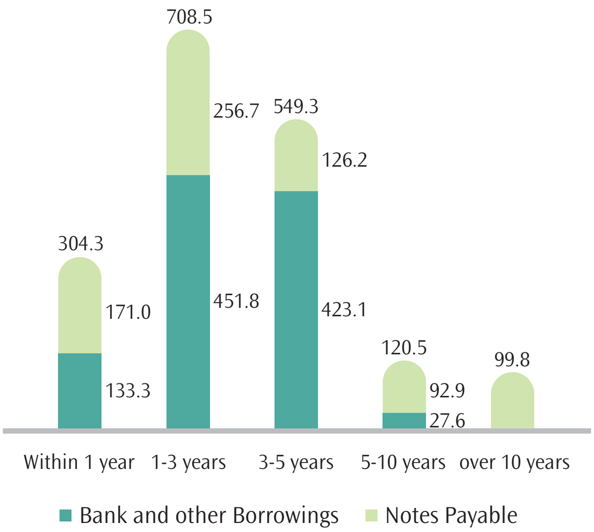
(ii) The notes payable with terms for adjustment of the interest rate and sell back option at the end of the fifth year from issue date

Management Discussion and Analysis (continued)

GROUP FINANCE (CONTINUED)

INTEREST BEARING DEBTS MATURITY PROFILE AT 31 DECEMBER 2017

HK$100 million

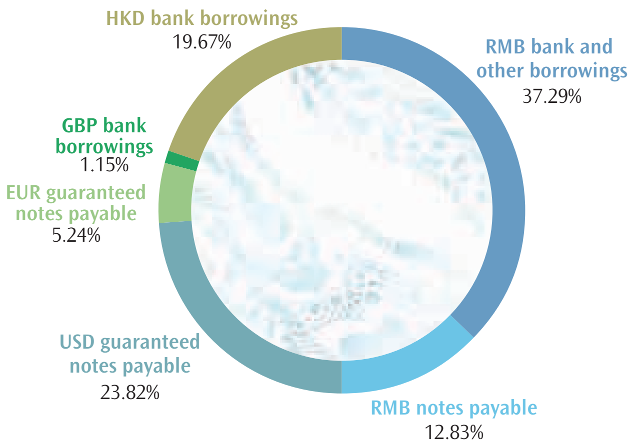


During the year, the sales proceeds collections of the Group amounted to HK$163.68 billion. Owing to the increase in capital expenditure for land acquisition, the Group's bank balances and cash decreased from HK$157.16 billion at the end of last year to HK$104.05 billion at the end of 2017, maintaining a reasonable liquidity level.

An analysis of the Group's debts and bank balances and cash at the end of the year by currency is as follows:

	Bank and other borrowings and notes payable	Bank balances and cash
HK$	19.7%	25.6%
US$	23.8%	3.1%
Sub-total	43.5%	28.7%
RMB	50.1%	70.5%
EUR	5.2%	–
GBP	1.2%	0.8%
Total	100.0%	100.0%

INTEREST BEARING DEBTS BY CURRENCY AT 31 DECEMBER 2017



Management Discussion and Analysis (continued)

GROUP FINANCE (CONTINUED)

FUND RAISING PLANS

At 31 December 2017, the Group's available funds amounted to HK$129.78 billion, comprising bank balances and cash of HK$104.05 billion and unused banking facilities of HK$25.73 billion. The Group recorded total borrowings of HK$178.24 billion, of which bank and other borrowings due within one year amounted to HK$13.33 billion (including RMB loans equivalent to HK$9.98 billion), accounting for 7.5% of its total borrowings.

The Group will continue to closely monitor the changes in the financial market by fully taking into account changes in exchange rates of US$ and RMB to further improve its debt currency structure. The proportion of RMB and non-RMB denominated debts were close to 50% each respectively. The Group will seize market opportunities, continue to invest prudently and adjust repaying part of liabilities according to actual circumstances to improve the efficiency and effectiveness of capital utilisation significantly.

CREDIT RATING

The Company is one of the few Hong Kong-listed mainland China property development companies that has been awarded investment grade ratings by Fitch, Moody's and Standard & Poor's. During the year, Moody's, Standard & Poor's and Fitch maintained the Company's rating at Baa1/stable, BBB+/stable and A-/stable respectively. The investment grade ratings of the Company are in general the highest in the domestic property development sector, reflecting market recognition of the Group's leadership in China's property market and its solid financial position. The Group has maintained effective communication with rating agencies to ensure that investors are informed about and agree with the Group's business approaches and financial and treasury management.

HEDGING ARRANGEMENTS AGAINST EXCHANGE RATE VOLATILITY

At 31 December 2017, out of its total borrowings, the Group had 51.6% of fixed-rate borrowings and 48.4% of floating-rate borrowings (with 13.6% due within one year, 38.4% due more than one year but not exceeding three years, and 48.0% due more than three years), of which, 56.5% was non-US$/non-HK$ denominated debts and 43.5% was US$/HK$ denominated debts. The market expects that US$ will still have potential interest rate increase in 2018 as well as tightening-up of liquidity and borrowing cost increase in mainland China. In general, the borrowing cost of the Group will also be affected but of no significant increase, and interest rate risk could be controllable. On the other hand, the Group's major business is property development in mainland China and its assets are mainly RMB denominated assets, with relatively few HK$ denominated assets. Such situation will not change much in the near future. The Group will make every effort to arrange matching of foreign currency denominated assets and foreign currency denominated liabilities to achieve natural hedge and reduce foreign exchange exposure caused by assets and liabilities mismatch. In future, the Group will closely monitor the change in the trend of interest rates and potential causes that may trigger significant changes in HK$, RMB and US$ exchange rates. It will prudently consider entering into currency and interest rate swap arrangements as and when appropriate to hedge against such exposure. The Group has never engaged in the dealing of any financial derivative instruments for speculative purposes.

CONTINGENT LIABILITIES

At 31 December 2017, the Group provided, in line with usual business practice, buy-back guarantees for the repayment of bank mortgage loans amounting to HK$51.14 billion granted to certain buyers of the Group's properties. The Group had counter indemnities amounting to HK$20 million for guarantees issued in respect of certain construction contracts undertaken by the Group. The Group has never incurred any loss in the past as a result of granting such guarantees.

Directors and Organisation

BOARD OF DIRECTORS

Executive Directors

Mr. YAN Jianguo
Chairman, Executive Director and Chief Executive Officer

Aged 51, graduated from Chongqing Institute of Architectural and Engineering (now known as Chongqing University) majoring in Industrial and Civil Construction in 1989 and obtained an MBA degree from Guanghua School of Management in Peking University in 2000. Mr. Yan joined 中國建築集團有限公司 (formerly known as 中國建築工程總公司) (China State Construction Engineering Corporation) in 1989 and had been seconded to the Company twice. During the year 1990 to 1992, he had been working for the Shenzhen Branch of China Overseas Property Group and had held a number of positions, including site engineer and department head. He was assigned to the Company again from 2001 to 2011 and had been Assistant General Manager of Guangzhou Branch, Deputy General Manager of Shanghai Branch, General Manager of Suzhou Branch, General Manager of Shanghai Branch, Vice Managing Director of China Overseas Property Group and President of Northern China Region. Mr. Yan had worked in 中國建築集團有限公司 (formerly known as 中國建築工程總公司) (China State Construction Engineering Corporation) from 2011 to June 2014 and had been Director of the General Office, Chief Information Officer and Assistant General Manager. Mr. Yan joined Longfor Properties Co. Ltd. in June 2014 and resigned on 5 December 2016. During the period, he had held a number of positions including Executive Director and the Senior Vice President. Mr. Yan was appointed Executive Director and Chief Executive Officer of the Company from 1 January 2017 and has become Chairman of the Company and continues to serve as Chief Executive Officer of the Company from 13 June 2017. Besides acting as the Executive Director, Chairman and Chief Executive Officer of the Company, Mr. Yan is currently Vice Chairman and President of China Overseas Holdings Limited and a director of certain of its subsidiaries, the Chairman and Non-Executive Director of China Overseas Property Holdings Limited and China Overseas Grand Oceans Group Limited, and also a director of the subsidiaries of the Company. China Overseas Holdings Limited is the substantial shareholder of the Company within the meaning of the SFO. He has about 28 years' experience in construction business, real estate investment and management.

Directors and Organisation (continued)

Mr. LUO Liang
Executive Director, Executive Vice President, Chief Operating Officer and Chief Architect
Aged 53, graduated from Huazhong University of Science and Technology, holder of Master degree, Professor Level Senior Architect. He joined the Group in 1999. Mr. Luo has been appointed as the Chief Architect of the Group and one of its subsidiaries from 18 October 2002 and 2 February 2018 respectively, the Executive Director of the Company from 22 March 2007, the Vice President of the Company in August 2009 and the Executive Vice President and Chief Operating Officer of the Company from 26 May 2017. Besides acting as the Executive Director, Executive Vice President, Chief Operating Officer and Chief Architect of the Company, Mr. Luo is currently a director of certain subsidiaries of the Group. Mr. Luo has about 29 years' architectural experience.

Mr. NIP Yun Wing
Fellow of the Hong Kong Institute of Certified Public Accountants
Executive Director and Chief Financial Officer
Aged 64, graduated from the Department of Accountancy of The Hong Kong Polytechnic (now renamed as The Hong Kong Polytechnic University) and holds a Master of Business Administration degree from The Chinese University of Hong Kong. Mr. Nip joined the Company in March 2002 and was appointed Executive Director and Deputy Financial Controller in June 2002. Mr. Nip resigned on 17 September 2004 to further his own objective. He joined China Overseas Holdings Limited from 1 August 2006 as the General Manager of Finance and Treasury Department and was seconded to the Company to look after finance and treasury matters of the Group. Mr. Nip was appointed Executive Director and the Chief Financial Officer of the Company from 17 August 2009. Besides acting as the Executive Director and Chief Financial Officer of the Company, Mr. Nip is currently a Director of certain subsidiaries of the Group. Mr. Nip has extensive experience in corporate finance, investment and management and has served as an Executive Director for several listed companies in Hong Kong. Mr. Nip is an Independent Non-Executive Director and a Member of the Audit Committee of Shenzhen International Holdings Limited. On 26 March 2018, Mr. Nip resigned as the Executive Director and the Chief Financial Officer of the Company effective from 3 April 2018 and resigned as the director of certain subsidiaries of the Group in March 2018.

Directors and Organisation (continued)

Non-Executive Director

Mr. CHANG Ying
Non-Executive Director
Aged 45, holds a Master degree from the University of New South Wales in Australia and a Master degree from Southeast University in the PRC. Mr. Chang was appointed as a Non-Executive Director of the Company from 15 September 2016. He joined CITIC Real Estate Co., Ltd. in April 2006 and was Executive Vice President of CITIC Real Estate Co., Ltd. and Managing Director and Chief Executive Officer of CITIC Real Estate (Beijing) Investment Co., Ltd., the Deputy General Manager of Strategic Development Department of CITIC Limited before 31 December 2017. He is currently the vice chairman of CITIC Urban Development & Operation Co., Ltd.. Mr. Chang has about 18 years' extensive experience in real estate and investment industry.

Independent Non-Executive Directors

Mr. LAM Kwong Siu
SBS and GBS
Independent Non-Executive Director,
Chairman of the Remuneration Committee,
Member of the Audit and Risk Management Committee,
Member of the Nomination Committee
Aged 83, joined the Board as an Independent Non-Executive Director of the Company on 30 September 2003 and has served the Company for about 14 years. Mr. Lam is also a Member of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee of the Company and has been appointed as Chairman of the Remuneration Committee of the Company on 3 August 2015. He was the Delegate of the Tenth National People's Congress. He is the Vice Chairman of BOC International Holdings Limited, the Honorary Chairman of Hong Kong Federation of Fujian Associations, the Life Honorary Chairman of Hong Kong Fukien Chamber of Commerce, the Vice Chairman of Fujian Hong Kong Economic Cooperation, the Life Honorary Chairman of the Chinese General Chamber of Commerce, the Adviser of the Hong Kong Chinese Enterprises Association, the Honorary President of the Chinese Bankers Club of Hong Kong and the Director of Bank of China International Limited. Mr. Lam is also an Independent Non-Executive Director of Fujian Holdings Limited, Xinyi Glass Holdings Limited, Yuzhou Properties Company Limited and Far East Consortium International Limited. Mr. Lam has over 55 years' continuous banking and finance experience.

Directors and Organisation (continued)

Dr. FAN HSU Lai Tai, Rita
GBM, GBS, JP
Independent Non-Executive Director,
Chairman of the Nomination Committee,
Member of the Audit and Risk Management Committee,
Member of the Remuneration Committee
Aged 72, joined the Board as an Independent Non-Executive Director of the Company on 2 February 2009 and has served the Company for about 9 years. Dr. Fan is also a Member of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee of the Company and has been appointed as Chairman of the Nomination Committee of the Company on 2 February 2009. She is one of Hong Kong's best-known public figures and has an outstanding track record of service to the community. Dr. Fan was appointed to the Legislative Council from 1983 to 1992 and was a Member of the Executive Council from 1989 to 1992. She became the President of the Provisional Legislative Council in 1997, and has since been re-elected as the President of the First, Second and Third Legislative Council. Her term of office ended on 30 September 2008. Dr. Fan has served as President of the legislature of the Hong Kong Special Administrative Region ("**HKSAR**") for 11 years.

In the lead-up to Hong Kong's reunification with China, Dr. Fan played a valuable role as a Member of the Preliminary Working Committee for the Preparatory Committee for the HKSAR from 1993 to 1995 and of the Preparatory Committee for the HKSAR from 1995 to 1997. She was elected as a Hong Kong Deputy for the Ninth to Twelfth sessions of the National People's Congress ("**NPC**") during 1998 to 2018, and served as a Member of the Eleventh and Twelfth sessions of the Standing Committee of the NPC from 2008 to 2018. Dr. Fan was elected the Chairman of the council of Endeavour Education Centre Limited from March 2016.

After graduating from St. Stephen's Girls' College, Dr. Fan studied at the University of Hong Kong, and was awarded a Bachelor degree in Science, and later on, received a Master degree in Social Science. She also received the Honorary Doctorate in Social Science from the University of Hong Kong, the City University of Hong Kong, the Hong Kong Polytechnic University, and the Education University of Hong Kong respectively, and an Honorary Doctorate in Law from the China University of Political Science and Law of the People's Republic of China. Her record of public service has been acknowledged by the HKSAR Government through the award of the Gold Bauhinia Star in 1998 and Hong Kong's top award, the Grand Bauhinia Medal, in 2007.

She is also an Independent Non-Executive Director, a Member of the Audit Committee, the Nomination Committee and the Chairman of the Remuneration Committee of COSCO SHIPPING Ports Limited (formerly known as COSCO Pacific Limited); and an Independent Non-Executive Director and the Chairman of the Remuneration Committee of The Bank of East Asia, Limited.

She served as an Independent Non-Executive Director, a Member of the Nomination Committee, the Audit Committee and the Chairman of the Remuneration Committee of China Shenhua Energy Company Limited; and an Independent Non-Executive Director, a Member of the Nomination Committee and the Chairman of the Remuneration Committee of COSCO SHIPPING Holdings Co., Ltd.* (formerly known as China COSCO Holdings Company Limited).

* *For identification purpose only*

Directors and Organisation (continued)

Mr. LI Man Bun, Brian David
MA (Cantab), MBA, FCA, JP
Independent Non-Executive Director,
Chairman of the Audit and Risk Management Committee,
Member of the Nomination Committee,
Member of the Remuneration Committee

Aged 43, joined the Board as an Independent Non-Executive Director of the Company on 19 March 2013 and was appointed Chairman and Member of the Audit and Risk Management Committee, Member of the Nomination Committee and Member of the Remuneration Committee on the same day. Mr. Li is an Executive Director & Deputy Chief Executive of The Bank of East Asia, Limited ("**BEA**"), primarily responsible for BEA's China and international businesses. Mr. Li joined BEA in 2002 and served as General Manager & Head of Wealth Management Division from July 2004 to March 2009. Mr. Li was subsequently appointed Deputy Chief Executive in April 2009 and Executive Director in August 2014.

Mr. Li is currently an Independent Non-Executive Director and Chairman of the Board Audit and Risk Committee of Towngas China Company Limited, and an Independent Non-Executive Director of Hopewell Highway Infrastructure Limited.

Mr. Li holds a number of public and honorary positions, including being a Member of the Thirteenth National Committee of the Chinese People's Political Consultative Conference, a Council Member of the Hong Kong Trade Development Council, Chairman of the Traffic Accident Victims Assistance Advisory Committee of the Government of the Hong Kong Special Administrative Region ("**HKSARG**"), a Member of the HKSARG Aviation Development and Three-runway System Advisory Committee, and a Member of Market Development Committee, Financial Services Development Council of the HKSARG.

He is a Council Member of The Hong Kong Management Association, a Member of the Hong Kong-Europe Business Council, a Member of the Hong Kong-Taiwan Business Co-operation Committee, a Committee Member of the Hong Kong Chapter, the Institute of Chartered Accountants in England and Wales (the "**ICAEW**"). He is also a Vice Chairman of the Asian Financial Cooperation Association and a Member of the Financial Consulting Committee for Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen.

Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Full Member of the Treasury Markets Association. He is also a Fellow of the ICAEW. He holds an MBA degree from Stanford University as well as MA and BA degrees from the University of Cambridge.

Directors and Organisation (continued)

SENIOR MANAGEMENT

Mr. ZHANG Yi
Vice President of China Overseas Land & Investment Ltd.
Aged 51, graduated from Tianjin University of Finance & Economics and Peking Economics University (now known as Capital University of Economics and Business) and Graduate Economics Training Center at Renmin University of China, holder of a master's degree, senior economist. He joined 中國建築集團有限公司 (formerly known as 中國建築工程總公司 (China State Construction Engineering Corporation) in 1994 and was seconded to the Group during the year. Mr. Zhang has about 24 years' management experience in public relation and investment strategy business.

Mr. QI Dapeng
Vice President of China Overseas Land & Investment Ltd.
Aged 48, graduated from Jilin University and Harbin Institute of Technology, holder of a master's degree, senior accountant. He joined the Group in 1997, and has about 26 years' experience in finance and corporate management.

Mr. GUO Yong
Vice President of China Overseas Land & Investment Ltd.
Aged 55, graduated from Chongqing Jianzhu University (now known as Chongqing University) and holds a Master of Business Administration degree from Troy State University, Alabama, USA, senior engineer. He joined the Group in 1993, and was the Executive Director of the Company during the period from March 2013 to October 2015. He is currently the Vice President of the Company. Mr. Guo has about 34 years' management experience in engineering management and corporate management.

Mr. KAN Hongbo
Vice President of China Overseas Land & Investment Ltd.
Aged 55, graduated from Hefei University of Technology and holder of a master's degree, professorate senior engineer. He joined the Group in 1995, and was the Executive Director of the Company during the period from March 2013 to October 2015. He is currently the Vice President of the Company. Mr. Kan has about 28 years' management experience in engineering management.

Mr. OUYANG Guoxin
Vice President of China Overseas Land & Investment Ltd.
Aged 50, graduated from Chongqing Normal University and is a Master of Corporate Management from Harbin University of Architecture and Engineering (now known as Harbin Institute of Technology) and a Doctor of Economics from Peking University, senior economist. He joined the Group in 1997. Mr. Ouyang has about 27 years' experience in construction and corporate management.

Mr. ZHUANG Yong
Vice President of China Overseas Land & Investment Ltd.
Aged 41, graduated from Chongqing University, holder of a master's degree, engineer. He joined the Group in 2000. Mr. Zhuang has about 18 years' experience in human resources management and corporate management.

Mr. GUO Guanghui
Vice President of China Overseas Land & Investment Ltd.
Aged 45, graduated from Nanjing University of Science & Technology, holder of a master's degree, and is a senior accountant and a non-practising member of The Chinese Institute of Certified Public Accountants. He joined the Company and its subsidiaries in 2006 and is currently the Vice President of the Company. Mr. Guo has about 23 years' management experience in corporate finance and accounting.

Mr. CHEN Deyou
Vice President of China Overseas Land & Investment Ltd.
Aged 47, graduated from Valparaiso University, holder of a master's degree, senior accountant, senior economist. He joined a subsidiary of 中國建築集團有限公司 (formerly known as 中國建築工程總公司) (China State Construction Engineering Corporation) in 1993, and joined the Group in 2017. Mr. Chen has about 25 years' management experience in corporate finance and law.

Mr. LUI Sai Kit, Eddie
Chief Financial Officer of China Overseas Land & Investment Ltd.
Aged 54, graduated from University of Ottawa, Canada, holder of a master's degree. He joined the Group in 2018. Mr. Lui has about 31 years' management experience in corporate finance.

Directors and Organisation (continued)

Ms. XU Xin

Assistant President of China Overseas Land & Investment Ltd.

Aged 49, graduated from Beijing Institute of Civil Engineering and Architecture (now known as Beijing University of Civil Engineering and Architecture), holder of a Master of Business Administration degree from Cheung Kong Graduate School of Business, senior engineer. She joined a subsidiary of 中國建築集團有限公司 (formerly known as 中國建築工程總公司) (China State Construction Engineering Corporation) in 1995, and joined the Group in 2014. Ms. Xu has about 27 years' experience in construction, engineering and corporate management.

Mr. CHEN Lie

Assistant President of China Overseas Land & Investment Ltd.

Aged 48, graduated from Harbin Institute of Technology, senior engineer. He joined 中國建築集團有限公司 (formerly known as 中國建築工程總公司) (China State Construction Engineering Corporation) in 1994, and joined the Group in 2014. Mr. Chen has about 24 years' experience in engineering management and corporate management. Mr. Chen resigned as the Assistant President of the Company in February 2018.

Mr. XU Wendong

Assistant President of China Overseas Land & Investment Ltd.

Aged 51, graduated from Harbin Institute of Civil Engineering and Architecture (now known as Harbin Institute of Technology), architect. He joined the Group in 2001. Mr. Xu has about 30 years' experience in architectural design and corporate management.

Mr. LIU Xianyong

Assistant President of China Overseas Land & Investment Ltd.

Aged 46, graduated from Harbin University of Architecture and Engineering (now known as Harbin Institute of Technology), senior economist. He joined the Group in 1995. Mr. Liu has about 23 years' experience in marketing and corporate management.

Mr. HAN Chunlin

Assistant President of China Overseas Land & Investment Ltd.

Aged 52, graduated from Shenyang Architectural and Civil Engineering Institute (now known as Shenyang Jianzhu University), senior engineer. Mr. Han joined 中國建築集團有限公司 (formerly known as 中國建築工程總公司) (China State Construction Engineering Corporation) in 1998, joined the Group in 2002. Mr. Han has about 29 years' management experience in construction and corporate management.

Mr. XU Feng

Assistant President of China Overseas Land & Investment Ltd.

Aged 42, graduated from Zhejiang University, senior engineer. Mr. Xu joined 中國建築集團有限公司 (formerly known as 中國建築工程總公司) (China State Construction Engineering Corporation) in 1999, joined the Group in 2004. Mr. Xu has about 19 years' experience in human resources management and corporate management.

Mr. ZHANG Zhichao

Assistant President of China Overseas Land & Investment Ltd.

Aged 39, graduated from Southeast University. He joined the Group in 2001. Mr. Zhang has about 17 years' management experience in construction and corporate management.

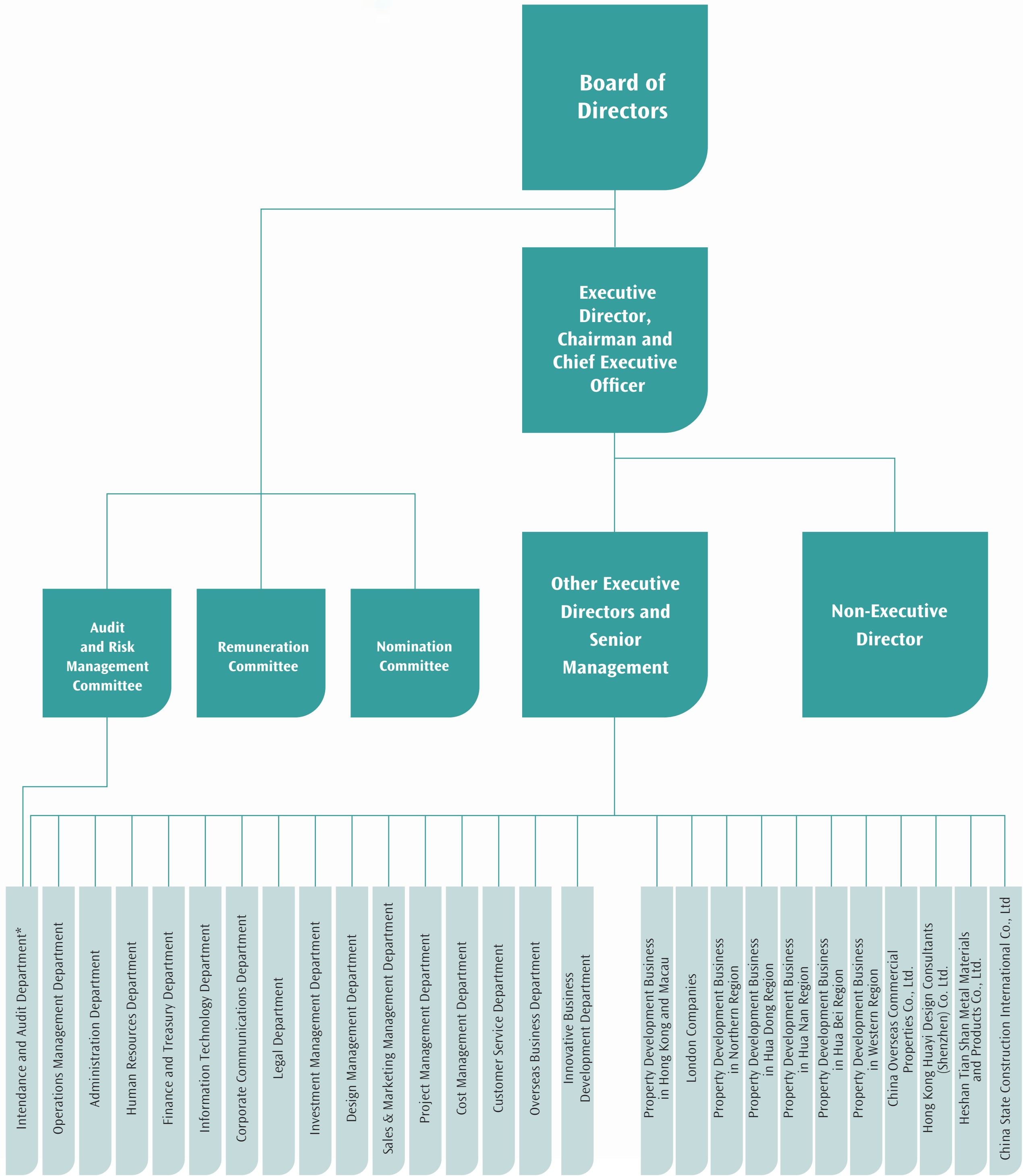
Mr. LI Qi

Assistant President of China Overseas Land & Investment Ltd.

Aged 47, graduated from Southeast University, and holds an Executive Master of Business Administration degree from Tsinghua University, professorate senior architect. He joined the Group in 2017. Mr. Li has about 25 years' experience in architectural design and corporate management.

Directors and Organisation (continued)

ORGANISATION CHART OF CHINA OVERSEAS LAND & INVESTMENT LIMITED



* *Risk Management Team is set under Intendance and Audit Department.*

Corporate Social Responsibility

▲ Summer Camp 2017 in Sun Yatsen Mausoleum, Nanjing

Corporate Social Responsibility

The Group abides closely its corporate practice and integrity philosophy, continue to fulfill its corporate social responsibility with an aim to maximise and optimise the effectiveness of its corporate citizenship initiatives in the operational, social and environmental areas. During the year, the Group, as always, fulfilled its corporate social responsibility in four major aspects, including customer service, staff development and personal growth, environmental protection, and community welfare.

The Group continued to refer to the internationally recognised Sustainability Reporting Guidelines (G4 Guidelines) in reporting its work on corporate responsibility, managing and disclosing key defined corporate social responsibility issues after consulting with its stakeholders. Moreover, the Group has continued to be a constituent member of the "Hang Seng Corporate Sustainability Index Series" and the "Hang Seng (Mainland and HK) Corporate Sustainability Index" since their launch in 2010, underlining its top-notch performance in environmental protection, social responsibility and corporate governance.

CUSTOMER SERVICE

Customers serve as the foundation of the corporate sustainable development and the source of motivation for product innovations. The Group continues to apply a strategy to satisfy the needs of market and customers by delivering quality products and win market reputation through distinctive product characteristics and delicacy management. Moreover, a whole-processing and multi-dimensional customer service network has been established to provide professional and personalised services, such as handling of product defects, pre-occupation quality inspection, maintenance and inspection within one year after occupation, property quality inspection and other dedicated services, to exercise quality control over products and services, thereby winning customers' long-term loyalty to the brand of China Overseas Property.

During the year, to push forward our overall service backed by "risk control" and "satisfaction improvement" approach. For risk control, the Group's customer service department formulates "specific customer service plan" to run through the project development span, carries out periodic check and examines risks according to project development progress, pursues achieving problem solving rate of not less than 98% when premises are delivered. Meanwhile, according to project development progress, customer service department regularly sends information regarding project progress to owners who have yet to collect properties and organises construction site visits for owners to know the design concepts of house type

▲ Pre-occupation quality inspection

and community scenery from project designers. For satisfaction improvement, customer service department launches the "Door Knocking Plan" and "Cleaning Up Legacy Plan" jointly with local companies and departments in headquarter. The Door Knocking Plan focuses on taking advice and suggestions from owners through visiting them, so as to remedy deficiencies in products and services. Following the activation of the "Cleaning Up Legacy Plan", the facilities within projects which have been delivered for many years throughout the country (including some projects that the warranty periods have been expired) were gradually renovated and upgraded. Budgeted fund was also set up for improving projects quality. All these create a better community environment for the owners.

For residential properties business, the Group insists on providing customer services throughout the entire process from positioning, planning, construction, sales, occupation and after sales property services. This enables the Group to be involved in all business procedures of property development operation from the customers' perspective, and keeps improving products and services in the benefits of customers. During the year, the Group has upgraded its customer services by carrying out customer relationship management in a systematic and sophisticated manner. For commercial properties, the Group holds the operational service concept of "quality operation". Following the tendency of commercial service internetisation, the Group launched three value-added service plans, namely "corporate development service", "corporate management service" and 'staff living service" through the "China Overseas cloud business service", in which they provide co-working offices, conference room renting and conference services for settled enterprises and endeavour offering incubation service and caring to small and medium enterprises.

Corporate Social Responsibility (continued)

▲ China Overseas Photography Competition – "Cheers Mate!", a youth oriented CSR programme, Zhuhai

Under the "customer-oriented" operation concept, China Overseas Property Club ("COPC") was established by the Group in the early years. The Group continues to expand the number of franchise merchants to provide property owners with value-added services such as purchase benefits and group purchase bazaars. A variety of activities including community cultural activities, charitable events, recreational and sports activities are organised to enhance the property owners' living experience and sense of belonging to China Overseas communities. The products and services of China Overseas Property are improved and optimised on an ongoing basis by collecting feedback from customers and members. During the year, the number of new COPC's members increased by almost 30%. COPC organised "Happier Life, Happier Bliss" large-scale fruit-picking activity, China Overseas Photography Competition, Little Owners Experience Summer Camp, "China Overseas Greeting Teachers" activity on Teacher's Day and other large-scale community activities for owners to celebrate festive seasons such as Chung Yeung Festival and Mid-Autumn Festival with enthusiastic participation and response from owners.

STAFF DEVELOPMENT AND PERSONAL GROWTH

The Group has always regarded talent strategy as its most important strategy and human resources as its most precious resources. The Group had a total of around 5,600 employees. In light of the current business environment and development stage, the Group is firmly keeping an eye on "organisation" and "people", the two core management elements in human resources to meet the medium to long-term development strategy and annual business objectives, by strengthening system and process buildup and striving to ensure the Company's scale and profitability could be enhanced continuously and achieve strategic objectives steadily.

First-class business requires first-class talents. The Group is building a specialised staff development path based on business needs that caters for both job qualification requirements and staff sustainability to further enhance development capacity on employee differentiation at different levels, at different career development stages, and in different business lines to improve the quality of staff training continuously.

During the year, through the "bringing in and going out" strategy, the Group has developed an all-round training system covering all staff and by level. It promotes intensive development in business and enhancement in management, thereby developing an open China Overseas, a learning China Overseas and an innovative China Overseas.

▲ Little Owners Summer Experience Camp

Corporate Social Responsibility (continued)

The Group upholds "people-oriented" philosophy and organises a variety of interest groups

During the year, the Group conducted approximately 1,800 training courses with a total attendance of over 30,000 person-times. Offices at different levels organised a series of training activities in line with their respective business situations, staff needs and team building. During the year, in response to the "bringing in and going out" strategy, the Group focused its training efforts on management, provided five special trainings on Motivation Workshop for senior management, and actively provided opportunities for senior management to communicate with various sectors and provide benchmarking study to broaden their horizons. Under the training brand of "E-learning Academy of China Overseas Property", the subsidiaries also organised various thematic and series training courses during the year to develop more key staff.

During the year, the Group expanded its recruitment channel, built a scientific talent assessment mechanism, and strengthened recruitment management continuously to further enhance the continuity and sustainability of its business. Meanwhile, the Group also intensified talents building in campus recruitment and social recruitment to improve the precision and foreseeability for talents attraction.

For campus recruitment, the Group launched its first study programme in 2017, strengthened school and enterprise partnership, organised campus-based China Overseas Camp and corporate campus club to recruit high-potential students as campers, and arranged internship for them in the Company. It acted as a mean to screen out pool of potential talents in advance to the "Sons of the Sea" recruitment. In 2018, the "Sons of the Sea Recruitment Scheme" will be launched in full swing at Tsinghua University in September. It plans to connect 12 websites nationwide, relaunch offline lectures, and enhances the employer brand of "Sons of the Sea" recognition and coverage by using an innovative new media promotion methods and attracts more qualified personnel. The scale of this "Sons of the Sea Recruitment Scheme" will set a new record high. For social recruitment, the Group achieved dual improvement in "quality and quantity". During the year, the Group firstly launched a centralized Sea's Recruits scheme regionally to replenish matured talents quickly to meet the rapid business growth.

During the year, over 1,000 talents were recruited for different business lines of the Group, thus making sure adequate and quality manpower is available for the Group's rapid business growth. With its outstanding image as an employer and recruitment brand, the Group received numerous honors and awards during the year, like the "China Best Employer Award 2017".

Operations training workshop

Corporate Social Responsibility (continued)

▲ Energy saving promotion

▲ Shenzhen Contemporary Art Centre and Urban Planning Exhibition Hall

▲ China Overseas International Center, Shanghai (LEED, Gold)

The Group continues to apply the "people-oriented" philosophy to its management and services, placing emphasis on building a simple and harmonious interpersonal relationship and corporate atmosphere. It also helps staff to achieve work and life balance, by organising interest groups for badminton, basketball, football, tennis, swimming and physical fitness which staffs' families are also welcomed to participate. The Group strives to boost the sense of belonging among staff as well as effectively reduces the staff turnover rate.

The Group respects the social values of its employees. Positive incentives are offered to employees in terms of cultural, career and work rewards through the building of a corporate culture, continuous expansion of a growth platform and timely review of remuneration and benefits. While helping staff to manage their visions and make their career plans, the Group also organised various social charitable activities, to lead both the Company and staff to contribute to the society.

ENVIRONMENTAL PROTECTION PHILOSOPHY

By adhering to the environmental protection philosophy of "smart technology, green and health", China Overseas Property has been committed to practicing and innovating green construction technology and advocates low-cost and high-efficient environmental-friendly and energy-saving technology. It has implemented low-carbon community and urban construction by relying on the products developed over years for green construction practice and promotion.

By taking advantage of its own professional strengths, adopting the research method of "using what we have learned from practice and serve practically", using green construction technology in the full life cycle of property project development and taking comprehensive consideration of land optimisation, energy and water conservation, material economisation, indoor environment, construction and operation, China Overseas Property strives to improve the utilisation efficiency of land resources and building materials, control the impact of the Company's operation and project development on the environment to lead the practice of green construction in the industry.

The Group is in compliance with and strives to reach a higher standard of relevant environmental protection laws. China Overseas Property is the pioneer to turn the green property research results into technological standards and system implemented by enterprises in property industry. Based on Evaluation Standard of Green Building and American LEED evaluation criteria, China Overseas Property have made the

Corporate Social Responsibility (continued)

Low-carbon day

green building enterprise standard of China Overseas which were dominated by "Green Building Characteristics Investigation Report", "Green Building Implementation Method" and "Technical Guidance for Green Building", covering program control management, cost control management, external resources platform and specific technical guidance, with an aim to practice the environmental protection philosophy of "smart technology, green and health".

In 2017, Shenzhen Contemporary Art Centre and Urban Planning Exhibition Hall, which the Group worked with Shenzhen government to construct and operate using the BOT model, were honoured the "2016–2017 China Construction and Engineering Luban Award (National Quality Projects)", which is the highest award for outstanding quality in engineering work in the construction industry in the PRC. This honour affirmed that the Group's project quality and quality control have reached the first class standard in China. During the year, the Group also received several provincial prizes, including one head office technology award and three other provincial-level technology awards.

During the year, 14 projects of the Group Series of Companies were awarded green construction certificates, including 5 "Certificate of Green Building Design Label (One-Star)", 3 "Certificate of Green Building Design Label (Two-Star)" and 5 provincial and municipal green building design labels. Total green construction covered an area of approximately 3,230,000 sq m. By the end of 2017, The Group Series of Companies were awarded 68 green construction certificates covering a total area of 12,460,000 sq m. The Group Series of Companies are in the progress of applying for the green construction certificates for 49 of its projects, covering a total area of 11,330,000 sq m.

China Overseas Property actively develops new concepts of green construction and implements industrialisation construction and adopts five major core industrialised construction technologies of "standardised design, industrialised production, aluminum mold assembly construction, integrated decoration, and BIM technology information management" to improve efficiency, advocate materials recycling, reduce on-site wet works and limit pollution sources. China Overseas Property has 30 industrialised construction projects under construction in total, with the area up to 3,580,000 sq m, covering Beijing, Shanghai, Shenzhen, Chengdu, Nanjing, Shenyang, Jinan, Hefei and other cities.

During the year, the Group promoted the energy saving propaganda of "energy conservation starts from me, green sharing" in offices at all levels as well as its sales offices, and actively encouraged all staff to take public transport (such as metro and buses) or shared bicycles for green travel. Meanwhile, environmental protection activities themed on low-carbon day were held by occupational development seminars in over 10 local companies.

Corporate Social Responsibility (continued)

PUBLIC WELFARE ACTIVITIES

The sustainable and long-term development of an enterprise entails the support from the community. The Group is dedicated to contribute the community in the areas where it has business presence by participating in the development and construction of community and to foster harmonious and sustainable community through diversified community activities. The Group focuses on three key areas of educational development, green and environmental protection as well as poverty alleviation and disaster relief under its corporate social responsibility strategy and charity brand of (海無涯•愛無疆) ("The sea has no limit and love has no boundary").

As to youth education, the Group continued to contribute charitable donations to the construction of China Overseas Hope Schools. Adhering to the Group philosophy of building "eternal and excellent products", all Hope Schools built by the Group are of high specification and high quality, thus the local Hope School typically offers the best hardware in its vicinity. In September 2017, Jiangkou Hope School, the 12th Hope School donated by the Group in the educationally less-developed area in mainland China, started its construction and is expected to be completed and to be opened in May 2018 and September 2018, respectively. The Group continues to follow up the development of the schools after their establishment, sponsors student exchange activities and grants scholarships in a hope of giving more support to the future of children by leveraging its resources.

▲ CSR initiative "The sea has no limit and love has no boundary"

Moreover, the Group's employees are mobilised to actively participate the social welfare activities in local cities to carry out corporate social responsibility into action. For many years, the Group regularly participated in Walks for the Millions held by Hong Kong Community Chest and other charitable events. The Group also participated in the Earth Hour event during the year by lining up its Grade A office buildings and shopping centers in nine domestic cities across China to support the event in an environmental and charitable way as part of its continuous efforts to contribute to the community.

In addition, for the two natural disasters occurred during the year, Changsha flooding and Zhuhai typhoon, the Group voluntarily formed disasters relief teams to help minimise losses caused by the natural disasters. To actively practice its corporate citizenship responsibilities, the Group donated RMB1 million to support post-disaster reconstruction of Changsha. The Group received extensive praise from relevant government departments and all sectors of the society for its assumption of responsibilities and affectionate care as state-owned enterprise that it demonstrated in the typhoon and flood relief as well as disastrous area reconstruction.

Corporate Social Responsibility (continued)

JANUARY

The Group continued to organise more than 100 colleagues and their family members to participate the "Walks for Millions (Hong Kong Island and Kowloon)".

"Walks for Millions" in Hong Kong

AHA first aid training

MARCH

In the first quarter, the Group held a large-scale heart-warming caring charitable activity of "setting off from heart" and carried out "looking for AED around you", "safeguarding children's security", Hope Primary School's crowd-funding, security escorts for Wuxi marathon race rendered by the "urban heroes" first aid teams of China Overseas Commercial Properties and other distinctive charitable events in 12 cities nationwide by focusing on AHA first aid training. The Group was considered the first enterprise in the industry to care about health conditions of tenants and employees, and build a life safety net in commercial buildings with nearly 1,000 participants.

APRIL

On the 10th International Autism Awareness Day, the Group held the Sixth Autistic Children's Art Exhibition and Talents Show in Nanhai District with the theme "Colourful World, Walk for Love" in Foshan Unipark, highlighting concerns on people's value and contributed to the environment, consumers and society.

"Colourful World, Walk for Love" in Foshan Unipark

JUNE

The Group propagated energy conservation on "energy conservation from me and green sharing" at offices and sales offices and encouraged all staff to take public transportation or share bicycles for green travel on National Low-carbon Day. Meanwhile, environmental protection activities themed on low-carbon day were held by occupational development seminars in over 10 local companies.

Corporate Social Responsibility (continued)

JULY

Our local company in Changsha set up a flood-fighting team, devoted to combating the flood at front line in Changsha. At the same time, the Company set up many rescue teams to handle safeguarding works for projects in progress and those delivered to communities. Personnel at all levels are 24 hours on call to safeguard the lives, properties and safety of owners and strived to minimise losses to the communities and owners caused by the flood.

AUGUST

"Hato", the strong typhoon hit Zhuhai, Guangdong directly. The Group's branch office in Zhuhai mobilized all staff to make deployment in advance, and established typhoon disastrous relief groups and voluntary rescue teams to take part in purging garbage on the streets, delivering provisions and other relief works, receiving affirmation and praise from local government.

SEPTEMBER

The signing of project commencement ceremony of sponsored China Overseas Jiangkou Hope Primary School was held in Jiangkou Town, Ganxian District, Ganzhou.

The signing and work commencement ceremony of China Overseas Jiangkou Hope Primary School

DECEMBER

Mid-Autumn Festival family feast

In the fourth quarter, with "Improving Customer Satisfaction" as the main theme, companies at all levels of the Group actively carried out Door Knocking Plan, Mid-Autumn Festival family feast, owners' appreciation party, owners' group dance performance activities, "Greater Bay Area· Small Citizens", which was a held charitable summer camp held in Hong Kong, and other activities for caring about, serving and satisfying our customers.

Accolades & Awards 2017

Award	Organiser
Overall Performance	
China Top 10 Real Estate CEO of the Year 2017 — Mr. Yan Jianguo	Sina Finance Shanghai Securities News China Entrepreneur Magazine Leju Holdings Limited China Real Estate Association
2017 China Top 100 Real Estate Developers: — Top 10 Overall Performance — Top 10 Sizable Scale — Top 10 Financial Stability — Top 10 Profitability	Enterprise Research Institute of Development Research Center of State Council of PRC Institute of Real Estate Studies of Tsinghua University China Index Academy
2017 Hong Kong-listed Mainland Real Estate Companies: — No.1 in Top 10 Financial Stability — No.1 in Top 10 Economic Value Added	Enterprise Research Institute of Development Research Center of State Council of PRC Institute of Real Estate Studies of Tsinghua University China Index Academy
2017 China Real Estate Top 500: — Top 10 Overall Performance — Top 10 Operational Efficiency — Top 10 City Coverage	China Real Estate Association China Real Estate Appraisal

Award	Organiser
Overall Performance (continued)	
2017 China Real Estate Listed Companies Appraisal Rankings: — China Real Estate Listed Company — No.2 in Top 100 Overall Performance — No.1 in Top 10 China Real Estate Developers (H shares) — No.1 in Top 5 Risk Management — No.2 in Top 5 Financial Operation	China Real Estate Association China Real Estate Appraisal
2017 No.1 in Top 30 Listed China Real Estate Companies (Property G30) — 2017 Top 10 in 100 Outstanding China Real Estate Companies TOP 10 — Top 10 China Real Estate Brand Value	guandian.cn
Top 100 Hong Kong Listed Companies Selection — Top 100 Hong Kong Stocks	Finet Group QQ.com
2017 No. 1 in the 14th China Blue Chip Real Estate Developer (14 consecutive times)	The Economic Observer
2017 No.1 in Top 100 Competitive Chinese Real Estate Listed Companies	Real Estate Market Report

Accolades & Awards 2017 (continued)

Award	Organiser
Overall Performance (continued)	
2017 No.1 in Top 100 China Real Estate Brand Value	E&H Corporation
China Property Award of Supreme Excellence	The Hong Kong Institute of Financial Analysts and Professional Commentators Limited
Hong Kong Outstanding Enterprises 2017 — Blue Chip category	Economic Digest
2017 International Property Awards: — One Blossom Cove, Guangzhou: Best Residential High-rise Development — International Community, Yantai: Best Residential High-rise Development — Mid-Town, Zhuhai: Best Mixed Use Development — China Overseas Plaza, Beijing: Best Office/Best Office Development China (5-star) — Foshan Unipark, Foshan: Retail Development	International Property Media Limited
China Overseas Commercial Properties Co., Ltd.: 2016 Fastest Opening	Walmart
Corporate Social Responsibility and others	
Hang Seng Corporate Sustainability Index — Constituent Company	Hang Seng Indexes Company Limited
Dow Jones Sustainability Indices	RobecoSam AG
5-Year Plus Caring Company Logo	The Hong Kong Council of Social Service
Corporate Governance Asia Awards	Corporate Governance Asia
The Asset Corporate Awards 2017 — Platinum	The Asset
2017 China Green Real Estate Top 20 Index	Biaozhun
Newsweek Green Rankings	Newsweek
CarbonCare ESG Label	CarbonCare InnoLab
China Employer of The Year 2017	Zhaopin Institute of social survey of Peking University
China Real Estate's Best Employer China Real Estate Quality Talent Cultivation Enterprise China Real Estate Quality Welfare Enterprises China Real Estate Optimal HR Team	China Real Estate Association E-house China R&D Institute China Real Estate Appraisal
ARC International Awards 2016 — Gold Winner — Annual Report: Property Development Residential	MerComm, Inc
The Vision Awards 2016 — Silver	LACP

Investor Relations

The management and Corporate Communications Department of the Group update investors (including shareholders, bond investors and analysts) on the Group's performance and business operations through various channels. Following the release of interim and annual results, press conferences, analyst meetings and post results road shows are held to meet with investors, collect opinions and answer queries directly. The Group voluntarily discloses certain unaudited operating and financial data on a quarterly basis, and announces property sales results and new land acquisitions on a monthly basis to improve the transparency of information disclosure.

The Group communicates and connects closely with investors and interacts with them through conferences arranged by investment banks, company visits and site visits to property projects. During the year, the Group participated 21 mainland China and overseas conferences held by investment banks, organised over 700 meetings and telephone communications, and 80 visits to project sites attended by over 329 investors.

With a gradual interconnection between the Hong Kong and mainland China stock market and bond market, the Group maintains regular communications with mainland investors, and further expands into mainland capital market.

Investors from all sectors can obtain more information about the Group by clicking on the page "Investor Relations" at the Group's website.

Investor Relations (continued)

MAJOR INVESTOR RELATIONS ACTIVITIES IN 2017

Months	Activities
January	Credit Suisse China/Hong Kong Property Corporate Day BNP Paribas Asia Pacific Financials, Property & Logistics Conference UBS Greater China Conference
March-April	Announcement of 2016 annual results • Press conference • Analyst briefing • Post results road shows Credit Suisse 20th Asian Investment Conference HSBC 7th Annual Greater China Property & Financials Conference Macquarie Greater China Conference 2017
May	HSBC China Conference CLSA China Forum DBS Vickers Pulse of Asia Conference
June	Morgan Stanley 3rd Annual China Summit JP Morgan Global China Summit 2017 Haitong Property Corporate Day CIMB Hong Kong/China Property Corporate Day CICC Investment Conference 2H2017 Citi Asia Pacific Property Conference 2017
August-September	Announcement of 2017 interim results • Press conference • Analyst briefing • Post results road shows
October	12th Citi China Investor Conference 2017
November	CICC Investment Forum 2017 Jefferies 7th Annual Greater China Summit Credit Suisse 8th Annual China Investment Conference Daiwa CB Conference 2017

Corporate Governance Report

(A) GENERAL

The Company always places importance on the interests of the shareholders and other stakeholders. The board of directors of the Company (the "**Board**") recognises that its prime duty is to safeguard and best utilise resources in the Group and thereby to enhance the value for shareholders. Good corporate governance is the key to improving corporate profit and facilitating sustainable development. Thus the Group has always been dedicated to pushing forward and improving corporate governance standards at three levels. Firstly, the Company ensures compliance with respective laws, regulations and the highest standard of ethics. Secondly, the Board continues to strengthen systematic mechanisms to ensure that all decisions are in the interests of shareholders, as well as the community. Lastly, the Company enhances its core competitiveness and stakeholders' value under the principles of corporate governance. The Board believes that such are essential for efficient operation of the Group's business and the safeguard of its assets and shareholders' interests.

In line with the best corporate governance practice, the Company has established an Audit and Risk Management Committee, a Remuneration Committee and a Nomination Committee. The Board and all subordinate committees evaluate and monitor their respective effectiveness on a regular basis in accordance with their terms of reference.

In the past years, the Group has done its best to promote corporate transparency, to enhance the independence of the Company's operations, to establish an effective accountability system, and to improve the Group's internal control and risk management.

(B) CORPORATE GOVERNANCE PRACTICE

The Company has complied throughout the year ended 31 December 2017 with all the code provisions (except A.2.1 and A.4.1 as explained below) of the Corporate Governance Code ("**CG Code**") from time to time as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and with most of the recommended best practices contained therein.

CG Code A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Since Mr. Xiao Xiao resigned as Chairman of the Company with effect from 13 June 2017, Mr. Yan Jianguo ("**Mr. Yan**") performed both the roles of the Chairman and the Chief Executive Officer of the Company. In allowing the two positions to be occupied by the same person, the Company has considered that both positions require in-depth knowledge and considerable experience of the Group's business. Candidates with the requisite knowledge, experience and leadership are difficult to identify. If either of the positions is occupied by an unqualified person, the Group's performance could be compromised. Based on the experience and qualification of Mr. Yan, the Board believes that the vesting of two roles to Mr. Yan would continue to provide the Group with stable and consistent leadership and continue to allow for effective and efficient planning and implementation of long-term business strategies. Besides, the Board believes that the balance of power and authority will not be impaired by such arrangement as it is adequately ensured by the Board which comprises experienced and high calibre individuals (including executive directors, non-executive director and independent non-executive directors of the Company, together the "**Directors**"). The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

CG Code A.4.1 stipulates that non-executive directors should be appointed for a specific term. The non-executive Directors (as well as all other Directors) of the Company are not appointed for a specific term. All the Directors are nevertheless subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Corporate Governance Report (continued)

(C) THE BOARD OF DIRECTORS

C(a) Board Composition

The names of the Directors are set out in the “Directors” section of the “Report of Directors” of this annual report.

During the year, the Company has appointed independent non-executive Directors representing more than one-third of the Board, with one of them having appropriate professional qualifications or accounting or related financial management expertise. The Company has formal letters of appointment for all Directors setting out the key terms and conditions of their appointment. Accordingly, the Company has complied with the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules, and CG Code D.1.4 throughout the year.

The Company has one female Director who is an independent non-executive Director and has served the Board and the Board Committees since 2009.

The Directors’ biographical information (including their gender, age, educational background, professional experience, knowledge, culture and length of service) and the relationships among the Directors, if any, are set out on pages 78 to 82 of this annual report.

The Board believes that the balance between executive and non-executive Directors (including independent non-executive Directors) is reasonable and adequate to provide sufficient checks and balances to safeguard the interests of shareholders, other stakeholders and the Group. Besides, the Board composition (with different genders, ages, educational backgrounds, professional experiences, knowledge, cultures and lengths of service) is well diversified to bring different concerns and questions to the table, and allow the Board to consider a wider range of options and solutions to corporate issues and establishes a good base for the sustainable development of the Group.

C(b) Confirmation of Independence

The Company has received from each of the independent non-executive directors, Mr. Lam Kwong Siu, Dr. Fan Hsu Lai Tai, Rita and Mr. Li Man Bun, Brian David, an annual written confirmation of independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Pursuant to the CG Code A.4.3, serving more than nine years could be relevant to the determination of a non-executive Director’s independence. Although Mr. Lam Kwong Siu and Dr. Fan Hsu Lai Tai, Rita have been serving as independent non-executive Directors for more than nine years, the Directors are of the opinion that all the independent non-executive Directors still have the required character, integrity, independence and experience to fulfill the role of an independent non-executive Director. The Directors recognise that there is no evidence that length of tenure is having an adverse impact on the independence of the independent non-executive Director and the Directors are not aware of any circumstances that might influence Mr. Lam and Dr. Fan in exercising their independent judgement. Based on the aforesaid, the Directors form the view that each and every of the independent non-executive Directors will continue to maintain an independent view of the Company’s affairs despite his/her length of service, and will continue to bring his/her relevant experience and knowledge to the Board.

Corporate Governance Report (continued)

C(c) Directors' Training

Pursuant to the CG Code A.6.5, the Company has received from the below Directors, being all Directors at the year end date, a record of the training they received during the year 2017.

Name	Ways of Training Read Materials	Attend Seminars/ Briefing
Executive Directors		
Mr. Xiao Xiao (resigned w.e.f. 13 June 2017)	Yes	Yes
Mr. Yan Jianguo (appointed w.e.f. 1 January 2017)	Yes	Yes
Mr. Luo Liang	Yes	Yes
Mr. Nip Yun Wing (resigned w.e.f. 3 April 2018)	Yes	Yes
Non-executive Director		
Mr. Chang Ying	Yes	Yes
Independent Non-executive Directors		
Mr. Lam Kwong Siu	Yes	Yes
Dr. Fan Hsu Lai Tai, Rita	Yes	Yes
Mr. Li Man Bun, Brian David	Yes	Yes

C(d) Responsibilities and Division of Work

The Board is responsible for leading the Group's development, establishing the Group's strategic goals, by formulating overall strategies and policies of the Company to ensure the availability of financial and other resources necessary for the Group to achieve pre-set strategic goals. The Board is also responsible for performing the corporate governance duties set out in the terms of reference in CG Code D.3.1 (including the determining of the corporate governance policy of the Company) and supervising the work of the management and reviewing business performance of the Company.

The different duties and roles of the Chairman of the Board (the "**Chairman**") and the Chief Executive Officer have been clearly defined from June 2007. The Chairman is responsible for providing leadership in the Board to set strategies and achieve the Group's goals and his duties include: primarily responsible for ensuring that good corporate governance practices and procedures are established, overseeing and coordinating the operation of the Board, confirming the agenda of each Board meeting and ensuring the Board functions effectively and discusses all major and appropriate matters in a timely and constructive manner; ensuring the availability of accurate, timely and clear information to induce effective contribution from the Board members; encouraging Directors with different views to voice their concerns; allowing sufficient time for discussion of issues and ensuring that Board decisions fairly reflect Board consensus; promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors; monitoring the execution of the Board's resolutions; and maintaining effective communication with shareholders. The Chief Executive Officer, with the support and assistance of the Board and other senior management of the Company, is responsible for coordinating and managing the Group's business and operations, implementing the strategies laid down by the Board. The management performs their duties in managing the actual operations of businesses.

Corporate Governance Report (continued)

The functions of non-executive Directors include participating in Board meetings of the Company to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct; taking the lead where potential conflicts of interests arise; serving on the audit and risk management, remuneration, nomination and other governance committees, if invited; and scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the performance reporting. The Chairman also holds meeting annually with the non-executive Directors to discuss corporate governance and other matters without the executive Directors present.

During the year, with the non-executive Directors duly discharged their duties as mentioned above, the Board has duly discharged the aforementioned duties including the corporate governance duties. Other than reviewing the Company's compliance with the CG Codes and relevant disclosure, the Board has provided strategic guidance on the operation of the Company, reviewed and supervised the implementation of all lines of businesses.

C(e) Directors' Responsibilities for the Financial Statements

The responsibility of the Directors is to prepare the financial statements, while the responsibility of the auditors is to express an opinion on the Group's consolidated financial statements based on their audit, particulars please refer to the "Independent Auditor's Report" section of this annual report. The Board should ensure such financial statements should give a true and fair view of the state of affairs of the Group and of the results and cash flows for the relevant financial period. In this regard, the Directors have selected suitable accounting policies, applied them consistently, made judgements and estimates that are prudent, fair and reasonable, and prepared the financial statements on a going concern basis. Besides, the Directors are also responsible for ensuring that the Group operates an efficient financial reporting system, keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Group has employed sufficient qualified staff to assist the preparation of financial statements.

C(f) Core Business Strategy and Business Model

Details of the Group's business and financial review in the year 2017 are set out in the "Chairman's Statement" and "Management Discussion and Analysis" sections of this annual report.

(D) RISK MANAGEMENT AND INTERNAL CONTROL

The risk management system and internal control system of the Company are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Company to manage its risks across business operations.

The Company has established a sound risk management framework, the Board, the Audit and Risk Management Committee, Management Level Risk Management Committee, the Risk Management Taskforce and business line, together with the Intendance and Audit Department form the risk management system of the Company.

With an aim to safeguard the shareholders' investment and the Group's assets, the Board and its Audit and Risk Management Committee recognised that they are responsible for: (1) evaluating and determining the nature and extent of the risks the Company is willing to take in achieving the Company's strategic objectives; (2) ensuring that the Company establishes and maintains appropriate and effective risk management system and internal control system; (3) overseeing management in the design, implementation and monitoring of the risk management system and internal control system; and (4) cause the management to provide a confirmation to the Board on the effectiveness of these systems.

Corporate Governance Report (continued)

Management Level Risk Management Committee arranges the Risk Management Taskforce and business line, to act in accordance with the formulated and implemented risk management system and the effective policies and procedures of identifying, evaluating and managing significant risks, to identify risks that would adversely affect the achievement of the Company's objectives at least on an annual basis. Management Level Risk Management Committee will assess and prioritise the identified risks according to a set of standard criteria and to establish risk mitigation plans to allow a reasonable deployment of resources by the Company against the principal risks.

In addition, the Company has established the Intendance and Audit Department, being responsible for the internal audit function, to assist the Board and the Audit and Risk Management Committee in on-going monitoring of the risk management system and internal control system of the Company. Deficiencies in the design and implementation of risk management and internal controls are identified, and recommendations are proposed for improvement. Significant internal control deficiencies, if identified, are reported to the Audit and Risk Management Committee and the Board on a timely basis. Remediation plans will be established and a responsible person will be appointed to oversee the follow-up rectification.

Risk management report and internal control report are submitted to the Audit and Risk Management Committee for review and eventually to the Board for approval at least once a year. The Board had performed annual review on the effectiveness of the Company and its subsidiaries' risk management system and internal control system (including financial, operational and compliance controls). The review includes but not limited to the changes in the nature and extent of significant risks, the Group's ability to respond to changes in its business and the external environment; the scope and quality of management's ongoing monitoring of risk management system and internal control system; the work of its internal audit function; the extent and frequency of reporting of monitoring results to the Board; significant control failure occurred during the period or weaknesses identified and their related implications; the effectiveness of the Group's processes for financial reporting and compliance with the Listing Rules; and the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function. The Board considers the Company's risk management system and internal control system are effective.

The risk management system and internal control system are designed to manage rather than eliminate the risk of failure to achieve business objectives, and hence, the systems can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and internal controls for the handling and dissemination of inside information

The Company complies with requirements of Securities & Futures Ordinance ("**SFO**") and the Listing Rules. The Company discloses inside information to the public as soon as reasonably practicable after any inside information has come to its knowledge unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Company ensures the information is kept strictly confidential. If the Company believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Company would immediately disclose the information to the public. The Company is committed to ensure that information contained in its announcements is not false or misleading as to a material fact, or false or misleading through the omission of a material fact, to provide for equal, timely and effective access by the public to the inside information disclosed.

The Company has adopted the Inside Information Disclosure Policy, stipulating the practices and procedures, to ensure that the Board is able to make timely decisions on disclosure and to take of appropriate measures to preserve confidentiality of inside information until proper dissemination according to the relevant rules and regulations.

Corporate Governance Report (continued)

(E) BOARD MEETINGS AND COMMITTEE MEETINGS

The Board convenes meetings on a regular basis. The date of each meeting is decided in advance to enable the Directors to attend the meetings in person. Draft notice and agenda were sent to all Directors for comments 7 days before formal notices were issued so as to allow the Directors sufficient time to propose matters for inclusion in the agenda. Measures have been taken to ensure that all Directors are properly informed on matters to be discussed at each meeting.

All Directors have access to the Company Secretary and are entitled to secretarial services so as to ensure full compliance with the procedures of Board meetings and all applicable rules. If the relevant corporate governance regulations have been changed, the Company Secretary will keep the Board updated of such changes.

Minutes of meetings of the Board and the subordinate committees are prepared and maintained by the Company Secretary. Drafts of the minutes of the meeting are sent to the Directors who have attended the meeting for their comments within a reasonable time after each meeting, with the final version sent for their records after signature. Minutes of meetings of the Board and the subordinate committees are available for inspection by all Directors. In order to perform their duties, the Directors are entitled to seek independent professional advice through the Chairman, at the Company's expense.

Whenever a transaction is considered at a Board meeting, the Directors are required to declare their respective interests involved at the beginning of the first Board meeting where such transaction is being considered, and the interested Director shall absent from such meeting and abstain from voting when appropriate. If the interest is considered by the Board to be material, the Board will ensure that an adequate number of independent Directors (i.e. Directors who, and whose associates, have no material interest in the transaction) are involved in the consideration of the relevant resolutions, and the interested Director(s) will abstain from voting. Besides, the matter will be discussed in a physical meeting, as opposed to being dealt with by written resolution. In 2017, Mr. Yan Jianguo abstained from voting in three Board meetings, and Mr. Xiao Xiao and Mr. Li Man Bun, Brian David, each abstained from voting in a Board meeting respectively.

(F) THE COMMITTEES OF THE BOARD

As part of good corporate governance, an Audit and Risk Management Committee, a Remuneration Committee and a Nomination Committee have been established.

These Committees are composed of all independent non-executive Directors whose independent judgements are important to the execution of the controls and corporate governance standards expected of a publicly listed company. Each Committee has its own specific delegated authorities and operates within defined terms of reference; these terms of reference have been posted on the Company's website at http://www.coli.com.hk and are updated from time to time. All Committees report to the Board in relation to their decisions, findings or recommendations.

F(a) Audit and Risk Management Committee

The Audit and Risk Management Committee is composed as follows:

Mr. Li Man Bun, Brian David* *(Committee Chairman)*
Mr. Lam Kwong Siu*
Dr. Fan Hsu Lai Tai, Rita*

* *independent non-executive Director*

Corporate Governance Report (continued)

The main duties of the Audit and Risk Management Committee are to review financial information of the Company, to monitor the integrity of financial statements, financial reports and accounts, to examine and review matters such as the financial control, internal control and risk management system of the Company, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, to approve the remuneration and terms of engagement of the external auditors and to make recommendations to the Board on the appointment, re-appointment and removal of the external auditors. The Audit and Risk Management Committee also met with the auditor twice a year in the absence of the Company's management. During the year, the Audit and Risk Management Committee has duly discharged the above duties.

F(b) Remuneration Committee

The Remuneration Committee is composed as follows:

Mr. Lam Kwong Siu* *(Committee Chairman)*
Dr. Fan Hsu Lai Tai, Rita*
Mr. Li Man Bun, Brian David*

* *independent non-executive Director*

The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management, determining the remuneration of all executive Directors and senior management and making recommendations to the Board on the remuneration of non-executive Directors. During the year, the Remuneration Committee has duly discharged the above duties.

F(c) Nomination Committee

The Nomination Committee is composed as follows:

Dr. Fan Hsu Lai Tai, Rita* *(Committee Chairman)*
Mr. Lam Kwong Siu*
Mr. Li Man Bun, Brian David*

* *independent non-executive Director*

The Nomination Committee is mainly responsible for making recommendations to the Board on matters related to the appointment or re-appointment of Directors and succession planning for Directors as well as reviewing the structure, size and composition of the Board and assessing the independence of independent non-executive Directors.

The Board has adopted a Board Diversity Policy, effective on 6 August 2013, which provides that selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, educational background, professional experience, knowledge, culture and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will review such policy, as appropriate, to ensure the effectiveness of the policy and will make recommendation to the Board of the amendment of the policy where necessary. The Board's composition under diversified perspectives are set out in the C(a) section of this annual report.

During the year, the Nomination Committee has duly discharged the above duties. The procedures and the process and criteria regarding Appointment, Election and Removal of Directors together with the Board Diversity Policy are available on the Company's website for the information of shareholders.

Corporate Governance Report (continued)

(G) ATTENDANCE AT BOARD MEETINGS, COMMITTEE MEETINGS AND SHAREHOLDERS' MEETING DURING THE YEAR 2017

Name	Number of meetings attended/ Number of meetings held during the term of office				
	Board	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Xiao Xiao (resigned w.e.f. 13 June 2017)	4/4	N/A	N/A	N/A	1/1
Mr. Yan Jianguo (appointed w.e.f. 1 January 2017)	11/11	N/A	N/A	N/A	1/1
Mr. Luo Liang	11/11	N/A	N/A	N/A	1/1
Mr. Nip Yun Wing (resigned w.e.f. 3 April 2018)	11/11	N/A	N/A	N/A	1/1
Non-Executive Director					
Mr. Chang Ying	11/11	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Mr. Lam Kwong Siu	11/11	4/4	4/4	2/2	1/1
Dr. Fan Hsu Lai Tai, Rita	10/11	4/4	4/4	2/2	1/1
Mr. Li Man Bun, Brian David	11/11	4/4	4/4	2/2	1/1

(H) MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct on governing securities transactions by directors (the "**Securities Code**") on terms no less exacting than that required under the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules. The Directors have confirmed, following specific enquiry by the Company, that they have complied with the requirements set out in the Securities Code for the year ended 31 December 2017.

(I) AUDITORS' REMUNERATION

The Audit and Risk Management Committee is responsible for overseeing the independence of external auditors including the provision of non-audit services. None of the Audit and Risk Management Committee members is neither an existing nor a former partner of the external auditors.

Corporate Governance Report (continued)

PricewaterhouseCoopers was appointed as the external auditor ("**External Auditor**") with shareholders' approval at the last annual general meeting held in June 2017. Auditors' Remuneration during the year are set out in note 12 to the financial statements, an analysis of which is as below:

(a)	Amount paid to External Auditor		
	(i)	for audit services	HK$11,940,000
	(ii)	for other services, including tax advisory, reports relating to continuing connected transactions, compliance of financial undertakings and preliminary announcement	HK$304,000
(b)	Amount paid to other auditors for services relating to the consultancy of risk management and for reports relating to the issuance of notes payable		HK$960,000

(J) SENIOR MANAGEMENT

The list of senior management and their respective interests in shares of the Company as at 31 December 2017 are set out below:

Name of senior management	Number of shares held	Percentage of issued share capital#
Mr. Zhang Yi	1,095	0.000%
Mr. Qi Dapeng	0	0.000%
Mr. Guo Yong	200,000	0.002%
Mr. Kan Hongbo	696,800	0.006%
Mr. Ouyang Guoxin	0	0.000%
Mr. Zhuang Yong	0	0.000%
Mr. Guo Guanghui	0	0.000%
Mr. Chen Deyou	0	0.000%
Ms. Xu Xin	0	0.000%
Mr. Chen Lie (resigned w.e.f. February 2018)	0	0.000%
Mr. Xu Wendong	0	0.000%
Mr. Liu Xianyong	0	0.000%
Mr. Han Chunlin	0	0.000%
Mr. Xu Feng	0	0.000%
Mr. Zhang Zhichao	0	0.000%
Mr. Li Qi	0	0.000%
Total	897,895	0.008%

The calculation of the percentage is based on the number of issued shares of the Company as at 31 December 2017 (10,956,201,535 ordinary shares).

Biographical details of the above senior management are set out on pages 83 to 84 of this annual report.

(K) RELATIONS WITH SHAREHOLDERS

K(a) Substantial Shareholders

Particulars of the substantial shareholders of the Company as at 31 December 2017 are set out in the "Substantial Shareholders' Interests in Securities" section of "Report of Directors" of this annual report.

K(b) Annual General Meeting and Communication with Shareholders

The Company is keen to promote two-way communications with both of its institutional investors and its private shareholders while the annual general meeting ("**AGM**") provides a useful platform for shareholders to exchange views with the Board.

As such, the Company has made every endeavour to follow the "Guide on General Meetings" issued by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in preparing for the meetings. An AGM circular containing Notice of AGM was distributed to all shareholders at least 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information as required by the Listing Rules. A proxy form offering two-way voting on all resolutions had been sent to all registered shareholders together with the Notice of AGM. For investors' convenience, the Notice of AGM and the Proxy Form had been published in the website of the Stock Exchange at http://www.hkexnews.hk and the Company's website at http://www.coli.com.hk for publication on the same date one immediately after another carrying the appropriate headline category required by the Listing Rules. Clear guidance to assist shareholders in completing the proxy form was stated therein. Directors and the external auditor are present at the AGM to answer any questions raised by shareholders. Directors were re-elected by means of a separate resolution in the AGM. A separate resolution was proposed in respect of other substantially separate issue. The voting on all resolutions was conducted by way of poll and an explanation of the detailed procedures for conducting a poll is given and questions in relation thereto be answered before the poll is taken. The poll results were posted on the website of the Stock Exchange and the Company's website soon after the close of the AGM.

The Company communicates with its shareholders through the general meeting and the publication of annual reports, interim reports, results announcements and releases. All such documents to shareholders were available on the Company's website. For any queries, shareholders and investors may raise in the general meeting or send their enquiries to the Company (particulars please refer to the K(c)(b) section below).

A shareholders' communication policy was adopted throughout the year pursuant to the CG Code which aims at establishing a two-way relationship and communication between the Company and its shareholders.

K(c) Shareholders' Rights

(a) Procedures for Shareholders to Convene a General Meeting

Shareholder(s) of the Company can request the directors to convene a general meeting in pursuance of section 566 of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) by following the below:

(i) one or more shareholder(s) in aggregate holding not less than 5% of the total voting rights of the Company carrying the right to vote at general meetings sending request(s) to the Company in hard copy form or in electronic form;

Corporate Governance Report (continued)

(ii) such request(s):

(1) must state the general nature of the business to be dealt with at the meeting;

(2) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

(3) may consist of several documents in like form; and

(4) must be authenticated by the person or persons making it.

(b) Procedures for Shareholders to Direct their Enquiry to the Board

The "Corporate and Shareholders' Information" of this annual report provides the registered address of the Company and the email address, fax number and telephone number of the Investor Relations team to facilitate the shareholders to address their concerns or enquiries to the Board at any time. Please mark for the attention of the Company Secretary in the incoming letters or e-mails.

(c) Procedures for Putting Forward Proposals at Shareholders' Meetings

(i) The procedures for proposing candidate(s) for election as Director(s) at a shareholders' meeting are set out in the Corporate Governance section of the Company's website.

(ii) Shareholder(s) can request the Company to circulate a statement (or notice of a resolution that may properly be moved and is intended to be moved at the annual general meeting) to members of the Company entitled to receive notice of a general meeting (or annual general meeting, where applicable), in pursuance of section 580 (or section 615, in the case of annual general meeting) of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong), subject to below:

(1) The statement should be of not more than 1000 words and with respect to:

(a) a matter mentioned in a proposed resolution to be dealt with at that meeting; or

(b) other business to be dealt with at that meeting.

(2) Each shareholder may only request the Company to circulate:

(a) One such statement with respect to the resolution mentioned in (1)(a) above; and

(b) One such statement with respect to the other business mentioned in (1)(b) above.

(3) Such request(s) has to be sent by the shareholders who have a relevant right to vote and fulfill the below conditions:

(a) Shareholders representing at least 2.5% of the total voting rights of all the shareholders who have a relevant right to vote; or

(b) At least 50 shareholders.

Corporate Governance Report (continued)

Relevant right to vote means:

(a) In relation to a statement with respect to a matter mentioned in a proposed resolution, a right to vote on that resolution at the meeting to which the requests relate;

(b) In relation to any other statement, a right to vote at the meeting to which the requests relate; and

(c) In relation to notice of a resolution, a right to vote on the resolution at the annual general meeting to which the requests relate.

(4) Such request(s):

(a) May be sent to the Company in hard copy form or in electronic form;

(b) Must identify the statement (or notice, in the case of annual general meeting) to be circulated;

(c) Must be authenticated by the person or persons making it; and

(d) Must be received by the Company:

(aa) at least 7 days before the general meeting to which it relates;

(bb) not later than 6 weeks before the annual general meeting to which the requests relate; or if later, not later than the time at which notice is given of that meeting.

K(d) Articles of Association

There is no change in the Articles of Association of the Company during the year. A copy of the latest version is available on the website of the Stock Exchange and the Company's website.

(L) COMPANY SECRETARY

Mr. Keith Cheung, the named Company Secretary of the Company since 1992 (i.e. the year in which the Company was listed in Hong Kong) is a full-time partner of Mayer Brown JSM, the legal adviser of the Company. Mr. Cheung has confirmed to the Company that he has complied with Rule 3.29 of the Listing Rules. The primary corporate contact person of the Company related to company secretarial matters is Mr. Edmond Chong, General Manager of Legal Department (Hong Kong) of the Company.

(M) FINANCIAL CALENDAR

Particulars of the financial calendar are set out in the "Shareholders' Information and Financial Calendar" section of this annual report.

Report of Directors

The directors of the Company (the "**Directors**") present their annual report and the audited financial statements of the Company and its subsidiaries (together the "**Group**") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATION

The Company is principally engaged in investment holding and provision of finance, treasury and management services to its subsidiaries. The activities of the Company's principal subsidiaries, associates and joint ventures are set out in notes 46, 19 and 20 respectively to the financial statements.

An analysis of the Group's performance by segment is set out in note 8 to the financial statements.

BUSINESS REVIEW

A fair review of the business of the Company as well as discussion and analysis of the Group's performance during the year and the material factors underlying its financial performance and financial position as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections set out on pages 16 to 77 of this annual report. These sections form part of this Report of Directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 138 and 139 respectively.

An interim dividend of HK35 cents per share was paid on 6 October 2017. The board of directors (the "**Board**") recommends the payment of a final dividend of HK45 cents per share (2016: HK42 cents per share) to shareholders whose names appear on the Register of Members of the Company on 15 June 2018. Together with the interim dividend of HK35 cents per share (2016: HK35 cents per share), dividends for the year will amount to a total of HK80 cents per share. Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be payable on 6 July 2018.

RESERVES

Movements during the year in the reserves of the Group and of the Company (including but not limited to distributable reserves) are set out in the consolidated statement of changes in equity on pages 142 and 143 and note 45 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 235 and 236.

MAJOR PROPERTIES

Details of the major property development and property investment of the Group at 31 December 2017 are set out on pages 59, 65, 66 and 68.

TANGIBLE FIXED ASSETS

The Group's investment properties were revalued at the reporting date. The revaluation resulted in a net increase in fair value of HK$5,946,121,000 which has been credited directly to the consolidated income statement.

Details of the movement in investment properties and movements in property, plant and equipment of the Group during the year are set out in notes 16 and 17 respectively to the financial statements.

DEBENTURES ISSUED

During the year, the Company did not issue any debentures and details of the debentures issued by the subsidiaries of the Company are set out in note 35 to the financial statements. These debentures are issued by the non-Hong Kong subsidiaries of the Company.

EQUITY-LINKED AGREEMENTS

For the year under review, the Company has not entered into any equity-linked agreement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

BORROWINGS AND INTEREST CAPITALISED

Analysis of bank and other borrowings, notes payable and interest capitalised (including capitalisation of exchange differences) are set out in notes 34, 35 and 10 respectively to the financial statements.

Report of Directors (continued)

DIRECTORS

(a) Directors of the Company

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

Executive Directors

Mr. Xiao Xiao	(resigned w.e.f. 13 June 2017)
Mr. Yan Jianguo	(appointed w.e.f. 1 January 2017)
Mr. Luo Liang	
Mr. Nip Yun Wing	(resigned w.e.f. 3 April 2018)

Non-Executive Director

Mr. Chang Ying

Independent Non-Executive Directors

Mr. Lam Kwong Siu
Dr. Fan Hsu Lai Tai, Rita
Mr. Li Man Bun, Brian David

In accordance with article 105(1) of the Company's articles of association, Mr. Luo Liang, Dr. Fan Hsu Lai Tai, Rita and Mr. Li Man Bun, Brian David shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In addition, Mr. Nip Yun Wing resigns as a Director of the Company due to the reason of retirement on 3 April 2018.

The term of office for each independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's articles of association.

The Company confirmed that it has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the Company still considers the independent non-executive Directors to be independent.

No Director proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

The Company has not received any notice in writing from any Directors resigned during the year and up to the date of this report, specifying that the resignation is due to reasons relating to the affairs of the Company. Each of the resigned Directors has confirmed to the Company that he has no disagreement with the Board and there is no matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company.

DIRECTORS *(continued)*

(b) Directors of the subsidiaries of the Company

The list of directors of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at http://www.coli.com.hk under the "Corporate Governance" section.

EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Information regarding Directors' emoluments and senior management's emoluments are set out in notes 13 and 44(b) to the financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management are set out in the section headed "Directors and Organisation" on pages 78 to 84 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

At 31 December 2017, the Directors, the chief executive of the Company and their respective associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

(a) Long Positions in Shares and Underlying Shares of the Company

(all being personal interest and being held in the capacity of beneficial owner)

Name of Director	Number of shares held	% of shares in issue *(Note 1)*
Dr. Fan Hsu Lai Tai, Rita	24,000	0.0002%
Mr. Li Man Bun, Brian David	5,460,000	0.0498%

Report of Directors (continued)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES *(continued)*

(b) Long Positions in Shares and Underlying Shares of the Associated Corporations

(all being personal interest and being held in the capacity of beneficial owner)

Name of associated corporations	Name of Director	Number of shares held *(Note 6)*	% of shares in issue *(Notes 2, 3, 4 and 5)*
China State Construction Engineering Corporation Limited	Mr. Luo Liang	210,000	0.001%
China State Construction International Holdings Limited	Mr. Luo Liang	3,531,469	0.07%
China Overseas Property Holdings Limited	Mr. Li Man Bun, Brian David	1,820,000	0.055%
China Overseas Grand Oceans Group Limited	Mr. Luo Liang	70,000	0.003%

Notes:

1. The percentage was based on the total number of shares of the Company in issue as at 31 December 2017 (i.e. 10,956,201,535 shares).

2. The percentage was based on the total number of shares of China State Construction International Holdings Limited in issue as at 31 December 2017 (i.e. 5,049,156,668 shares).

3. The percentage was based on the total number of shares of China State Construction Engineering Corporation Limited ("**CSCECL**") in issue as at 31 December 2017 (i.e. 30,000,000,000 shares).

4. The percentage was based on the total number of shares of China Overseas Property Holdings Limited ("**COPL**") in issue as at 31 December 2017 (i.e. 3,286,860,460 shares).

5. The percentage was based on the total number of shares of China Overseas Grand Oceans Group Limited ("**COGO**") in issue as at 31 December 2017 (i.e. 2,282,239,894 shares). Upon completion of COGO's rights issue on 5 February 2018, the total number of shares in issue of COGO has been increased to 3,423,359,841 and number of shares held by Mr. Luo Liang has been increased to 105,000, representing 0.003% of shares in issue.

6. Mr. Luo Liang acquired 210,000 shares in CSCECL at RMB4.866 per share on 29 December 2016 in accordance with the A-shares Restricted Stock Incentive Plan (Phase II) of CSCECL as set out in note 33 to the financial statements.

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or chief executive of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. None of the Directors and chief executive of the Company (including their spouses and children under the age of 18) had, as at 31 December 2017, any interest in, or had been granted any right to subscribe for the shares, options and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

Report of Directors (continued)

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above and note 33 to the financial statements, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, as at the date of this report, the following director had declared interests in the following entities which compete or are likely to compete, either directly or indirectly, with the businesses of the Company:

Mr. Yan Jianguo, Chairman, Executive Director and Chief Executive Officer of the Company, is also the vice chairman and president of China Overseas Holdings Limited ("**COHL**"), the chairman and non-executive director of COGO, the chairman and non-executive director of COPL. COHL, COGO and COPL are engaged in construction, property development, property management and related businesses.

The entities in which the above director has declared interests are managed by separate boards of directors and management, which are accountable to their respective shareholders. Further, the Board includes three independent non-executive Directors and one non-executive Director whose views carry significant weight in the Board's decisions. The Audit and Risk Management Committee of the Company, which consists of three independent non-executive Directors, meets regularly to assist the Board in reviewing the financial performance, internal control, risk management and compliance systems of the Company and its subsidiaries. The Company is, therefore, capable of carrying on its businesses independently of, and at arm's length from, the businesses in which the director has declared interests.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

At 31 December 2017, the following parties (other than Directors or the chief executive of the Company) were the substantial shareholders of the Company (as defined in the Listing Rules) and had interests in the Shares and underlying Shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Number of shares and underlying shares held			% of shares in issue *(Note 1)*			Capacity
	(Long Position)	*(Short Position)*	*(Lending Pool)*	*(Long Position)*	*(Short Position)*	*(Lending Pool)*	
Silver Lot Development Limited ("**Silver Lot**")	521,264,928	–	–	4.76%	–	–	Beneficial owner
China Overseas Holdings Limited ("**COHL**") *(Note 2)*	5,613,080,255	280,124,096 *(Note 4)*	–	51.23%	2.56%	–	Beneficial owner
	521,264,928	–	–	4.76%	–	–	Interest of controlled corporation
China State Construction Engineering Corporation Limited ("**CSCECL**") *(Note 3)*	6,134,345,183	280,124,096 *(Note 4)*	–	55.99%	2.56%	–	Interest of controlled corporation
中國建築集團有限公司 (formerly known as 中國建築工程總公司) China State Construction Engineering Corporation ("**CSCEC**") *(Note 3)*	6,134,345,183	280,124,096 *(Note 4)*	–	55.99%	2.56%	–	Interest of controlled corporation

Report of Directors (continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES *(continued)*

Name of shareholder	Number of shares and underlying shares held			% of shares in issue *(Note 1)*			Capacity
	(Long Position)	*(Short Position)*	*(Lending Pool)*	*(Long Position)*	*(Short Position)*	*(Lending Pool)*	
Complete Noble Investments Limited ("**Complete Noble**")	1,095,620,154	–	–	10.00%	–	–	Beneficial owner
Affluent East Investments Limited ("**Affluent East**") *(Notes 5 and 6)*	1,095,620,154	–	–	10.00%	–	–	Interest of controlled corporation
CITIC Limited ("**CITIC**") *(Notes 5 and 6)*	1,095,620,154	–	–	10.00%	–	–	Interest of controlled corporation
CITIC Glory Limited ("**CITIC Glory**") *(Note 6)*	1,095,620,154	–	–	10.00%	–	–	Interest of controlled corporation
CITIC Polaris Limited ("**CITIC Polaris**") *(Note 6)*	1,095,620,154	–	–	10.00%	–	–	Interest of controlled corporation
CITIC Group Corporation ("**CITIC Group**") *(Note 6)*	1,095,620,154	–	–	10.00%	–	–	Interest of controlled corporation

Notes:

1. The percentage has been adjusted based on the total number of shares of the Company in issue as at 31 December 2017 (i.e. 10,956,201,535 shares).

2. Silver Lot is a direct wholly owned subsidiary of COHL, thus COHL is deemed by the SFO to be interested in shares of the Company (including long position, short position and lending pool (if any)) in which Silver Lot is or is taken to be interested.

3. COHL is a direct wholly owned subsidiary of CSCECL, which in turn is a direct non-wholly owned subsidiary of CSCEC, thus CSCECL and CSCEC are deemed by the SFO to be interested in shares of the Company (including long position, short position and lending pool (if any)) in which COHL is or is taken to be interested.

4. The issue of the new bond which is exchangeable to 280,124,096 shares of the Company by another subsidiary of COHL was completed on 5 January 2016.

5. Complete Noble is a direct wholly owned subsidiary of Affluent East, which in turn is a direct wholly owned subsidiary of CITIC.

6. More than 50% of CITIC is held by CITIC Glory and CITIC Polaris, both of which are direct wholly owned subsidiaries of CITIC Group, in aggregate. Accordingly, CITIC is an indirect non-wholly owned subsidiary of CITIC Group and Affluent East, CITIC, CITIC Glory, CITIC Polaris and CITIC Group are all deemed by the SFO to be interested in shares of the Company (including long position, short position and lending pool (if any)) in which Complete Noble is or is taken to be interested.

Save as disclosed above, the Company had not been notified by any other person (other than Directors or the chief executive of the Company) who had an interest 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 as at 31 December 2017.

Report of Directors (continued)

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2017, the five largest customers of the Group accounted for less than 30% of the Group's turnover. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases.

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

Definitions

In this section, the following expressions have the following meanings unless the context requires otherwise:

"COHL"	China Overseas Holdings Limited, a company incorporated in Hong Kong with limited liability, which is interested directly and indirectly, over 50% of the issued share capital of the Company
"COLI" or "Company"	China Overseas Land & Investment Limited
"COLI Group" or "Group"	the Company and its subsidiaries from time to time
"COPL"	China Overseas Property Holdings Limited (中海物業集團有公司), whose shares are listed on the Main Board of the Stock Exchange (stock code: 2669)
"COPL Group"	COPL and its subsidiaries from time to time
"CSC"	China State Construction International Holdings Limited (中國建築國際集團有限公司), whose shares are listed on the Main Board of the Stock Exchange (stock code: 3311)
"CSC Group"	CSC and its subsidiaries from time to time
"CSCEC"	中國建築集團有限公司 (formerly known as 中國建築工程總公司) (China State Construction Engineering Corporation), a state-owned corporation organised and existing under the laws of PRC, being the ultimate controlling shareholder of the Company
"CSCECL"	中國建築股份有限公司 (China State Construction Engineering Corporation Limited), a joint stock company incorporated in the PRC whose shares are listed on the Shanghai Stock Exchange. CSCECL is a subsidiary of CSCEC and holds 100% interest in COHL
"CSCECL Group"	CSCECL and its subsidiaries (excluding COHL, the Company, CSC, COPL and their respective subsidiaries) from time to time

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

During the year under review, the Group entered into the following connected transactions or continuing connected transactions which are exempted from independent shareholders' approval requirement under Rule 14A.76(2) of the Listing Rules or which have been approved by independent shareholders in pursuance of Rule 14A.36 of the Listing Rules:

(1) ***Master CSC Group Engagement Agreement***

On 18 May 2012, the Company entered into the engagement agreement with CSC whereby members of the CSC Group may tender for the Group's construction works in the PRC, Hong Kong and Macau from time to time. According to the agreement, if their tenders are accepted after going through a competitive tender process, the Company may engage members of the CSC Group as its contractor. In order to revise the caps for the continuing connected transactions under the agreement, and to renew the transactions thereunder, the Company entered into the following agreement with CSC on 31 October 2014 to replace the engagement agreement dated 18 May 2012. The principal terms of the agreement are as follows:

Name of Agreement	Parties	Date of Agreement	Period	Annual Cap
Master CSC Group Engagement Agreement	The Company and CSC	31 October 2014	1 January 2015 to 31 December 2015	HK$3,000 million
			1 January 2016 to 31 December 2016	HK$3,000 million
			1 January 2017 to 31 December 2017	HK$3,000 million

As the agreement of 31 October 2014 was expired on 31 December 2017, on 6 October 2017, the Company and CSC entered into the following agreement to renew the transactions contemplated thereunder and the principal terms of the new agreement are as follows:

Name of Agreement	Parties	Date of Agreement	Period	Annual Cap
New Master CSC Group Engagement Agreement	The Company and CSC	6 October 2017	1 January 2018 to 31 December 2018	HK$7,000 million
			1 January 2019 to 31 December 2019	HK$7,000 million
			1 January 2020 to 31 December 2020	HK$7,000 million

The price, payment term and other terms of the tenders awarded by the Group to the CSC Group are subject to the standard and systematic tender procedures (the details of which are set out in the Company's announcement of 6 October 2017) maintained by the Group, which apply to tender submitted by both connected persons and independent third parties to ensure that the price and terms of the tender awarded by the Group to the CSC Group are no more favourable than those awarded to independent third parties.

As COHL is the substantial shareholder of both the Company and CSC, the CSC Group are therefore connected persons of the Group. The transactions contemplated under the New Master CSC Group Engagement Agreement constitute continuing connected transactions for the Company under the Listing Rules.

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

(2) ***Master Property Management Services Agreement and Master Engineering Services Agreement***

On 9 October 2015, the Company and COPL entered into the Master Property Management Services Agreement pursuant to which the Group would continue to engage COPL and its subsidiaries to provide property management services to the Group's residential communities and commercial property in the PRC, Hong Kong and Macau.

On the same day, the Company and COPL entered into the Master Engineering Services Agreement pursuant to which the Group would engage COPL Group in the PRC as its subcontractors for the provision of engineering services, including automation projects, specialised engineering, repair and maintenance and upgrade projects of equipment and machinery to the Group's residential communities and commercial properties in the PRC from time to time.

On 30 June 2016, a supplemental agreement was entered into with COPL to reduce the annual cap of the Master Property Management Service Agreement.

Principal terms of the aforementioned agreements are as follows:

Name of Agreement	Parties	Date of Agreement	Year/Period	Annual Cap
Master Property Management Services Agreement	The Company and COPL	9 October 2015	1 June 2015 to 31 December 2015	HK$264.4 million
			1 January 2016 to 31 December 2016	HK$402.363 million
			1 January 2017 to 31 December 2017	HK$457.541 million
			1 January 2018 and 31 May 2018	HK$207.459 million
Master Engineering Services Agreement	The Company and COPL	9 October 2015	1 June 2015 to 31 December 2015	HK$25.5 million
			1 January 2016 to 31 December 2016	HK$29.8 million
			1 January 2017 to 31 December 2017	HK$31.6 million
			1 January 2018 and 31 May 2018	HK$14.0 million

Pricing basis of the above agreements will be determined by a tender process before COPL Group being selected and appointed as service provider of the Group. The prices, payment term and other terms of COPL Group's tenders submitted are subject to a standard and systematic tender procedure maintained by the Group, which applies to tenders from both connected persons and independent third parties, so as to ensure that the prices and terms of the tenders granted by the Group to COPL Group are no more favourable than those granted to independent third parties (the details of which are set out in the Company announcement dated 23 October 2015).

Following the spin-off and separate listing of the shares of COPL on 23 October 2015, COPL has become a subsidiary of COHL, a substantial shareholder of the Company. Accordingly, COPL Group are connected persons of the Group. As a result, any existing transactions with COPL Group in respect of the provision of property management services and engineering services have become non-exempt continuing connected transactions of the Company under the Listing Rules.

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

(2) ***Master Property Management Services Agreement and Master Engineering Services Agreement (Continued)***

COPL and the Company had agreed to terminate the above Master Property Management Services Agreement and Master Engineering Services Agreement upon the taking effect of the Prevailing Services Agreement on 1 January 2018. Particulars of the Prevailing Services Agreement are set out in paragraph 5 below.

(3) ***Master CSCECL Group Engagement Agreement***

As disclosed in the Company's announcement of 15 April 2013, the Company and CSCECL entered into the CSCECL group engagement agreement whereby the Group could engage the CSCECL Group as its construction contractor in the PRC. Pursuant to the agreement, the Group could invite the CSCECL Group to participate in competitive tender for the Group's construction related services in the PRC, such as building design, construction piling and foundation, building and property fitting-out work, interior decoration, installation of air-conditioning units and elevators.

Upon expiry, the Company and CSCECL entered into another agreement for a term of three years to replace the agreement of 15 April 2013 and the principal terms of the new agreement are as follows:

Name of Agreement	Parties	Date of Agreement	Period	Annual Cap
New Master CSCECL Group Engagement Agreement	The Company and CSCECL	16 May 2016	1 July 2016 to 31 December 2016	RMB3,000 million
			1 January 2017 to 31 December 2017	RMB6,000 million
			1 January 2018 to 31 December 2018	RMB6,000 million
			1 January 2019 to 30 June 2019	RMB3,000 million

The price and terms of the tenders awarded by the Group to the CSCECL Group are subject to the standard and systematic tender procedure maintained by the Group (details of which are set out in the Company announcement of 16 May 2016), which applies to tenders submitted by both connected persons and independent third parties to ensure that the price and terms of the tenders awarded by the Group to CSCECL Group are no more favourable than those awarded to independent third parties.

CSCECL is the intermediate holding company of the Company. Accordingly, members of the CSCECL Group are connected persons of the Company. The transactions contemplated under the Master CSCECL Group Engagement Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

(4) ***Establishment of Joint Venture for Development of the Land in Zhengzhou***

On 21 June 2017, 中海地產集團有限公司 China Overseas Property Group Co., Ltd.* (a wholly-owned subsidiary of the Company) ("**CO Property**") and 中建方程投資發展有限公司 (China Construction Fangcheng Investment & Development Co., Ltd.*) (a wholly-owned subsidiary of CSCECL) ("**CCFC**") entered into the cooperation development agreement ("**Agreement**"), pursuant to which the parties agreed to establish a joint venture ("**Project Company**") to develop a piece of land in Zhengzhou, PRC ("**Land**") owned by a company controlled by CCFC. The Land is for residential use and has a site area of approximately 113.98 mu and gross floor area of 190,000 sq.m.. CCFC will procure the injection of the Land into the Project Company.

* *For identification purpose only*

Report of Directors (continued)

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

(4) ***Establishment of Joint Venture for Development of the Land in Zhengzhou (Continued)***

The Project Company is owned as to 65% by CO Property and 35% by CCFC respectively. The board of directors of the Project Company comprises three directors, of which two directors shall be appointed by CO Property and one director shall be appointed by CCFC.

The estimated total investment amount in the Project Company is RMB2.03 billion. The total investment amount shall be contributed by CO Property and CCFC through their respective internal resources, or provision of several guarantee for external financing, in proportion to their respective equity interests in the Project Company.

CSCECL is the intermediate holding company of the Company. Accordingly, CCFC, a wholly-owned subsidiary of CSCECL, is a connected person of the Company. The establishment of the Project Company constitutes a connected transaction for the Company under the Listing Rules.

(5) ***Disposal of Target Company and Continuing Connected Transaction***

Sale and Purchase Agreement

中信房地產集團有限公司 (CITIC Real Estate Group Company Limited) and 北京中信房地產有限公司 (Beijing CITIC Real Estate Company Limited) (both are wholly owned subsidiaries of the Company) (the "**Sellers**"), and 中海物業管理有限公司 (a wholly owned subsidiary of COPL) (the "**Purchaser**"), entered into a sale and purchase agreement on 20 October 2017 ("**SPA**"), pursuant to which the Sellers conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire equity interests of 中信物業服務有限公司 ("**Target Company**") for RMB190 million (the "**Disposal**"). The Target Company and its subsidiaries (the "**Target Group**") are principally engaged in property management businesses in the PRC. The consideration shall be payable in RMB in cash according to the SPA.

Target Services Agreement

The Target Group has been providing the Group with the property management services and engineering services including automation projects, specialised engineering, and repair and maintenance and upgrade projects of equipment and machinery to residential communities, commercial properties and other properties (the "**Services**"). The Target Group will continue to provide the Services to the Group in the PRC upon completion of the Disposal.

On 20 October 2017, the Company and COPL entered into the following framework agreement for provision of the Services by the Target Group to the Group after the Disposal and the principal terms of which are as follows:

Name of Agreement	Parties	Date of Agreement	Period	Annual Cap
Target Services Agreement	The Company and COPL	20 October 2017	1 January 2018 to 31 December 2018	HK$48 million
			1 January 2019 to 31 December 2019	HK$51.1 million
			1 January 2020 to 30 June 2020	HK$19.8 million

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

(5) ***Disposal of Target Company and Continuing Connected Transaction (Continued)***

Prevailing Services Agreement

Apart from the Services to be provided by the Target Group to the Group in the PRC after the Disposal, the Directors expect that there would be an increase in such transactions between the Group and COPL Group under (i) the framework agreement entered into between COPL and the Company on 9 October 2015 in respect of the provision of property management services to the Group by COPL Group and the supplemental agreement in relation thereto dated 30 June 2016, and (ii) the framework agreement entered into between COPL and the Company on 9 October 2015 in respect of the provision of engineering services to the Group by COPL Group ("**Previous Services Agreements**"). For details, please refer to paragraph 2 above.

In order to increase the caps for the transactions under the Previous Services Agreements and renew the transactions thereunder, the following framework agreement was entered into by COPL and the Company on 20 October 2017 and parties agreed to terminate the Previous Services Agreements upon satisfaction of all conditions set out in the SPA. Principal terms of such framework agreement are as follows:

Name of Agreement	Parties	Date of Agreement	Period	Annual Cap
Prevailing Services Agreement	The Company and COPL	20 October 2017	1 January 2018 to 31 December 2018	HK$634.3 million
			1 January 2019 to 31 December 2019	HK$725.2 million
			1 January 2020 to 30 June 2020	HK$420.7 million

Pricing basis of the above agreement will be determined by a tender process before COPL Group being selected and appointed as service provider of the Group. Details of the tender procedures are set out in the Company announcement dated 20 October 2017.

CSCEC is the ultimate holding company of the Company. COHL, a non-wholly owned subsidiary of CSCEC, is the controlling shareholder of each of COPL and the Company. Therefore, the Purchaser, a wholly owned subsidiary of COPL, is a connected person of the Company and the Disposal constitutes a connected transaction for the Company.

As members of COPL Group are connected persons of the Company, the transactions under the (i) Target Services Agreement and (ii) Prevailing Services Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

Annual review and confirmation regarding continuing connected transaction in pursuance of Rule 14A.55 and 14A.56 of the Listing Rules

The independent non-executive Directors have reviewed and confirmed in pursuance of Rule 14A.55 of the Listing Rules that the continuing connected transactions contemplated above were carried out (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

To comply with Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter in respect of the continuing connected transactions disclosed in this section. The findings and conclusions contained therein are as below:

a. nothing has come to the attention of the Auditor of the Company that causes him to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors;

b. nothing has come to the attention of the Auditor of the Company that causes him to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

c. with respect to the aggregate amount of each of the continuing connected transactions listed in paragraphs (1), (2), (3) and (5) above, nothing has come to the attention of the Auditor of the Company that causes him to believe that the disclosed continuing connected transactions have exceeded the annual cap set by the Company.

A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited 10 business days before bulk print of the report in pursuance of Rule 14A.57 of the Listing Rules.

Others

The continuing connected transactions disclosed above also constitute related party transaction under the Hong Kong Financial Reporting Standards. A summary of significant related party transactions made during the year was disclosed in note 44 to the financial statements. Transactions under "Fellow subsidiaries" section of item (a) therein also constitute connected/continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Board confirms that the Company has complied with the disclosure requirements as required by the Listing Rules in relation to the aforementioned connected transactions or continuing connected transactions.

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

There is no transaction, arrangement or contract of significance subsisting during or at the end of the financial year 2017 in which the directors or an entity connected with him is or was materially interested, either directly or indirectly.

INTEREST IN CONTRACTS OF SIGNIFICANCE

The transactions set out in paragraphs (1) and (3) of the section "Connected, Continuing Connected And Related Party Transactions" above are considered contracts of significance under paragraph 16 of Appendix 16 of the Listing Rules.

EMOLUMENT POLICY, BASIS OF DETERMINING EMOLUMENT TO DIRECTORS AND RETIREMENT BENEFIT SCHEME

Subject to the compliance with relevant rules and regulations, the Company implements an emolument and benefit system comprised of basic salary, incentive bonus and employee benefits. The emolument and employee benefits are reviewed at appropriate time, with reference to both the annual survey on the industry's remuneration level and the Company's operating performance. The emoluments of the Directors are determined by reference to the industry's remuneration level, the Company's operating performance and the respective responsibilities and performances of the Directors. During the year, 中國建築集團有限公司 (formerly known as 中國建築工程總公司) (China State Construction Engineering Corporation), the Company's ultimate controlling shareholder, has arranged some of the Directors and core employees of the Company to participate in A-shares Restricted Stock Incentive Plan (Phase II) of China State Construction Engineering Corporation Limited, information of such scheme are set out in note 33 to the financial statements.

With effect from 1 December 2000, the Group has joined a mandatory provident fund scheme ("**MPF Scheme**") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The employees of the Company's subsidiaries established in the PRC are members of a state-managed retirement scheme operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme. The only obligation of the Group with respect to these schemes is to make the required contributions under the scheme. During the year, the Group made contribution to these schemes amounting to approximately HK$120,571,000. No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

MANAGEMENT CONTRACTS

Save for employment contracts, no other contracts, relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's long-term strategy includes a sustainable approach to the environment. The Group has not yet established a comprehensive set of environmental policies but, instead, advocates environmental protection concepts through various initiatives. The Group will review its operations and establish related policies in the near future.

To better understand the Group's carbon footprint, the Group has commissioned an external consultancy to quantify the greenhouse gases ("**GHG**") emissions from its operations through carbon assessment. The assessment process is the first step in developing action plans to manage and reduce GHG emissions of the Group.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group's major business is property investment and development in the PRC, which is heavily regulated. The laws and regulations relating to the Group's operations include:

- Establishment of a real estate development enterprise
- Qualification of a real estate developer
- Land for property development
- Sale of commodity properties
- Transfer of real estate
- Mortgages of real estate
- Real estate management
- Measures on stabilizing property prices
- PRC taxation
- Foreign currency exchange
- Labour protection

During 2017, there was no reported incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group's business.

Report of Directors (continued)

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS *(continued)*

To ensure compliance, the Group does not only review and monitor its own operations that mainly consist of office work, but also emphasizes on managing its contractors' compliance. Highlights of the Group's compliance measures during the reporting period are outlined in the following table.

Primary laws/regulations	Concerning issues	Compliance measures
• Regulations on Planning Administration regarding Granting and Transfer of State-Owned Land Use Right in Urban Area	Land for property development	All new projects of the Group obtained approvals.
• Regulations on Administration Regarding Permission for Commencement of Construction Works • Environmental Impact Assessment Law of the People's Republic of China	Construction work commencement permit	We have obtained the certificates of compliance for all work drawings and design documents. Environmental impact assessment was undertaken to ensure that all new projects of the Group undergo comprehensive review before they are constructed.
• Environmental Protection Law of the People's Republic of China • Administrative Regulations on Environmental Protection for Development Projects • Administrative Regulations on Environmental Protection for Acceptance Examination Upon Completion of Buildings • Prevention and Control of Noise Pollution Law of the People's Republic of China	Protection of the environment and preservation of antiquities and monuments which imposes	The Group has established a quality assessment system to regulate the construction work process. The Group has appointed the CSC Group to provide construction supervision services for its property development projects in mainland China. We obtained environmental protection acceptance and inspection approvals for all projects.

There is a growing global awareness of sustainability issues and an increased focus on the supervision and regulation of the property investment and development industry. In addition, the Group is expected to meet public expectations in relation to environmental and social matters, which are sometimes more stringent than the requirements of the prevailing laws and regulations. The Group will take a more proactive response approach to ensure that the entire organization acts in a consistent and strong manner when it comes to compliance and social licence to operate.

RELATIONSHIPS WITH THE KEY STAKEHOLDERS

Employees

The Group's employees are located across a number of cities and office locations in the PRC. The Group's human resources management strategy focuses on two areas:

- Personal development
- Equal opportunity

Report of Directors (continued)

RELATIONSHIPS WITH THE KEY STAKEHOLDERS *(continued)*

Employees *(continued)*

The Group maintains and strengthens its core competencies through continuous investment in training and development. 2807 training sessions were organized in 2017.

The property development sector is one of the most male dominated sectors. In terms of gender distribution, the ratio of male to female staff was approximately 2.29:1 (2016: 2.32:1). The Group will launch gender balance initiatives to encourage more female to take up careers in this industry.

Customers

The Group builds its brand by offering customer-oriented products and services to customers. With a business focus on the 49 cities in mainland China, the Group develops various types of properties tailored for different customers targeting at the middle to high-end product ranges in different regions.

To better understand the customers, the Group has been conducting customer satisfaction surveys on a regular basis. An exclusive tenant club has been established, serving as a critical communication channel between the Group and its customers and a driving force of the Company's community volunteering work.

The Group will continue to broaden the range of property products, optimize the project development cycle, enhance the quality of the properties and perfect the customer services, in response to and even exceed the increasing expectations of the customers.

Suppliers

The Group's suppliers spread across mainland China. Most of them are engineering suppliers. As a quality driven national brand, the Group works closely with its suppliers.

Through a supplier management system, the Group strives to ensure that suppliers share its belief in high quality and a corporate culture of integrity.

Contractors

The Group outsources the construction work of its property development projects to contractors. The Group maintains long-term cooperative relationships with contractors to ensure strong execution capabilities with standardized and scalable property development procedures.

The Group has placed and will continue to place significant emphasis on quality control, environmental protection, health and safety over its project development.

Details of the above will be disclosed in the Group's Environmental, Social and Governance Report to be published before mid of May 2018.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

Report of Directors (continued)

DONATIONS

During the year, the Group made charitable and other donations amounted to approximately HK$17,454,000.

AUDIT AND RISK MANAGEMENT COMMITTEE

The principal duties of the Audit and Risk Management Committee are the review of financial reporting requirements and system, risk management and internal control systems of the Group. The members of the Audit and Risk Management Committee have been satisfied with the Company's financial reporting disclosures and system, risk management and internal control procedures.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 101 to 112 of this annual report.

PERMITTED INDEMNITY PROVISION

The articles of association of the Company provide that every Director, former Director, other officer or other former officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has maintained appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year under review.

AUDITOR

PricewaterhouseCoopers ("**PwC**") has acted as auditor of the Company since year 2012.

A resolution will be proposed at the forthcoming annual general meeting to re-appoint PwC as auditor of the Company.

On behalf of the Board

Yan Jianguo
Chairman and Chief Executive Officer

Hong Kong, 26 March 2018

Independent Auditor's Report

羅兵咸永道

TO THE MEMBERS OF CHINA OVERSEAS LAND & INVESTMENT LIMITED
(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Overseas Land & Investment Limited (the "Company") and its subsidiaries (the "Group") set out on pages 138 to 234, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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Independent Auditor's Report (continued)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matters identified in our audit are summarised as follows:

- Valuation of investment properties; and
- Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment properties *Refer to note 16 to the consolidated financial statements*	
The Group's investment properties amounted to HK$97,377 million as at 31 December 2017 and a fair value gain of HK$5,946 million was accounted for under "gain arising from changes in fair value of investment properties" in the consolidated income statement. Management engaged independent valuers to determine the valuation of the Group's investment properties. There are significant judgments and estimates involved in the valuation which mainly include: • Completed investment properties: The valuation was arrived at using investment approach by considering the capitalised income derived from the existing tenancies and the reversionary potential, including reversionary yields and prevailing market rents, of the properties or, where appropriate, by reference to market evidence of transaction prices for similar properties in the same locations and conditions. • Investment properties under construction: The valuation was arrived at using residual method by making reference to estimated selling prices as available in the relevant market. The estimated cost to complete the development and estimated developer's profit as at the date of valuation were also taken into account. The existence of significant judgments and estimates of the assumptions involved in the property valuations warrants specific audit focus and attention on this area.	Our procedures in relation to the valuation of investment properties included: • Assessing the competence, capability and independence of the valuers and discussing the scope of their work; • Assessing the methodologies used by the valuers and the appropriateness of the key assumptions based on our knowledge of the property industry, research evidence of reversionary yields, prevailing market rents, estimated selling prices with reference to comparable market transactions for similar properties and comparing the estimated developer's profit to historical records, focusing in particular on material properties where the growth in capital values was significantly higher or lower than our expectations based on available market information; and • Testing, on a sample basis, the data used in the valuation of properties, including rental rates from existing tenancies and estimated cost to complete, by agreeing them to the underlying agreements with the tenants and contractors respectively. Based on the audit procedures performed, we found the methodologies used in preparing the valuations were appropriate and the key assumptions were supportable in light of available and comparable evidence.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures *Refer to notes 4(b) and 4(c) to the consolidated financial statements*	
As at 31 December 2017, the total carrying values of the Group's stock of properties and net investments in unlisted associates and joint ventures (representing interests in and amounts due from these companies) undertaking property development projects were HK$368,449 million. Management assesses the recoverability of property portfolio held by the Group's subsidiaries, unlisted associates and joint ventures based on estimates of the net realisable values of the underlying stock of properties, either held by the Group's subsidiaries, unlisted associates or joint ventures. This involves estimation of, inter-alia, construction costs to be incurred to complete the properties under development based on existing plans and a forecast of future sales based on current market price of properties of comparable locations and conditions. Management concluded that the current level of provision for impairment for the stock of properties held by the Group is appropriate, and no provision for impairment is necessary for the Group's net investments in unlisted associates and joint ventures. If the estimated net realisable values of the underlying stock of properties are significantly different from their carrying values as a result of changes in market conditions and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result. Accordingly, the existence of significant estimation uncertainty warrants specific audit focus and attention on this area.	Our procedures in relation to management's recoverability assessment included: **For the stock of properties held by the Group** • Testing the design and operating effectiveness of key internal controls around the property development cycle with particular focus on controls over cost budgeting and periodic review, sources of impairment assessment data and calculation of impairment provisions; • Understanding management's assessment, with reference to the appropriate supporting evidence, on the impairment of stock of properties which had relatively lower gross profit margins, within the general property development and sales cycle; and • For stock of properties which had relatively lower gross profit margins, assessing the reasonableness of key assumptions adopted by management. For the forecast of future sales, we checked, on a sample basis, contracted sales price of the underlying properties and recent market transaction prices of properties with comparable locations and conditions, where applicable. For construction costs to be incurred for properties under development, we assessed the reasonableness of the latest budgets of total construction costs and tested, on a sample basis, the construction costs to supporting documentations, e.g. construction contracts and other documentations.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures *Refer to notes 4(b) and 4(c) to the consolidated financial statements*	**For the stock of properties held by the Group's significant unlisted associates and joint ventures** • With reference to the appropriate supporting evidence, understanding the impairment assessment of net investments in unlisted associates and joint ventures performed by the Group's management, with their principal focus on stock of properties held by the unlisted associates and joint ventures which had relatively lower gross profit margins; and • For companies with stock of properties which had relatively lower gross profit margins, assessing the reasonableness of key assumptions adopted by the Group's management. For the forecast of future sales, we checked, on a sample basis, recent market transaction prices of properties with comparable locations and conditions, where applicable. For construction costs to be incurred for properties under development, we assessed the reasonableness of the latest budgets of total construction costs to supporting documentations, or when necessary, based on our knowledge of the property industry and research evidence. We found the key assumptions in the recoverability assessment were supportable in light of available and comparable internal and other market evidence.

OTHER INFORMATION

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

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

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

Independent Auditor's Report (continued)

OTHER INFORMATION *(continued)*

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT AND RISK MANAGEMENT COMMITTEE 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 Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit and Risk Management Committee is responsible 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. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance 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 judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

Independent Auditor's Report (continued)

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

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

From the matters communicated with the Audit and Risk Management 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 Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2018

Consolidated Income Statement

For the year ended 31 December 2017

	NOTES	**2017 HK$'000**	2016 HK$'000
Revenue	7	**166,044,963**	164,068,528
Business tax		**(2,072,793)**	(5,351,547)
Net revenue	7	**163,972,170**	158,716,981
Direct operating costs, exclude business tax above		**(109,272,364)**	(113,073,759)
		54,699,806	45,643,222
Other income and gains, net	9	**5,353,577**	1,789,484
Gain arising from changes in fair value of investment properties	16	**5,946,121**	7,722,671
Gain on disposal of investment properties		**40,782**	1,028,432
Gain on disposal of subsidiaries	38	**165,865**	10,175,939
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	39(a)	**2,140,171**	–
Gain on acquisition of subsidiaries	39(a)	**326,267**	–
Impairment losses in respect of goodwill	39(b)	**–**	(1,903,104)
Selling and distribution costs		**(2,949,521)**	(3,371,597)
Administrative expenses		**(2,848,693)**	(3,179,742)
Operating profit		**62,874,375**	57,905,305
Share of profits of			
Associates		**1,164,116**	476,682
Joint ventures		**774,352**	775,770
Finance costs	10	**(1,393,544)**	(2,055,956)
Profit before tax		**63,419,299**	57,101,801
Income tax expenses	11	**(21,277,184)**	(18,711,025)
Profit for the year	12	**42,142,115**	38,390,776
Attributable to:			
Owners of the Company		**40,766,835**	37,020,638
Non-controlling interests		**1,375,280**	1,370,138
		42,142,115	38,390,776
		HK$	HK$
EARNINGS PER SHARE	14		
Basic and diluted		**3.72**	3.64

The notes on pages 147 to 234 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Profit for the year	**42,142,115**	38,390,776
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences on translation of the Company and its subsidiaries	**9,892,806**	(14,092,869)
Exchange differences on translation of associates and joint ventures	**967,762**	(975,668)
	10,860,568	(15,068,537)
Item that may be reclassified to profit or loss		
Exchange differences on translation of associates	**780,201**	(877,252)
Other comprehensive income for the year	**11,640,769**	(15,945,789)
Total comprehensive income for the year	**53,782,884**	22,444,987
Total comprehensive income attributable to:		
Owners of the Company	**51,875,215**	21,384,969
Non-controlling interests	**1,907,669**	1,060,018
	53,782,884	22,444,987

The notes on pages 147 to 234 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current Assets			
Investment properties	16	**97,377,389**	67,093,181
Property, plant and equipment	17	**3,897,596**	3,886,507
Prepaid lease payments for land	18	**575,810**	567,873
Interests in associates	19	**8,232,345**	5,512,064
Interests in joint ventures	20	**12,405,070**	10,526,289
Investments in syndicated property project companies	21	**24,212**	24,212
Available-for-sale investments	21	**115,842**	147,211
Amounts due from associates	22	**8,969,792**	2,728,181
Amounts due from joint ventures	22	**6,592,674**	2,058,017
Other receivables		**456,540**	–
Goodwill	37	**64,525**	64,525
Deferred tax assets	36	**4,902,484**	3,767,912
		143,614,279	96,375,972
Current Assets			
Inventories	23	**82,852**	88,711
Stock of properties	24	**335,541,563**	261,689,777
Land development expenditure	25	**24,305,938**	7,631,262
Prepaid lease payments for land	18	**16,396**	18,397
Trade and other receivables	26	**14,300,567**	11,341,431
Deposits and prepayments		**7,240,012**	6,897,193
Deposits for land use rights for property development		**2,386,145**	5,166,601
Amounts due from fellow subsidiaries	27	**356,221**	214,442
Amounts due from associates	27	**5,508,696**	11,801,798
Amounts due from joint ventures	27	**2,985,523**	5,512,861
Amounts due from non-controlling shareholders	27	**728,934**	817,806
Amounts due from CITIC Group	28	**197,949**	839,050
Tax prepaid		**4,089,095**	5,732,244
Bank balances and cash	29	**104,050,615**	157,161,732
		501,790,506	474,913,305

Consolidated Statement of Financial Position (continued)

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Current Liabilities			
Trade and other payables	30	51,826,299	44,815,201
Pre-sales deposits		77,857,359	82,255,805
Rental and other deposits		3,428,838	2,887,399
Amounts due to fellow subsidiaries	31	756,994	678,296
Amounts due to associates	31	2,028,855	1,400,177
Amounts due to joint ventures	31	5,425,631	2,158,084
Amounts due to non-controlling shareholders	32	5,053,174	2,969,183
Amounts due to CITIC Group	28	–	265,845
Tax liabilities		29,741,619	21,888,194
Bank and other borrowings – due within one year	34	13,324,575	34,471,679
Notes payable – due within one year	35	17,099,222	5,814,611
		206,542,566	199,604,474
Net Current Assets		295,247,940	275,308,831
Total Assets Less Current Liabilities		438,862,219	371,684,803
Capital and Reserves			
Share capital	33	90,420,438	90,420,438
Reserves		175,273,849	131,828,004
Equity attributable to owners of the Company		265,694,287	222,248,442
Non-controlling interests		7,849,143	5,174,917
Total Equity		273,543,430	227,423,359
Non-current Liabilities			
Bank and other borrowings – due after one year	34	90,256,116	61,773,449
Notes payable – due after one year	35	57,558,524	71,760,801
Amounts due to non-controlling shareholders	32	3,799,801	869,939
Deferred tax liabilities	36	13,704,348	9,857,255
		165,318,789	144,261,444
		438,862,219	371,684,803

The financial statements on pages 138 to 234 were approved by the Board of Directors on 26 March 2018 and were signed on its behalf by:

Yan Jianguo
DIRECTOR

Luo Liang
DIRECTOR

The notes on pages 147 to 234 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital *HK$'000*	Other property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Merger and other reserves *HK$'000*	PRC statutory reserve *HK$'000* *(Note)*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2016, as previously reported	62,434,116	22,950	24,189	2,938,455	(1,522,172)	4,224,508	123,435,479	191,557,525	5,055,420	196,612,945
Acquisition of the CITIC Acquired Group *(Note 3(a))*	–	278,499	1,610	(1,186,720)	11,999,732	244,097	6,669,538	18,006,756	959,826	18,966,582
At 1 January 2016, as restated	62,434,116	301,449	25,799	1,751,735	10,477,560	4,468,605	130,105,017	209,564,281	6,015,246	215,579,527
Profit for the year	–	–	–	–	–	–	37,020,638	37,020,638	1,370,138	38,390,776
Exchange differences on translation of the Company and its subsidiaries	–	–	–	(13,782,749)	–	–	–	(13,782,749)	(310,120)	(14,092,869)
Exchange differences on translation of associates and joint ventures	–	–	–	(1,852,920)	–	–	–	(1,852,920)	–	(1,852,920)
Total comprehensive income for the year	–	–	–	(15,635,669)	–	–	37,020,638	21,384,969	1,060,018	22,444,987
2015 final dividend paid	–	–	–	–	–	–	(4,042,838)	(4,042,838)	–	(4,042,838)
2016 interim dividend paid	–	–	–	–	–	–	(3,834,671)	(3,834,671)	–	(3,834,671)
Issue of shares *(Note 33)*	27,986,322	–	–	–	–	–	–	27,986,322	–	27,986,322
Acquisition of a subsidiary from a third party	–	–	–	–	–	–	–	–	29,268	29,268
Reorganisation of the CITIC Acquired Group prior to the completion of the CITIC Assets Acquisition	–	–	–	–	(1,544,226)	–	–	(1,544,226)	–	(1,544,226)
Disposal of subsidiaries	–	–	–	399,215	96,564	–	(399,215)	96,564	(204,936)	(108,372)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(593,728)	(593,728)
Return of capital to non-controlling shareholders	–	–	–	–	–	–	–	–	(1,130,951)	(1,130,951)
Dividends to original shareholders of subsidiaries under the CITIC Acquired Group	–	–	–	–	–	–	(4,226,309)	(4,226,309)	–	(4,226,309)
Acquisition of the CITIC Acquired Group *(Note 3(a))*	–	–	–	–	(23,135,650)	–	–	(23,135,650)	–	(23,135,650)
Transfer to PRC statutory reserve	–	–	–	–	–	3,128,549	(3,128,549)	–	–	–
At 31 December 2016	90,420,438	301,449	25,799	(13,484,719)	(14,105,752)	7,597,154	151,494,073	222,248,442	5,174,917	227,423,359

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital *HK$'000*	Other property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Merger and other reserves *HK$'000*	PRC statutory reserve *HK$'000* *(Note)*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2017	90,420,438	301,449	25,799	(13,484,719)	(14,105,752)	7,597,154	151,494,073	222,248,442	5,174,917	227,423,359
Profit for the year	–	–	–	–	–	–	40,766,835	40,766,835	1,375,280	42,142,115
Exchange differences on translation of the Company and its subsidiaries	–	–	–	9,360,417	–	–	–	9,360,417	532,389	9,892,806
Exchange differences on translation of associates and joint ventures	–	–	–	1,747,963	–	–	–	1,747,963	–	1,747,963
Total comprehensive income for the year	–	–	–	11,108,380	–	–	40,766,835	51,875,215	1,907,669	53,782,884
2016 final dividend paid	–	–	–	–	–	–	(4,601,605)	(4,601,605)	–	(4,601,605)
2017 interim dividend paid	–	–	–	–	–	–	(3,834,671)	(3,834,671)	–	(3,834,671)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(38,386)	(38,386)
Disposal of subsidiaries	–	–	–	(554)	–	–	554	–	(2,069)	(2,069)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(775,619)	(775,619)
Return of capital to non-controlling shareholders	–	–	–	–	–	–	–	–	(760,139)	(760,139)
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	2,342,770	2,342,770
Release of exchange reserve of a joint venture upon acquisition	–	–	–	(171,955)	–	–	171,955	–	–	–
Capital contribution relating to share-based payments borne by an intermediate holding company	–	–	–	–	6,906	–	–	6,906	–	6,906
Transfer to PRC statutory reserve	–	–	–	–	–	2,166,296	(2,166,296)	–	–	–
At 31 December 2017	90,420,438	301,449	25,799	(2,548,848)	(14,098,846)	9,763,450	181,830,845	265,694,287	7,849,143	273,543,430

Note: *PRC statutory reserve of the Group represents general and development fund reserve applicable to subsidiaries which was established in accordance with the relevant People's Republic of China ("PRC") regulations.*

The notes on pages 147 to 234 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**63,419,299**	57,101,801
Adjustments for:		
Share of profits of associates	**(1,164,116)**	(476,682)
Share of profits of joint ventures	**(774,352)**	(775,770)
Finance costs	**1,393,544**	2,055,956
Depreciation and amortisation	**208,458**	356,970
Interest income	**(1,536,755)**	(2,256,253)
Gain arising from changes in fair value of investment properties	**(5,946,121)**	(7,722,671)
Gain on disposal of investment properties	**(40,782)**	(1,028,432)
Gain on disposal of subsidiaries	**(165,865)**	(10,175,939)
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	**(2,140,171)**	–
Gain on acquisition of subsidiaries	**(326,267)**	–
Impairment losses in respect of goodwill	**–**	1,903,104
Gain on disposal of property, plant and equipment	**(9,953)**	(143,481)
Equity settled share-based payment expenses	**6,906**	–
Gain on disposal of available-for-sale investments	**(8,304)**	–
Gain on disposal of joint ventures	**(57,088)**	(13,316)
Effect of foreign exchange rate changes	**(2,463,069)**	1,272,458
Operating cash flows before movements in working capital	**50,395,364**	40,097,745
Decrease/(increase) in inventories	**3,262**	(4,794)
(Increase)/decrease in stock of properties	**(67,437,830)**	20,202,085
Increase in land development expenditure	**(39,301)**	(1,299,996)
(Increase)/decrease in trade and other receivables, deposits and prepayments	**(2,697,651)**	3,311,928
Increase in deposits for land use rights for property development	**(1,783,735)**	(4,573,118)
(Increase)/decrease in restricted bank deposits	**(2,246,868)**	392,828
(Decrease)/increase in trade and other payables, pre-sales deposits, and rental and other deposits	**(5,613,796)**	17,450,874
Cash (used in)/generated from operations	**(29,420,555)**	75,577,552
Income taxes paid	**(12,616,856)**	(15,037,661)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(42,037,411)**	60,539,891

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES			
Interest received		**1,464,270**	2,186,795
Dividends received from joint ventures		**508,658**	1,007,782
Purchase of property, plant and equipment		**(63,132)**	(895,172)
Additions of investment properties		**(4,567,669)**	(2,377,911)
Increase in amounts due from fellow subsidiaries		**(76,938)**	(8,582)
Repayment from CITIC Group		**404,156**	6,313,600
Advances to associates		**(6,651,429)**	–
Repayment from associates		**7,467,646**	655,501
Acquisition of subsidiaries	39	**(3,007,959)**	(74,412)
Advances to joint ventures		**(5,855,752)**	(1,597,467)
Repayment from joint ventures		**3,170,905**	1,542,547
Repayment from non-controlling shareholders		**352,674**	17,751
Capital contribution to associates		**(1,032,479)**	–
Capital contribution to joint ventures		**(932,502)**	–
Capital distribution from joint ventures		**150,602**	96,164
Dividends received from associates		**399,758**	44,292
Net proceeds on disposal of available-for-sale investments		**49,363**	1,798,816
Net proceeds on disposal of property, plant and equipment		**41,867**	335,093
Net proceeds on disposal of investment properties		**199,459**	–
Net (cash outflow)/proceeds on disposal of subsidiaries	38	**(161,992)**	6,055,744
Net proceeds on disposal of associates and joint ventures		**61,044**	13,316
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		**(8,079,450)**	15,113,857

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2017

	NOTE	2017 HK$'000	2016 HK$'000
FINANCING ACTIVITIES			
Interest paid		**(7,371,657)**	(8,730,480)
Other finance costs paid		**(221,183)**	(62,218)
Dividends paid to owners of the Company		**(8,436,276)**	(7,877,509)
Dividends paid to non-controlling shareholders		**(717,289)**	(315,420)
Net contributions from original shareholders of subsidiaries under the CITIC Acquired Group		**–**	435,567
New bank and other borrowings raised		**50,199,681**	37,030,059
Repayment of bank and other borrowings		**(48,897,982)**	(60,259,438)
Issue of notes		**–**	8,206,722
Redemption of notes		**(5,815,625)**	–
Advances from a fellow subsidiary		**108,225**	433,360
Repayment to fellow subsidiaries		**(29,527)**	(371,587)
Contributions from non-controlling shareholders		**2,342,770**	–
Return of capital to non-controlling shareholders		**(760,139)**	(1,130,951)
Acquisition of additional interests in subsidiaries		**(64,200)**	–
Advances from associates		**529,758**	376,276
Repayment to associates		**(25,581)**	(118,343)
Advances from joint ventures		**3,179,097**	934,432
Repayment to joint ventures		**(75,355)**	(271,416)
Advances from non-controlling shareholders		**3,485,529**	38,458
Repayment to non-controlling shareholders		**(570,885)**	(711,934)
NET CASH USED IN FINANCING ACTIVITIES		**(13,140,639)**	(32,394,422)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(63,257,500)**	43,259,326
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**154,983,386**	120,047,895
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**7,734,171**	(8,323,835)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**99,460,057**	154,983,386
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**104,050,615**	157,161,732
Less: restricted bank deposits	29	**(4,590,558)**	(2,178,346)
		99,460,057	154,983,386

The notes on pages 147 to 234 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The Company's immediate parent company is China Overseas Holdings Limited ("COHL"), a company incorporated in Hong Kong, and its ultimate holding company is China State Construction Engineering Corporation ("CSCEC"), an entity established in the PRC and the PRC government is a substantial shareholder of CSCEC. The registered office and principal place of business of the Company are situated at 10th Floor, Three Pacific Place, 1 Queen's Road East, Hong Kong. The Group's business activities are principally carried out in Hong Kong, Macau, Guangzhou, Shanghai, Beijing, Tianjin, Jinan, Foshan, Chengdu, Nanjing, Suzhou and other regions in the PRC.

The Company's functional currency is Renminbi ("RMB"). The financial statements are presented in Hong Kong dollars ("HK$") as the directors of the Company consider that HK$ is the appropriate presentation currency for the users of the Group's financial statements.

The Group, comprising the Company and its subsidiaries, is principally engaged in property development and investment, and treasury operations.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are relevant to the Group:

Amendments to Hong Kong Accounting Standard ("HKAS") 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*

The application of the above amendments to HKFRSs has had no material impact on the Group's results and financial position.

The Group has not early adopted the following new and revised standards or amendments that have been issued but are not yet effective:

Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]

[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] *The mandatory effective date will be determined*

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15 *"Revenue from Contracts with Customers"*

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Revenue from pre-sales of properties under development is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the properties under development may transfer over time or at a point in time.

- The timing of revenue recognition for sale of completed properties, which is currently based on whether significant risk and reward of ownership of properties transfer, will be recognised at a later point in time when the underlying property is legally or physically transferred to the customer under the control transfer model.

- The Group currently offers different payment schemes to customers, the transaction price and the amount of revenue for the sale of property will be adjusted when significant financing component exists in that contract.

- The Group provides different incentives to customers when they sign a property sale contract. Certain incentives (e.g. free gift and property management service) represent separate performance obligation in a contract. Part of the consideration of the contract will be allocated to those performance obligations and recognised as revenue only when performance obligation is satisfied. The amount of revenue for the sale of property will also be reduced for any cash payment to customer which is not a payment of distinct goods or services from the customer.

- Certain costs incurred for obtaining a pre-sale property contract, which are currently expensed off in profit or loss directly, will be eligible for capitalisation under HKFRS 15 and match with revenue recognition pattern of related contract in the future.

Date of adoption by the Group

The Group intends to adopt the standard on 1 January 2018 using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group is estimating the overall impact of the above on in the Group's retained earnings on 1 January 2018.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 9 *"Financial Instruments"*

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The financial assets held by the Group include equity instruments that are currently classified as available-for-sale financial assets for which a fair value through other comprehensive income ("FVOCI") election is available. Except for the above, the Group does not expect there will be material impact on the classification, recognition and measurement of the other financial assets held by the Group at 31 December 2017.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principle-based approach. Since the Group does not have any hedge relationships currently, there will be no impact on the Group's financial statements.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects there will be no significant impact on the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

The adoption of HKFRS 9 is mandatory for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16 *"Leases"*

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. At the end of the reporting period, the Group has non-cancellable operating lease commitments of HK$133,289,000. The Group estimates that the leases relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss are insignificant. For other leases, the Group expects i) the effect of other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options, ii) the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and iii) the impact to the Group's profit or loss and classification of cash flows going forward will not be material.

Date of adoption by the Group

The adoption of HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Group has been assessing the impact of the other new or revised standards and amendments, certain of which may be relevant to the Group's operations and may give rise to changes in disclosure, recognition and remeasurement of certain items in the consolidated financial statements.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values as explained in the accounting policies set out below. Historical cost is generally based on the consideration given in exchange for goods.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of Preparation *(continued)*

These consolidated financial statements comply with the applicable requirements of Hong Kong Companies Ordinance (Cap. 622), with the exception of Section 381 which requires a company to include all its subsidiary undertakings (within the meaning of Schedule 1 to Cap. 622) in the company's annual consolidated financial statements. Section 381 is inconsistent with the requirements of HKFRS 10 "*Consolidated Financial Statements*" so far as Section 381 applies to subsidiary undertakings which are not controlled by the Group in accordance with HKFRS 10. For this reason, under the provisions of Section 380(6), the Company has departed from Section 381 and has not treated such companies as subsidiaries but they are accounted for in accordance with the accounting policies in Note 3. Those excluded subsidiary undertakings of the Group are disclosed in Note 20.

Application of business combination under common control

Acquisition of the CITIC Acquired Group

On 15 September 2016, the Company (as the purchaser and the guarantor) completed the acquisition of the entire issued share capital of each of Tuxiana Corp. and CITIC Real Estate Group Company Limited (together with their respective subsidiaries, the "CITIC Acquired Group") and the outstanding loans and advances owing by the CITIC Acquired Group to CITIC Limited and its subsidiaries ("CITIC Group") from CITIC Pacific Limited and CITIC Corporation Limited (both wholly-owned subsidiaries of CITIC Limited, as the "CITIC Sellers") (the "CITIC Assets Acquisition").

As the Company and CITIC Limited are state-owned entities and are under common control of the State Council of the PRC, the CITIC Assets Acquisition was accounted for as a business combination under common control. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2016 were prepared using the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 "*Merger Accounting for Common Control Combinations*" issued by the HKICPA, as if the CITIC Acquired Group had been combined with the Group from the earliest date when the CITIC Acquired Group first came under the control of the State Council of the PRC.

(b) Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Basis of Consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amount of the net assets attributable to the change in interests and the fair value of the consideration paid or received is recognised directly in retained profits and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "*Financial Instruments: Recognition and Measurement*" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations – common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interests.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous year end date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Business combinations – acquisition method

Acquisitions of businesses not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "*Income Taxes*" and HKAS 19 "*Employee Benefits*" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "*Share-based Payment*" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Business combinations – acquisition method *(continued)*
Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 "*Financial Instrument Recognition and Measurement*", or HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Separate Financial Statements
Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss. Cost includes direct attributable costs of investments.

The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Interests in Associates and Joint Ventures
An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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 joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates or joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or joint venture recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "*Impairment of Assets*" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence or joint control over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture.

If an interest in an associate becomes an interest 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.

When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group. When the Group disposes a business to its associate or joint venture, the entire gain or loss on disposal is recognised in profit or loss as a loss of control of a business.

Accounting policies of associates and joint ventures are changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's management. The Group's management, who is responsible for resource allocation and assessment of performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

For a transfer from stock of properties to investment properties (which is evidenced by commencement of operating leases) that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

Property, Plant and Equipment

Property, plant and equipment including land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Leasehold Land and Building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump- sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments for land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Impairment Losses on Tangible and Intangible Assets other than Goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial Assets

The Group's financial assets are classified into loans and receivables, and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from subsidiaries, fellow subsidiaries, associates, joint ventures, non-controlling shareholders and CITIC Group, and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. Available-for-sale financial assets, comprising investments in syndicated property project companies and available-for-sale investments, are carried at fair value and at cost at the end of the reporting period respectively. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. (see accounting policy on impairment of financial assets below).

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*
Financial Assets (continued)
Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables and deteriorated value in collateral assets.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*

Financial Liabilities and Equity Instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities (including trade and other payables, amounts due to CITIC Group, associates, joint ventures, non-controlling shareholders, subsidiaries and fellow subsidiaries, bank and other borrowings and notes payable) are measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group or the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group or the Company measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Inventories

Inventories, representing raw materials and consumables, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Stock of Properties

Completed properties and properties under development are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other directly attributable expenses. Net realisable value is determined by management based on prevailing market conditions.

Cash and Cash Equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

Borrowing Costs

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Borrowing Costs *(continued)*
Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the Group's subsidiaries had borrowed funds in their functional currencies, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined on a cumulative basis based on the cumulative amounts of interest expenses that would have been incurred had the entity borrowed in its functional currency. The total amount of foreign exchange differences capitalised cannot exceed the amount of total net foreign exchange differences incurred on a cumulative basis at the end of the reporting period.

Foreign Currencies
In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lease. All other leases are classified as operating leases.

The Group as Lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Employee Benefits

(i) *Retirement Benefits*

The Group participates in mandatory provident fund schemes in Hong Kong which are defined contribution plan generally funded through payments to trustee-administered funds. The assets of the scheme are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in mainland China, the subsidiaries in mainland China participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of mainland China is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme. The Group's contributions to the scheme are expensed as incurred.

(ii) *Employee Leave Entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave arc not recognised until the time of leave.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Share Capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Revenue Recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Property Development
Revenue from property development in the ordinary course of business are recognised when all the following criteria are satisfied:

(1) the significant risks and rewards of ownership of the properties are transferred to the buyers;

(2) neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;

(3) the amount of revenue can be measured reliably;

(4) it is probable that the economic benefits associated with the transaction will flow to the Group; and

(5) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received from purchasers prior to meeting the revenue recognition criteria are included in the consolidated statement of financial position under current liabilities.

Property Rentals
Rental income from properties under operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Construction Contract Income
When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract cost.

Hotel Operation, Real Estate Management Services and Building Design Consultancy Services
Revenue from hotel operation, the provision of real estate management services and building design consultancy services is recognised when services are provided.

Dividend Income
Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest Income
Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount on initial recognition.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

For distribution of non-cash assets as a dividend to the Company's shareholders, the Group measures the dividend payable at the fair value of the assets being distributed. When the Group settles the dividend payable, the difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable is recognised in profit or loss.

Share-based Payments

Share-based Payment Transactions Among Group Entities

Incentive shares granted by an intermediate holding company to the employees of the Group are treated as capital contribution. The fair value of employee services received, measured by reference to the fair value of incentive shares on the date of grant, is recognised as an expense over the vesting period, with a corresponding credit to equity.

At the end of each reporting period, the Group revises its estimates of the number of incentive shares that are expected to be vested. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(a) Fair Value of Investment Properties

Investment properties are carried at 31 December 2017 at their fair values of HK$97,377,389,000 (2016: HK$67,093,181,000). The fair values were based on a valuation on these properties conducted by independent firm of professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair values of the Group's investment properties and corresponding adjustments to the amount of gain or loss recognised in profit or loss.

(b) Impairment of Property Portfolio Held by the Group's Associates and Joint Ventures

Management assessed the recoverability of the Group's net investments in a listed associate, unlisted associates and joint ventures (representing interests in and amounts due from these companies) undertaking property development projects in the PRC with carrying amounts of HK$10,268,329,000 (2016: HK$14,869,579,000), HK$11,617,794,000 (2016: HK$4,554,302,000) and HK$21,289,637,000 (2016: HK$17,316,472,000) respectively included in the consolidated statement of financial position at 31 December 2017.

The assessment on unlisted associates and joint ventures was based on an estimation of the net realisable value of the underlying properties of the associates and joint ventures which involves, inter-alia, considerable analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure and a forecast of future sales based on zero growth rate of property price. If the actual net realisable values of the underlying properties are more or less than expected as a result of change in market condition and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result.

The recoverable amount of the investment in the listed associate is evaluated based on the performance and financial position of the associate, and return on investments including the listed associate's share price performance and dividend yield.

Judgement is required in assessing the ultimate recoverability of the investment.

(c) Impairment of Stock of Properties

Included in the consolidated statement of financial position at 31 December 2017 is stock of properties with an aggregate carrying amount of HK$335,541,563,000 (2016: HK$261,689,777,000). Management assessed the recoverability of the amount based on an estimation of the net realisable value of the underlying properties which involves, inter-alia, considerable analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure and a forecast of future sales based on zero growth rate of property price. If the actual net realisable values of the underlying stock of properties are more or less than expected as a result of change in market condition and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(d) Land Appreciation Tax ("LAT")

LAT is levied on the appreciation of land value, being the proceeds from the sales of properties less deductible expenditure including land costs, borrowing costs and all property development expenditure.

The subsidiaries engaging in property development business in the PRC are subject to LAT, which have been included in the tax expenses. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the tax expense and provisions for LAT in the period in which such determination is made.

(e) Revenue Recognition

Management made judgements on whether significant risks and rewards of ownership of properties are transferred to the purchasers, and whether the economic benefits associated with the property sales transaction will flow to the Group and are arising in the course of the Group's ordinary activities. These judgements would affect the timing and measurement of revenue recognition and the carrying value of the completed properties held for sale.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which mainly includes bank and other borrowings and notes payable disclosed in Notes 34 and 35 respectively, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, other reserves and retained profits.

The directors of the Company review the capital structure periodically. As part of this review, the directors of the Company assess budgets of major projects taking into account of the provision of funding. Based on the operating budgets, the directors of the Company consider the cost of capital and the risks associated with each class of capital and balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

The Group actively reviews and monitors its capital structure on a regular basis to maintain a healthy net gearing ratio. For this purpose the Group defines net debt as total debt less bank balances and cash. Equity attributable to owners of the Company comprise share capital and reserves attributable to the Company's owners as shown in the consolidated statement of financial position.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

5. CAPITAL RISK MANAGEMENT *(continued)*

The net gearing ratio at the end of the reporting period were as follows:

	2017	2016
	HK$'000	*HK$'000*
Bank and other borrowings	**103,580,691**	96,245,128
Notes payable	**74,657,746**	77,575,412
Total debt	**178,238,437**	173,820,540
Less: Bank balances and cash	**(104,050,615)**	(157,161,732)
Net debt	**74,187,822**	16,658,808
Equity attributable to owners of the Company	**265,694,287**	222,248,442
Net gearing ratio	**27.9%**	7.5%

6. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial assets, financial liabilities and equity instruments are disclosed in Note 3.

a. Categories of Financial Instruments

	2017	2016
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables at amortised cost (including bank balances and cash)	**144,147,511**	192,475,318
Available-for-sale financial assets (including investments in syndicated property project companies and available-for-sale investments)	**140,054**	171,423
Financial liabilities		
Liabilities at amortised cost	**247,129,191**	226,977,265

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies

The Group's major financial instruments include available-for-sale financial assets, bank and other borrowings, notes payable, trade and other receivables, trade and other payables, amounts due from/to affiliated companies and bank balances. Details of the financial instruments are disclosed in respective notes.

Management monitors and manages the financial risks relating to the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. These risks include market risk (including interest rate risk and currency risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

There has been no change to the Group's exposure to these kinds of risks or the manner in which it manages and measures these risks.

(i) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and changes in foreign exchange rates.

Interest rate risk

The Group's cash flow interest rate risk relates primarily to its variable-rate bank and other borrowings, amounts due to non-controlling shareholders and amounts due from associates and joint ventures amounting to HK$86,296,354,000 (2016: HK$58,236,508,000), HK$2,112,253,000 (2016: HK$502,598,000) and HK$12,538,221,000 (2016: HK$9,351,118,000), respectively. The variable-rate bank and other borrowings with original maturities ranging from one to five years are for financing development of property projects. Increase in interest rates would increase interest expenses. Management monitors interest rate exposure on dynamic basis and will consider hedging significant interest rate exposure should the need arise. Management considers the exposure to interest rate risk in relation to bank deposits is insignificant due to the low level of bank interest rate.

The Group's fair value interest rate risk relates primarily to its corresponding fixed-rate bank and other borrowings, notes payable, amounts due to associates and a joint venture, amounts due to non-controlling shareholders, and net amounts due from CITIC Group amounting to HK$17,284,337,000 (2016: HK$38,008,620,000), HK$74,657,746,000 (2016: HK$77,575,412,000), HK$1,524,096,000 (2016: HK$627,100,000), HK$3,720,155,000 (2016: HK$2,083,542,000) and HK$Nil (2016: HK$470,480,000), respectively. Management will also consider hedging significant interest rate exposure should the need arise.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(i) **Market risk** *(continued)*

Interest rate risk sensitivity analysis

The analysis is prepared assuming the amount of assets/liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 (2016: 100) basis points higher/lower and all other variables were held constant, the Group's profit before tax for the year would decrease/increase by HK$38,963,000 (2016: HK$115,113,000) after capitalising finance costs in properties under development and investment properties under construction of HK$719,741,000 (2016: HK$378,767,000). This is mainly attributable to the Group's exposure to cash flow interest rates on its variable-rate bank and other borrowings, amounts due to non-controlling shareholders and amounts due from associates and joint ventures.

Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. The Group's assets are mainly RMB-denominated assets, however, HK$-denominated bank borrowings, US$-denominated and EUR-denominated notes payable in aggregate account for 48.7% of the Group's interest bearing debts. Taking into consideration that RMB is still subject to volatility in the short-term but would become stable in the medium term, the foreign exchange risk should be short-term and relatively controllable. Management manages its foreign currency risk by closely reviewing the movement of the foreign currency rates and considers hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date are as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Assets		
HK$	**13,255,870**	7,764,227
United States dollars ("US$")	**6,720,415**	16,613,386
Liabilities		
HK$	**35,066,100**	27,479,622
US$	**42,459,040**	48,245,342
Euro ("EUR")	**9,337,762**	8,100,911

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(i) Market risk *(continued)*

Currency risk sensitivity analysis

The Group mainly exposes to the currency risk of US$, HK$ and EUR. The following details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in the functional currencies of group entities against US$, HK$ and EUR respectively. 5% (2016: 5%) is the sensitivity rate used as it represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2016: 5%) change in foreign currency rates. The sensitivity analysis includes amounts due from associates and joint ventures, bank balances, bank and other borrowings and notes payable in currencies other than the functional currencies of the group entities.

For a 5% (2016: 5%) decrease of functional currencies of group entities against US$, HK$, EUR and all other variables were held constant, the Group's profit before tax for the year would decrease by HK$2,707,105,000 (2016: HK$1,913,474,000) after increase in capitalising of exchange losses in stock of properties of HK$Nil (2016: HK$22,000,000).

For a 5% (2016: 5%) increase of functional currencies of group entities against US$, HK$, EUR and all other variables were held constant, the Group's profit before tax for the year would increase by HK$2,459,529,000 (2016: HK$1,533,474,000) after decrease in capitalising of exchange losses in stock of properties of HK$247,576,000 (2016: HK$402,000,000).

This is mainly attributable to the Group's exposure to outstanding amounts due from associates and joint ventures, bank balances, bank and other borrowings and notes payable at the end of the reporting period.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the year end exposure does not reflect the exposure during the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(ii) Credit risk

At 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group are arising from:

- the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amounts of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note 42.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

Other than concentration of credit risk on liquid funds as well as amounts due from associates, joint ventures and non-controlling shareholders, the Group does not have any other significant concentration of credit risk. The Group would closely monitor the financial positions including the net assets backing of the associates, joint ventures and non-controlling shareholders, which are mainly engaged in property development business in Hong Kong and the PRC and their property development projects are profitable. In addition, the Group reviews the recoverable amount of the individual debt to ensure that adequate impairment losses are made for the irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is mitigated. Trade receivables consist of a large number of customers spreading across diverse geographical areas.

For properties that are pre-sold but development has not been completed, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchases of the properties for an amount up to 70% of the purchase price of the individual property. If a purchaser defaults on the payment of its mortgage during the period of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding loan and any interest accrued thereon. As the mortgage loans are secured by the properties with current market price higher than the guaranteed amounts, management considers it would recover any loss incurred arising from the guarantee provided by the Group.

(iii) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on bank and other borrowings and notes payable as a significant source of liquidity. At 31 December 2017, the Group maintains substantial undrawn committed revolving banking facilities to allow for flexibility in meeting its funding requirements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(iii) Liquidity risk *(continued)*

The following table analyses the contractual undiscounted cash flows of the Group's financial liabilities by relevant maturity groupings based on the remaining period from the year-end date to the earliest date the Group is required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from flat rate at the end of the reporting period. The undiscounted amounts are subject to changes if changes in variable rates differ to those estimates of interest rates determined at the end of the reporting period.

	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2017						
Trade and other payables	**47,193,450**	**3,213,744**	**1,331,815**	**87,290**	**51,826,299**	**51,826,299**
Amounts due to fellow subsidiaries	**756,994**	–	–	–	**756,994**	**756,994**
Amounts due to associates	**2,033,114**	–	–	–	**2,033,114**	**2,028,855**
Amounts due to joint ventures	**5,436,991**	–	–	–	**5,436,991**	**5,425,631**
Amounts due to non-controlling shareholders	**5,413,282**	**4,048,307**	–	–	**9,461,589**	**8,852,975**
Bank and other borrowings	**17,450,074**	**14,147,476**	**81,715,541**	**3,206,051**	**116,519,142**	**103,580,691**
Notes payable	**6,686,611**	**21,258,516**	**35,471,186**	**39,533,698**	**102,950,011**	**74,657,746**
Financial guarantee contracts	**51,740,067**	**1,200,000**	**916,092**	–	**53,856,159**	–
	136,710,583	**43,868,043**	**119,434,634**	**42,827,039**	**342,840,299**	**247,129,191**
At 31 December 2016						
Trade and other payables	41,499,088	2,178,577	1,092,099	45,437	44,815,201	44,815,201
Amounts due to fellow subsidiaries	678,296	–	–	–	678,296	678,296
Amounts due to associates	1,402,372	–	–	–	1,402,372	1,400,177
Amounts due to joint ventures	2,158,084	–	–	–	2,158,084	2,158,084
Amounts due to non-controlling shareholders	3,237,937	955,181	–	–	4,193,118	3,839,122
Amounts due to CITIC Group	265,845	–	–	–	265,845	265,845
Bank and other borrowings	37,841,577	19,109,751	45,155,755	3,225,410	105,332,493	96,245,128
Notes payable	8,415,644	19,309,440	37,387,113	37,416,997	102,529,194	77,575,412
Financial guarantee contracts	42,676,943	457,615	27,996	–	43,162,554	–
	138,175,786	42,010,564	83,662,963	40,687,844	304,537,157	226,977,265

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amounts if that amounts are claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee that the guaranteed financial receivables held by the counterparty suffers credit losses.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

c. Fair Value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of investments in syndicated property project companies is estimated with reference to the fair value of the properties held by these companies;
- The fair values of financial guarantee contracts are determined using discounted cash flow models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss given the default; and
- The fair values of other financial assets and other financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Other than the notes payable that is disclosed in Note 35, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurements at 31 December 2017 categorised into			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Investments in syndicated property project companies	–	–	24,212	24,212
	–	–	24,212	24,212

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

c. Fair Value *(continued)*

Fair value measurements recognised in the consolidated statement of financial position *(continued)*

	Fair value measurements at 31 December 2016 categorised into			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Investments in syndicated property project companies	–	–	24,212	24,212
	–	–	24,212	24,212

Information about Level 3 fair value measurements

	Fair value at 31 December 2017 *HK$'000*	**Valuation techniques**	**Significant unobservable inputs**	**Range**
Syndicated property project companies	**24,212**	**Direct comparison**	**Comparable selling prices**	**HK$4,200 – HK$6,000 per square foot**

	Fair value at 31 December 2016 *HK$'000*	Valuation techniques	Significant unobservable inputs	Range
Syndicated property project companies	24,212	Direct comparison	Comparable selling prices	HK$4,200 – HK$6,000 per square foot

The fair value measurement is positively correlated to the comparable selling price.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

c. Fair Value *(continued)*

Information about Level 3 fair value measurements *(continued)*

The movements during the year in the balances of these Level 3 fair value measurements are as follows:

	HK$'000
At 1 January 2016	4,035,326
Acquisition of subsidiaries *(Note 39(b))*	(2,180,755)
Disposals	(1,830,359)
At 31 December 2016 and 2017	24,212

The Group reviews the valuation performed by the internal valuer for financial reporting purpose. The valuer reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuer at least twice a year. There were no changes in valuation techniques during the year.

The sensitivity analysis is not performed as management considers that the Group is not exposed to significant fair value risk at the end of the reporting period.

7. REVENUE

Revenue comprises proceeds from property development, property rentals and other income. An analysis of the Group's revenue for the year is as follows:

	2017 **HK$'000**	2016 HK$'000
Proceeds from property development activities	**162,139,770**	159,891,147
Property rentals	**2,450,060**	2,137,167
Others *(Note)*	**1,455,133**	2,040,214
Revenue	**166,044,963**	164,068,528
Business tax	**(2,072,793)**	(5,351,547)
Net revenue	**163,972,170**	158,716,981

Note: Others mainly comprise revenues from hotel operation, provision of real estate management services, and construction and building design consultancy services.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. SEGMENT INFORMATION

The Group is organised into business units based on their products and services, based on which information is prepared and reported to the Group's management for the purposes of resources allocation and assessment of performance. The Group's operating and reportable segments under HKFRS 8 and the types of revenue are as follows:

Property development	–	proceeds from property development activities
Property investment	–	property rentals
Other operations	–	revenue from hotel operation, real estate management services, and construction and building design consultancy services

Segment Revenue and Results

The following is an analysis of the Group's revenue and results (including share of results of associates and joint ventures) by reportable segments:

Year ended 31 December 2017

	Property development *HK$'000*	**Property Investment** *HK$'000*	**Other operations** *HK$'000*	**Segment total** *HK$'000*
Segment revenue				
– from external customers	**162,139,770**	**2,450,060**	**1,455,133**	**166,044,963**
Business tax	**(2,023,024)**	**(39,582)**	**(10,187)**	**(2,072,793)**
Net revenue	**160,116,746**	**2,410,478**	**1,444,946**	**163,972,170**
Segment profit (including share of profits of associates and joint ventures)	**51,445,746**	**10,000,620**	**273,085**	**61,719,451**

Year ended 31 December 2016

	Property development *HK$'000*	Property Investment *HK$'000*	Other operations *HK$'000*	Segment total *HK$'000*
Segment revenue				
– from external customers	159,891,147	2,137,167	2,040,214	164,068,528
Business tax	(5,247,187)	(88,446)	(15,914)	(5,351,547)
Net revenue	154,643,960	2,048,721	2,024,300	158,716,981
Segment profit (including share of profits of associates and joint ventures)	46,944,834	11,881,858	31,063	58,857,755

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. SEGMENT INFORMATION *(continued)*

Segment Revenue and Results *(continued)*

Reconciliation of reportable segment profits to the consolidated profit before tax

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3.

Segment profits include profits from subsidiaries and share of profits of associates and joint ventures. This represents the profit earned by each segment without allocation of interest income on bank deposits and receivables, corporate expenses, finance costs and net foreign exchange gains/(losses) recognised in the consolidated income statement. This is the measure reported to the management of the Group for the purposes of resources allocation and performance assessment.

	2017 HK$'000	2016 HK$'000
Reportable segment profits	61,719,451	58,857,755
Unallocated items:		
Interest income on bank deposits and receivables	1,155,549	1,949,117
Corporate expenses	(525,226)	(376,657)
Finance costs	(1,393,544)	(2,055,956)
Net foreign exchange gains/(losses) recognised in the consolidated income statement	2,463,069	(1,272,458)
Consolidated profit before tax	63,419,299	57,101,801

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

At 31 December 2017

	Property development HK$'000	Property investment HK$'000	Other operations HK$'000	Segment total HK$'000
Segment assets (including interests in and amounts due from associates and joint ventures) *(Note a)*	438,739,799	98,197,287	4,417,084	541,354,170
Segment liabilities (including amounts due to associates and joint ventures) *(Note b)*	(176,079,192)	(12,645,880)	(4,897,846)	(193,622,918)

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

At 31 December 2016

	Property development *HK$'000*	Property investment *HK$'000*	Other operations *HK$'000*	Segment total *HK$'000*
Segment assets (including interests in and amounts due from associates and joint ventures) *(Note a)*	343,045,092	67,889,162	3,193,291	414,127,545
Segment liabilities (including amounts due to associates and joint ventures) *(Note b)*	(158,997,696)	(8,405,234)	(2,642,448)	(170,045,378)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than bank balances and cash; and
- all liabilities are allocated to reportable segments other than bank and other borrowings and notes payable.

	2017 ***HK$'000***	2016 *HK$'000*
Reportable segment assets	**541,354,170**	414,127,545
Unallocated items:		
Bank balances and cash	**104,050,615**	157,161,732
Consolidated total assets	**645,404,785**	571,289,277
Reportable segment liabilities	**(193,622,918)**	(170,045,378)
Unallocated items:		
Bank and other borrowings	**(103,580,691)**	(96,245,128)
Notes payable	**(74,657,746)**	(77,575,412)
Consolidated total liabilities	**(371,861,355)**	(343,865,918)

Notes:

(a) Segment assets include interests in and amounts due from associates of HK$8,232,345,000 (2016: HK$5,512,064,000) and HK$14,478,488,000 (2016: HK$14,529,979,000) and interests in and amounts due from joint ventures of HK$12,405,070,000 (2016: HK$10,526,289,000) and HK$9,578,197,000 (2016: HK$7,570,878,000) respectively.

(b) Segment liabilities include amounts due to associates and joint ventures of HK$2,028,855,000 and HK$5,425,631,000 (2016: HK$1,400,177,000 and HK$2,158,084,000) respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. SEGMENT INFORMATION *(continued)*

Other Segment Information

Year ended 31 December 2017

	Property development HK$'000	Property investment HK$'000	Other operations HK$'000	Consolidated HK$'000
Amounts included in the measurement of segment results and segment assets:				
Additions to non-current assets *(Note)*	49,606	4,568,227	12,968	4,630,801
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	–	2,140,171	–	2,140,171
Gain on acquisition of subsidiaries	–	326,267	–	326,267
Gain on disposal of property, plant and equipment	9,298	210	445	9,953
Gain on disposal of investment properties	–	40,782	–	40,782
Depreciation and amortisation	140,655	1,829	65,974	208,458
Gain arising from changes in fair value of investment properties	–	5,946,121	–	5,946,121
Interest income on amounts due from associates and joint ventures	318,206	–	–	318,206
Share of profits of associates	1,164,116	–	–	1,164,116
Share of profits of joint ventures	774,352	–	–	774,352

Year ended 31 December 2016

	Property development HK$'000	Property investment HK$'000	Other operations HK$'000	Consolidated HK$'000
Amounts included in the measurement of segment results and segment assets:				
Additions to non-current assets *(Note)*	872,668	2,544,529	22,441	3,439,638
Gain/(loss) on disposal of property, plant and equipment	143,825	17	(361)	143,481
Gain on disposal of investment properties	–	1,028,432	–	1,028,432
Depreciation and amortisation	259,208	4,105	93,657	356,970
Gain arising from changes in fair value of investment properties	–	7,722,671	–	7,722,671
Interest income on amounts due from associates and joint ventures	307,136	–	–	307,136
Impairment losses in respect of goodwill	1,903,104	–	–	1,903,104
Share of profits of associates	476,682	–	–	476,682
Share of profits of joint ventures	775,770	–	–	775,770

Note: *Non-current assets exclude investments in syndicated property project companies, available-for-sale investments, interests in and amounts due from associates, interests in and amounts due from joint ventures, other receivables and deferred tax assets.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. SEGMENT INFORMATION *(continued)*

Revenue from Major Products and Services

An analysis of the Group's revenue for the year from its major products and services is set out in Note 7.

Information about Geographical Areas

The Group's property development, property investment and other operations are carried out in Hong Kong, Macau, other regions in the PRC and the United Kingdom. The following table provides a geographical analysis of the Group's revenue from external customers (based on where the products and services are delivered or provided) and non-current assets (based on the location of assets).

	Revenue by geographical market		Non-current assets *(Note)*	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC				
Hua Nan Region	**50,320,061**	54,725,726	**15,660,762**	12,693,086
Hua Dong Region	**26,651,123**	28,518,574	**21,676,621**	8,396,764
Hua Bei Region	**41,851,598**	41,572,958	**40,247,831**	28,853,510
Northern Region	**22,511,398**	18,744,106	**2,982,510**	2,622,338
Western Region	**10,809,107**	11,321,252	**11,384,651**	9,905,335
The United Kingdom	**380,586**	391,484	**7,117,440**	6,436,700
Hong Kong and Macau	**13,521,090**	8,794,428	**2,845,505**	2,704,353
	166,044,963	164,068,528	**101,915,320**	71,612,086
Business tax	**(2,072,793)**	(5,351,547)	**–**	–
	163,972,170	158,716,981	**101,915,320**	71,612,086

Note: Non-current assets exclude investments in syndicated property project companies, available-for-sale investments, interests in and amounts due from associates, interests in and amounts due from joint ventures, other receivables and deferred tax assets.

Information about Major Customers

There was no customer who accounted for over 10% of the Group's revenue for both years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

9. OTHER INCOME AND GAINS, NET

	2017 **HK$'000**	2016 HK$'000
Other income and gains, net include:		
Interest on bank deposits and receivables	**1,155,549**	1,949,117
Interest income on amounts due from associates and joint ventures	**381,206**	307,136
Total interest income	**1,536,755**	2,256,253
Gain on disposal of property, plant and equipment	**9,953**	143,481
Net foreign exchange gains/(losses)	**2,138,825**	(2,575,458)
Add: Exchange losses arising from foreign currency borrowings capitalised	**324,244**	1,303,000
Net foreign exchange gains/(losses) recognised in the consolidated income statement	**2,463,069**	(1,272,458)

10. FINANCE COSTS

	2017 **HK$'000**	2016 HK$'000
Interest on bank and other borrowings and notes payable	**7,388,248**	8,705,618
Other finance costs	**106,620**	115,253
Total finance costs	**7,494,868**	8,820,871
Less: Amount capitalised	**(6,101,324)**	(6,764,915)
	1,393,544	2,055,956

Finance costs capitalised during the year are calculated by applying a weighted average capitalisation rate of 3.71% (2016: 4.35%) per annum to expenditure on qualifying assets including the effect of capitalisation of exchange losses (Note 9).

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

11. INCOME TAX EXPENSES

	2017 **HK$'000**	2016 HK$'000
Current tax:		
PRC Corporate Income Tax ("CIT")	**10,976,364**	8,788,070
LAT	**9,433,927**	7,775,675
PRC withholding income tax	**145,716**	595,252
Hong Kong profits tax	**300,930**	119,140
Macau income tax	**42,854**	2,522
Others	**7,887**	6,170
	20,907,678	17,286,829
(Over)/under-provision in prior years:		
CIT	**(1,379)**	–
Hong Kong profits tax	**37,872**	–
Macau income tax	**(2,522)**	(3,690)
	33,971	(3,690)
Deferred tax *(Note 36)*:		
Current year	**335,535**	1,427,886
Total	**21,277,184**	18,711,025

Under the Law of PRC on Corporate Income Tax (the "CIT Law") and Implementation Regulation of the CIT Law, the tax rate of PRC subsidiaries is 25% (2016: 25%).

The provision for LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions.

Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profit for the year. Macau income tax is calculated at the prevailing tax rate of 12% (2016: 12%) in Macau.

Details of deferred tax are set out in Note 36.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

11. INCOME TAX EXPENSES *(continued)*

The income tax expenses for the year are reconciled to the profit before tax per the consolidated income statement as follows:

	2017 HK$'000	2016 HK$'000
Profit before tax	**63,419,299**	57,101,801
Tax at the applicable tax rate of 25% (2016: 25%)	**15,854,825**	14,275,450
PRC withholding income tax	**145,716**	595,252
LAT	**9,433,927**	7,775,675
Tax effect of LAT	**(2,358,482)**	(1,943,919)
Tax effect of share of results of associates and joint ventures	**(484,617)**	(313,113)
Tax effect of expenses not deductible for tax purpose	**353,629**	933,569
Tax effect of income not taxable for tax purpose	**(1,551,545)**	(1,999,740)
Under/(over)-provision in prior years	**33,971**	(3,690)
Tax effect of tax losses not recognised	**537,145**	770,030
Utilisation of tax losses previously not recognised	**(516,361)**	(67,111)
Effect of different tax rates	**(213,538)**	(1,261,423)
Others	**42,514**	(49,955)
Income tax expenses for the year	**21,277,184**	18,711,025

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

12. PROFIT FOR THE YEAR

	2017 **HK$'000**	2016 HK$'000
Profit for the year has been arrived at after charging/(crediting):		
Auditors' remuneration		
Audit services	**11,940**	12,150
Non-audit services	**1,264**	1,865
In relation to the CITIC Assets Acquisition	**–**	10,545
Business tax	**2,072,793**	5,351,547
Depreciation of property, plant and equipment	**192,453**	346,706
Amortisation of prepaid lease payments for land	**16,005**	10,264
Staff costs including benefits and interests of directors *(Note)*	**3,047,021**	2,842,002
Rental expenses in respect of land and buildings under operating leases	**78,071**	79,911
Share of tax of		
Associates	**822,745**	461,453
Joint ventures	**318,249**	277,496
Cost of stock of properties recognised as expenses	**108,245,542**	111,284,866
Cost of inventories recognised as expenses	**356,294**	333,490
Rental income in respect of investment properties under operating leases, net of outgoings of HK$445,488,000 (2016: HK$326,456,000)	**(1,964,990)**	(1,722,265)

Note: *The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of the trustees.*

The employees of the Group's subsidiaries established in the PRC are members of a state-managed retirement scheme operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme.

The total cost recognised in the consolidated income statement of HK$120,571,000 (2016: HK$107,319,000), which has been included in staff costs disclosed above, represents contributions payable to the schemes by the Group in respect of the current accounting period.

Contributions totaling HK$6,743,000 (2016: HK$4,784,000) were payable to the schemes at the end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13. BENEFITS AND INTERESTS OF DIRECTORS

		Year ended 31 December 2017 As director				
	Notes	Directors' fees *HK$'000*	Basic salaries, allowances and benefits-in-kind *HK$'000*	Performance related bonus *HK$'000*	Contributions to provident *HK$'000*	Total *HK$'000*
Executive Directors						
Yan Jianguo	*(v)*	–	4,184	1,000	16	5,200
Xiao Xiao	*(i)*	–	1,666	1,497	9	3,172
Luo Liang		–	2,324	7,070	18	9,412
Nip Yun Wing		–	3,348	2,350	18	5,716
Non-executive Director						
Chang Ying	*(iii)*	300	–	–	–	300
Independent Non-executive Directors						
Li Man Bun, Brian David		500	–	–	–	500
Lam Kwong Siu		500	–	–	–	500
Fan Hsu Lai Tai, Rita		500	–	–	–	500
		1,800	11,522	11,917	61	25,300

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

		Year ended 31 December 2016 As director				
	Notes	Directors' fees *HK$'000*	Basic salaries, allowances and benefits-in-kind *HK$'000*	Performance related bonus *HK$'000*	Contributions to provident *HK$'000*	Total *HK$'000*
Executive Directors						
Xiao Xiao	*(i)*	–	5,588	2,847	18	8,453
Hao Jian Min	*(i)*	–	5,472	2,372	15	7,859
Chen Yi	*(ii)*	–	405	–	2	407
Luo Liang		–	1,683	7,636	18	9,337
Nip Yun Wing		–	3,191	3,500	18	6,709
Non-executive Directors						
Chang Ying	*(iii)*	89	–	–	–	89
Zheng Xuexuan	*(iv)*	239	–	–	–	239
Independent Non-executive Directors						
Li Man Bun, Brian David		500	–	–	–	500
Lam Kwong Siu		500	–	–	–	500
Fan Hsu Lai Tai, Rita		500	–	–	–	500
		1,828	16,339	16,355	71	34,593

Notes:

(i) *Mr. Hao resigned as an Executive Director, the Chairman and Chief Executive Officer of the Company effective from 15 November 2016 and Mr. Xiao was appointed as the Chairman and Chief Executive Officer on the same date. Mr. Xiao then resigned as the Chief Executive Officer effective from 1 January 2017 and then resigned as the Chairman and an Executive Director effective from 13 June 2017.*

(ii) *Resigned effective from 19 January 2016*

(iii) *Appointed effective from 15 September 2016*

(iv) *Resigned effective from 19 October 2016*

(v) *Mr. Yan Jianguo was appointed as an Executive Director and the Chief Executive Officer of the Company effective from 1 January 2017. Mr. Yan was also appointed as the Chairman of the Company effective from 13 June 2017.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

The performance related bonus was determined based on the Group's performance for the year.

Of the five individuals with the highest emoluments in the Group, one (2016: two) was a director of the Company whose emoluments are included above. The emoluments of the remaining four (2016: three) individuals were set out in Note 44(b).

No directors waived any emoluments in both years ended 31 December 2017 and 2016.

No directors received any emoluments as inducement to join or upon joining the Company or as compensation for loss of office in both years ended 31 December 2017 and 2016.

During the year, Messrs Yan Jianguo, Xiao Xiao and Luo Liang held directorships in CSCEC, and/or its subsidiaries/associated companies, which engaged in construction, property development and property investment and related businesses.

Save as disclosed above, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during both years ended 31 December 2017 and 2016.

14. EARNINGS PER SHARE

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

	2017 ***HK$'000***	2016 *HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**40,766,835**	37,020,638

	2017 ***'000***	2016 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**10,956,201**	10,183,879

Diluted earnings per share were the same as the basic earnings per share for both the years ended 31 December 2017 and 2016 as there were no dilutive potential ordinary shares in existence during both years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

15. DIVIDENDS

	2017 **HK$'000**	2016 HK$'000
Dividends recognised as distributions during the year		
Interim dividend paid in respect of financial year ended 31 December 2017 of HK35 cents (2016: financial year ended 31 December 2016 interim dividend of HK35 cents) per share	**3,834,671**	3,834,671
Final dividend paid in respect of financial year ended 31 December 2016 of HK42 cents (2016: financial year ended 31 December 2015 final dividend of HK41 cents) per share	**4,601,605**	4,042,838
	8,436,276	7,877,509

The final dividend of HK45 cents in respect of the financial year ended 31 December 2017 (2016: final dividend of HK42 cents in respect of the financial year ended 31 December 2016) per share, amounting to HK$4,930,291,000 (2016: HK$4,601,605,000) has been proposed by the Board and is subject to approval by the shareholders at the forthcoming Annual General Meeting. The amount of final dividend proposed, which was calculated based on the number of ordinary shares in issue at the date of approval of the consolidated financial statements, has not been recognised as a liability in the consolidated financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES

	Completed			Under construction	
	The PRC	Hong Kong & Macau	The United Kingdom	The PRC	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FAIR VALUE					
At 1 January 2016	40,872,800	4,712,300	6,083,375	13,798,561	65,467,036
Additions	32,733	–	1,623,901	887,832	2,544,466
Gain arising from changes in fair value of investment properties	5,093,806	601,082	8,775	2,019,008	7,722,671
Transfer upon completion	5,297,949	–	–	(5,297,949)	–
Transfer from stock of properties	1,914,606	731,618	–	1,990,938	4,637,162
Transfer to self-used properties	(1,048,677)	–	–	–	(1,048,677)
Disposals	(3,185,528)	–	–	–	(3,185,528)
Disposal of subsidiaries *(Note 38)*	(9,525)	(3,721,700)	–	–	(3,731,225)
Exchange realignment	(2,817,513)	–	(1,279,351)	(1,215,860)	(5,312,724)
At 31 December 2016	46,150,651	2,323,300	6,436,700	12,182,530	67,093,181
Additions	**27,023**	**–**	**–**	**4,540,646**	**4,567,669**
Gain arising from changes in fair value of investment properties	**4,590,080**	**166,200**	**–**	**1,189,841**	**5,946,121**
Transfer upon completion	**4,905,340**	**–**	**–**	**(4,905,340)**	**–**
Transfer from stock of properties	**3,839,687**	**–**	**–**	**401,311**	**4,240,998**
Disposals	**(264,957)**	**(10,000)**	**–**	**–**	**(274,957)**
Acquisition of subsidiaries *(Note 39)*	**9,780,396**	**–**	**–**	**–**	**9,780,396**
Exchange realignment	**4,546,206**	**–**	**680,740**	**797,035**	**6,023,981**
At 31 December 2017	**73,574,426**	**2,479,500**	**7,117,440**	**14,206,023**	**97,377,389**

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES *(continued)*

Valuation Processes of the Group

The fair values of the investment properties held by the Group at 31 December 2017 have been arrived on the basis of a valuation carried out on that date by Cushman & Wakefield Limited and CBRE Limited.

The valuers mentioned above are independent firms of professional valuers not connected with the Group, who have appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

The Group's finance team reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuers at least twice a year.

At each financial year end the finance team:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report; and
- Holds discussions with the independent valuers.

All of the Group's investment properties held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Fair Value Measurements Using Significant Unobservable Inputs

The valuation for completed investment properties was arrived at by considering the capitalised income derived from the existing tenancies and the reversionary potential of the properties or, where appropriate, by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

The valuation for investment properties under construction was arrived at by making reference to comparable selling prices, as available in the relevant market. The estimated construction costs to complete the development and estimated developer's profits at the date of valuation are also taken into account.

There was no change to the valuation techniques during the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES *(continued)*

Fair Value Measurements Using Significant Unobservable Inputs *(continued)*

Information about fair value measurements using significant unobservable inputs

Description	Fair value at 31 December 2017 *HK$'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Investment properties under construction in the PRC	14,206,023	Residual method	Estimated selling prices	RMB8,000 – RMB80,000 per square meter
			Estimated costs to completion	RMB3,100 – RMB7,900 per square meter
			Estimated developer's profits	7.0% – 28.0%
Completed investment properties in the PRC	73,574,426	Investment approach	Prevailing market rents	RMB18 – RMB797 per square meter per month
			Reversionary yield	4.0% – 8.25%
Completed investment properties in Hong Kong and Macau	2,479,500	Investment approach	Prevailing market rents	HK$15 – HK$400 per square foot per month
			Reversionary yield	2.1% – 4.3%
Completed investment properties in the United Kingdom	7,117,440	Investment approach	Prevailing market rents	British Pound ("GBP") 43 – GBP63 per square foot per year
			Capitalisation rate	4.4% – 4.9%

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES *(continued)*

Fair Value Measurements Using Significant Unobservable Inputs *(continued)*

Information about fair value measurements using significant unobservable inputs *(continued)*

Description	Fair value at 31 December 2016 *HK$'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Investment properties under construction in the PRC	12,182,530	Residual method	Estimated selling prices	RMB11,000 – RMB78,000 per square meter
			Estimated costs to completion	RMB4,600 – RMB8,200 per square meter
			Estimated developer's profits	7.0% – 30.0%
Completed investment properties in the PRC	46,150,651	Investment approach	Prevailing market rents	RMB19 – RMB755 per square meter per month
			Reversionary yield	5.0% – 8.75%
Completed investment properties in Hong Kong and Macau	2,323,300	Investment approach	Prevailing market rents	HK$15 – HK$400 per square foot per month
			Reversionary yield	2.3% – 5.0%
Completed investment properties in the United Kingdom	6,436,700	Investment approach	Prevailing market rents	GBP46 – GBP62 per square foot per year
			Capitalisation rate	4.4% – 5.0%

Estimated costs to completion and developer's profit required are estimated by the independent valuers based on market conditions at the end of the reporting period. The estimates are largely consistent with the budgets developed internally by the Group based on management's experience and knowledge of market conditions. The lower the costs and developer's profits, the higher the fair value.

Estimated selling prices and prevailing market rents are estimated based on the independent valuers' view of recent lettings or selling transactions within the subject properties and other comparable properties. The higher the selling prices and rents, the higher the fair value.

Reversionary yield and capitalisation rate are estimated by the independent valuers based on the risk profile of the properties being valued and the market conditions. The lower the yield and capitalisation rate, the higher the fair value.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *HK$'000*	Hotel buildings *HK$'000*	Plant, machinery and equipment *HK$'000*	Furniture, fixtures, office equipment and motor vehicles *HK$'000*	Construction-in-progress *HK$'000*	Total *HK$'000*
COST						
At 1 January 2016	1,995,983	1,889,377	432,385	1,184,265	302,371	5,804,381
Additions	50,207	35,625	6,335	195,142	607,863	895,172
Acquisition of subsidiaries *(Note 39)*	–	–	–	18,431	–	18,431
Transfer from stock of properties	41,106	–	–	–	–	41,106
Transfer from investment properties	655,620	393,057	–	–	–	1,048,677
Disposals	(252,854)	–	(17,939)	(38,683)	–	(309,476)
Disposal of subsidiaries *(Note 38)*	(396,651)	–	(22,429)	(502,727)	(907,657)	(1,829,464)
Exchange realignment	(63,951)	(127,828)	(22,975)	(52,692)	(2,577)	(270,023)
At 31 December 2016	2,029,460	2,190,231	375,377	803,736	–	5,398,804
Additions	**6,959**	**15,966**	**9,758**	**30,449**	**–**	**63,132**
Acquisition of subsidiaries *(Note 39)*	**–**	**–**	**–**	**286**	**–**	**286**
Disposals	**(27,410)**	**–**	**(16,133)**	**(57,601)**	**–**	**(101,144)**
Disposal of subsidiaries *(Note 38)*	**–**	**–**	**(3,674)**	**(50,303)**	**–**	**(53,977)**
Exchange realignment	**66,907**	**144,524**	**25,412**	**52,605**	**–**	**289,448**
At 31 December 2017	**2,075,916**	**2,350,721**	**390,740**	**779,172**	**–**	**5,596,549**

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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

	Leasehold land and buildings HK$'000	Hotel buildings HK$'000	Plant, machinery and equipment HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
DEPRECIATION						
At 1 January 2016	390,295	304,859	202,855	778,243	–	1,676,252
Provided for the year	53,507	173,480	26,686	93,033	–	346,706
Acquisition of subsidiaries *(Note 39)*	–	–	–	10,702	–	10,702
Eliminated on disposals	(89,278)	–	(433)	(28,152)	–	(117,863)
Disposal of subsidiaries *(Note 38)*	(68,330)	–	(19,532)	(222,660)	–	(310,522)
Exchange realignment	(15,108)	(29,445)	(10,791)	(37,634)	–	(92,978)
At 31 December 2016	271,086	448,894	198,785	593,532	–	1,512,297
Provided for the year	**35,181**	**42,798**	**27,197**	**87,277**	**–**	**192,453**
Eliminated on disposals	**(4,369)**	**–**	**(14,679)**	**(50,182)**	**–**	**(69,230)**
Disposal of subsidiaries *(Note 38)*	**–**	**–**	**(3,104)**	**(40,577)**	**–**	**(43,681)**
Exchange realignment	**15,414**	**36,830**	**12,713**	**42,157**	**–**	**107,114**
At 31 December 2017	**317,312**	**528,522**	**220,912**	**632,207**	**–**	**1,698,953**
CARRYING VALUES						
At 31 December 2017	**1,758,604**	**1,822,199**	**169,828**	**146,965**	**–**	**3,897,596**
At 31 December 2016	1,758,374	1,741,337	176,592	210,204	–	3,886,507

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land in Hong Kong	Over the lease terms
Leasehold land and buildings	Over the shorter of the term of the relevant lease or 25 years
Hotel buildings	20 years or over the remaining lease terms
Plant, machinery and equipment	3 to 10 years
Other assets	3 to 8 years

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

18. PREPAID LEASE PAYMENTS FOR LAND

	2017	2016
	HK$'000	*HK$'000*
Land use rights in PRC	**592,206**	586,270
Analysed for reporting purposes as:		
Non-current assets	**575,810**	567,873
Current assets	**16,396**	18,397
	592,206	586,270

19. INTERESTS IN ASSOCIATES

	2017	2016
	HK$'000	*HK$'000*
Cost of investments		
Listed in Hong Kong	**2,862,287**	2,862,287
Unlisted	**2,581,975**	1,535,210
Share of post-acquisition profits and other comprehensive income, net of dividends received	**2,788,083**	1,114,567
	8,232,345	5,512,064
Market value of the interest in the listed associate	**3,611,541**	2,192,752

Set out below are the particulars of the principal associates at 31 December 2017 and 2016. In the opinion of the directors of the Company, to give details of other associates would result in particulars of excessive length.

Name of entity	Place of incorporation/ establishment	Place of operation	Proportion of nominal value of issued ordinary capital/registered capital indirectly held 2017	2016	Principal activities
China Overseas Grand Oceans Group Ltd. ("COGO")*	Hong Kong	PRC	**37.98%** *(Note)*	37.98%	Property development and investment, and investment holding
金茂投資(長沙)有限公司	PRC	PRC	**20%**	20%	Property development
廣州利合房地產開發有限公司	PRC	PRC	**20%**	20%	Property development
青島昌明置業有限公司	PRC	PRC	**22.5%**	–	Property development
長沙禧榮置業有限公司	PRC	PRC	**33%**	–	Property development
北京金良興業房地產開發有限公司	PRC	PRC	**40%**	–	Property development

* *COGO is listed in the Main Board of the Hong Kong Stock Exchange.*

Note: *Pursuant to the irrevocable undertaking of the rights issue on the basis of one rights share for every two shares, the Group has taken up the full entitlement to the new shares under the rights issue of COGO on 5 February 2018. The Group's shareholding on COGO is 38.32% immediately after the completion of the rights issue.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

19. INTERESTS IN ASSOCIATES *(continued)*

All of these associates are accounted for using the equity method in these consolidated financial statements.

Set out below is the summarised financial information of associate of the Group at 31 December 2017 which, in the opinion of the directors of the Company, is material to the Group.

Summarised Statement of Financial Position

	COGO	
	2017	2016
	HK$'000	*HK$'000*
Current		
Bank balances and cash	**23,702,253**	15,158,177
Other current assets	**66,026,148**	61,660,831
Total current assets	**89,728,401**	76,819,008
Financial liabilities (excluding trade payables)	**(8,138,421)**	(18,752,265)
Other current liabilities (including trade payables)	**(46,385,993)**	(29,762,093)
Total current liabilities	**(54,524,414)**	(48,514,358)
Non-current		
Total non-current assets	**5,595,345**	4,534,707
Financial liabilities	**(22,459,969)**	(17,833,450)
Other liabilities	**(3,876,349)**	(3,820,607)
Total non-current liabilities	**(26,336,318)**	(21,654,057)
Net assets	**14,463,014**	11,185,300

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

19. INTERESTS IN ASSOCIATES *(continued)*

Summarised Statement of Comprehensive Income

	COGO 2017 HK$'000	COGO 2016 HK$'000
Revenue	**20,277,831**	17,093,485
Depreciation and amortisation	**(54,807)**	(13,302)
Interest income	**178,146**	125,593
Interest expense	**(32,500)**	(18,450)
Profit before tax	**3,182,151**	2,114,551
Income tax expenses	**(1,920,417)**	(1,179,996)
Profit for the year	**1,261,734**	934,555
Other comprehensive income	**2,104,829**	(1,689,905)
Total comprehensive income	**3,366,563**	(755,350)
Dividends received from COGO	**26,001**	–

Reconciliation of Summarised Financial Information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the associate

	COGO 2017 HK$'000	COGO 2016 HK$'000
Opening net assets at 1 January	**11,185,300**	11,809,837
Profit for the year	**1,261,734**	934,555
Other comprehensive income and other reserves	**2,084,447**	(1,559,092)
Dividends paid	**(68,467)**	–
Closing net assets at 31 December	**14,463,014**	11,185,300
Non-controlling interests	**(785,872)**	(763,373)
Equity attributable to owners of the associate	**13,677,142**	10,421,927
Interest in associate %	**37.98%**	37.98%
Interest in associate	**5,194,579**	3,958,248
Carrying value at 31 December	**5,194,579**	3,958,248

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

19. INTERESTS IN ASSOCIATES *(continued)*

Aggregate Information of Associates that are not Individually Material

	2017 **HK$'000**	2016 HK$'000
The Group's share of profit	**684,609**	134,742
The Group's share of other comprehensive income	**147,199**	(111,069)
The Group's share of total comprehensive income	**831,808**	23,673
Aggregate carrying amount of the Group's interests in these associates	**3,037,766**	1,553,816

The contingent liabilities relating to the Group's interests in associates are disclosed in Note 42.

20. INTERESTS IN JOINT VENTURES

	2017 **HK$'000**	2016 HK$'000
Cost of investments, unlisted	**8,871,010**	8,214,910
Share of post-acquisition profits and other comprehensive income, net of dividends received	**3,534,060**	2,311,379
	12,405,070	10,526,289

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

20. INTERESTS IN JOINT VENTURES *(continued)*

Set out below are the particulars of the principal joint ventures at 31 December 2017 and 2016. In the opinion of the directors of the Company, to give details of other joint ventures would result in particulars of excessive length. These joint ventures are established and operating in the PRC, unless otherwise indicated.

Name of entity	Proportion of nominal value of issued ordinary capital/registered capital held by the Group		Principal activities
	2017	2016	
重慶嘉江房地產開發有限公司	**60%^**	60%^	Property development
重慶豐盈房地產開發有限公司	**45%^**	45%^	Property development
重慶嘉益房地產開發有限公司	**50%**	50%	Property development
冠泉置業（寧波）有限公司	**50%**	50%	Property development
上海中海海軒房地產有限公司	**–** *(Note 39(a))*	50%	Property development
杭州中海雅戈爾房地產有限公司	**50%**	50%	Property development
寧波茶亭置業有限公司	**35%^**	35%^	Property development
蘇州中海雅戈爾房地產有限公司	**51%^**	51%^	Property development
蘇州依湖置業有限公司	**50%**	50%	Property development
華潤置地（太原）發展有限公司	**50%**	50%	Property development
成都錦府中建房地產開發有限公司	**50%**	50%	Property development
深圳市海清置業發展有限公司	**50%**	50%	Property development
中國南航建設開發有限公司	**51%^**	51%^	Property development
中信保利達地產（佛山）有限公司	**50%**	50%	Property development
西安合匯興尚置業有限公司	**50%**	–	Property development
西安鼎盛東越置業有限公司	**50%**	–	Property development
西安嘉潤榮成置業有限公司	**50%**	–	Property development
北京南悅房地產開發有限公司	**35%^**	–	Property development
Top Regent Holdings Limited (incorporated and operating in Hong Kong)	**33.3%^**	–	Property development

^ *The Group exercises joint control over decisions about the relevant activities require unanimous consent with other joint venture partners in accordance with joint venture agreements and/or the companies' Articles, and accordingly, these companies have been accounted for as joint ventures.*

All of these joint ventures are accounted for using the equity method in these consolidated financial statements. In the opinion of the directors of the Company, there are no individually material joint ventures.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

20. INTERESTS IN JOINT VENTURES *(continued)*

Aggregate information of joint ventures that are not individually material

	2017 HK$'000	2016 HK$'000
The Group's share of profit	**774,352**	775,770
The Group's share of other comprehensive income	**820,563**	(975,668)
The Group's share of total comprehensive income	**1,594,915**	(199,898)
Aggregate carrying amount of the Group's interests in these joint ventures	**12,405,070**	10,526,289

The contingent liabilities relating to the Group's interests in joint ventures are disclosed in Note 42.

21. INVESTMENTS IN SYNDICATED PROPERTY PROJECT COMPANIES AND AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Unlisted, at fair value		
Investments in syndicated property project companies *(Note a)*	**24,212**	24,212
	24,212	24,212
Unlisted, at cost less impairment *(Note b)*		
Investments in wealth management products	**15,410**	53,865
Available-for-sale equity investments	**100,432**	93,346
	115,842	147,211

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

21. INVESTMENTS IN SYNDICATED PROPERTY PROJECT COMPANIES AND AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

Notes:

(a) *The investments represent the Group's interests in the following syndicated property project companies which are carried at fair value at the end of the reporting period as estimated by the directors of the Company by reference to the fair value of the properties held by these companies.*

The syndicated property project companies are incorporated and operating in Hong Kong unless otherwise indicated.

Name of entity	Attributable equity interests held by the Group 2017	2016	Principal activities
Direct Profit Development Limited	**8%**	8%	Property development
Dramstar Company Limited	**12%**	12%	Property development
Victory World Limited	**10%**	10%	Property development

(b) *At 31 December 2017 and 2016, these equity investments were stated at their costs because there was no active market quotation and the fair value could not be reliably measured. Available-for-sale equity investments were individually determined to be impaired on the basis of a material decline in their fair values below costs and adverse changes in the market in which these investees operated and indicated that the costs of the Group's investments in them may not be recovered.*

22. AMOUNTS DUE FROM ASSOCIATES AND JOINT VENTURES UNDER NON-CURRENT ASSETS

	2017			2016		
	Interest-free	**Interest bearing**	**Total**	Interest-free	Interest bearing	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from:						
associates	**4,489,974**	**4,479,818**	**8,969,792**	2,728,181	–	2,728,181
joint ventures	**3,410,484**	**3,182,190**	**6,592,674**	1,293,878	764,139	2,058,017
	7,900,458	**7,662,008**	**15,562,466**	4,022,059	764,139	4,786,198

At 31 December 2017, the interest bearing amounts due from associates and joint ventures bear variable interest rates ranging from 4.75% to 12.0% (2016: 6.84% to 6.92%) per annum.

All the non-current amounts due from associates and joint ventures are unsecured and not expected to be recovered within one year after the end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

23. INVENTORIES

	2017	2016
	HK$'000	*HK$'000*
Raw materials and consumables, at cost	**82,852**	88,711

24. STOCK OF PROPERTIES

	2017	2016
	HK$'000	*HK$'000*
Completed properties	**36,582,703**	51,829,525
Properties under development *(Note)*	**298,958,860**	209,860,252
Total stock of properties	**335,541,563**	261,689,777

Note: Included in the amount are properties under development for sale of HK$243,375,920,000 (2016: HK$136,398,682,000) not expected to be realised within twelve months from the end of the reporting period.

At 31 December 2017, stock of properties with carrying amount of HK$403,270,000 (2016: HK$1,461,995,000) were stated at their net realisable values.

At 31 December 2017, stock of properties included costs incurred for a project in Beijing of HK$13,283,086,000, whereby the Group entered into agreements with the Beijing local government for land development works such as relocation of residents and infrastructure constructions, and subsequent development of residential properties for sale.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

25. LAND DEVELOPMENT EXPENDITURE

	2017 HK$'000	2016 HK$'000
Cost incurred	**24,305,938**	7,631,262

The Group, together with independent third parties, entered into agreements ("Agreements") with the Beijing local government to jointly redevelop some lands in Beijing. The Group is responsible for the land development works, which included but is not limited to the removal of the existing buildings situated on the land, the relocation of the existing residents, the provision of infrastructure systems including roads, drainage system, water, gas and electricity supply and the construction of public facilities. Pursuant to the Agreements, the Group will be reimbursed for the actual costs incurred in carrying out the land development and be entitled to the fixed returns irrespective of whether the Group will obtain the land use rights of the land in the future.

26. TRADE AND OTHER RECEIVABLES

Proceeds receivable in respect of properties development are settled in accordance with the terms stipulated in the sale and purchase agreements.

Except for the proceeds from properties development and rental income from lease of properties which are receivable in accordance with the terms of the relevant agreements, the Group generally allows a credit period of not exceeding 60 days to its customers.

The following is an ageing analysis of trade receivables presented at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Trade receivables, aged		
0–30 days	**6,315,313**	6,789,334
31–90 days	**653,876**	297,355
Over 90 days	**1,857,092**	695,944
	8,826,281	7,782,633
Other receivables	**5,474,286**	3,558,798
	14,300,567	11,341,431

Before accepting any new customer, the Group uses an internal credit assessment system to assess the potential customers' credit quality and defines credit limits by customer.

The Group has insignificant trade receivable balances which are past due at the end of reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

26. TRADE AND OTHER RECEIVABLES *(continued)*

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of the Company believe that there is no provision required at the end of the reporting period.

27. AMOUNTS DUE FROM FELLOW SUBSIDIARIES/ASSOCIATES/JOINT VENTURES/ NON-CONTROLLING SHAREHOLDERS UNDER CURRENT ASSETS

At 31 December 2017, the amounts due from associates include amounts due from COGO of HK$5,078,860,000 (2016: HK$10,913,818,000), which were mainly arisen from the disposal of subsidiaries to COGO by the Group in 2016 (Note 38). The amounts include HK$3,343,788,000 (2016: HK$6,005,268,000) which bears variable interest at the People's Bank of China prevailing lending rate per annum, HK$1,532,425,000 (2016: HK$2,581,711,000) which bears variable interest at Hong Kong Interbank Offered Rate ("HIBOR") per annum, and the remaining balances are interest-free. All these balances are unsecured and recoverable within one year or on demand.

The remaining balances of amounts due from associates and all the amounts due from fellow subsidiaries/joint ventures/ non-controlling shareholders at 31 December 2017 and 2016 are unsecured, interest-free and recoverable on demand.

28. AMOUNTS DUE FROM/TO CITIC GROUP

At 31 December 2017, the amounts due from CITIC Group are unsecured, interest-free and recoverable on demand.

At 31 December 2016, except for the amounts of HK$470,480,000 which bore fixed interest rates ranging from 1.49% to 4.0% per annum, all the amounts due from CITIC Group were unsecured, interest-free and recoverable on demand.

At 31 December 2016, the amounts due to CITIC Group were unsecured, interest-free and repayable on demand.

During the year ended 31 December 2016, certain amounts due from and to CITIC Group were offset pursuant to the sale and purchase agreement of the CITIC Assets Acquisition.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

29. BANK BALANCES AND CASH

Included in bank balances and cash are restricted bank deposits of HK$4,590,558,000 (2016: HK$2,178,346,000) which can only be applied in the designated property development projects.

All bank deposits of the Group carry interest at market rates ranging from 0.01% to 3.38% (2016: 0.01% to 4.50%) per annum.

At the end of the reporting period, the Group had the following bank balances and cash denominated in foreign currencies:

	2017 *HK$'000*	2016 *HK$'000*
Bank balances and cash denominated in:		
HK$	**26,647,064**	11,955,027
US$	**3,201,975**	11,793,849

The reconciliation of liabilities arising from financing activities is as follow:

	Bank and other borrowings *HK$'000*	Notes payable *HK$'000*	Interest payable *HK$'000*	Amounts due to fellow subsidiaries *HK$'000*	Amounts due to associates *HK$'000*	Amounts due to joint ventures *HK$'000*	Amounts due to non-controlling shareholders *HK$'000*	Total *HK$'000*
At 1 January 2017	96,245,128	77,575,412	751,934	678,296	1,400,177	2,158,084	3,839,122	182,648,153
Cash flows								
– inflow from financing activities	50,199,681	–	–	108,225	529,758	3,179,097	3,485,529	57,502,290
– outflow from financing activities	(48,897,982)	(5,815,625)	(7,592,840)	(29,527)	(25,581)	(75,355)	(570,885)	(63,007,795)
Exchange realignment	4,871,102	2,828,221	93,337	–	147,297	163,805	456,118	8,559,880
Other non-cash movements	1,162,762	69,738	7,429,071	–	(22,796)	–	1,643,091	10,281,866
At 31 December 2017	103,580,691	74,657,746	681,502	756,994	2,028,855	5,425,631	8,852,975	195,984,394

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

30. TRADE AND OTHER PAYABLES

The following is an ageing analysis of trade payables presented based on invoice date at the end of the reporting period:

	2017 **HK$'000**	2016 HK$'000
Trade payables, aged		
0–30 days	**12,550,567**	9,481,660
31–90 days	**1,392,923**	697,096
Over 90 days	**20,223,088**	18,219,961
	34,166,578	28,398,717
Other payables	**6,537,816**	4,900,652
Retentions payable	**11,121,905**	11,515,832
	51,826,299	44,815,201

Other payables mainly include other taxes payable and accrued charges.

Of the other payables and retentions payable, an amount of HK$4,632,851,000 (2016: HK$3,316,113,000) is due beyond twelve months from the end of the reporting period.

31. AMOUNTS DUE TO FELLOW SUBSIDIARIES/ASSOCIATES/JOINT VENTURES

At 31 December 2017 and 2016, the amounts due to fellow subsidiaries are unsecured, interest-free and repayable on demand.

At 31 December 2017, except for the unsecured amounts due to associates and a joint venture of HK$1,216,867,000 (2016: HK$627,100,000) and HK$307,229,000 (2016: HK$Nil), respectively, which bear fixed interest rates ranging from 0.35% to 3.70% (2016: 0.35%) per annum and repayable within one year, all the amounts due to associates and joint ventures are unsecured, interest-free and repayable on demand.

32. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS

At 31 December 2017, the current amounts due to non-controlling shareholders are unsecured, interest-free and repayable on demand except for the amounts of HK$2,067,143,000 (2016: HK$1,805,465,000) and HK$61,504,000 (2016: HK$Nil) which bear fixed and variable interest rates, respectively, ranging from 4.75% to 6.18% (2016: 5.7% to 14.4%) per annum.

At 31 December 2017, the non-current amounts due to non-controlling shareholders are unsecured, interest-free and not repayable within one year from the end of the reporting period except for the amounts of HK$1,653,012,000 (2016: HK$278,077,000) and HK$2,050,749,000 (2016: HK$502,598,000) which bear fixed and variable interest rates, respectively, ranging from 5.23% to 8.0% (2016: 6.0% to 6.15%) per annum.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

33. SHARE CAPITAL

	2017		2016	
	Number of shares	**Value**	Number of shares	Value
	'000	***HK$'000***	*'000*	*HK$'000*
Issued and fully paid				
At beginning of the year	**10,956,201**	**90,420,438**	9,860,581	62,434,116
Issue of shares	**–**	**–**	1,095,620	27,986,322
At end of the year	**10,956,201**	**90,420,438**	10,956,201	90,420,438

In connection with the CITIC Assets Acquisition (Note 3(a)), the Company has allotted and issued 1,095,620,154 ordinary shares of the Company to CITIC Limited at HK$25.55 per share on 15 September 2016 for a net value of HK$27,986,322,000 (net of share issuance costs).

Share-based Payments

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase II) (the "Incentive Plan") of China State Construction Engineering Corporation Limited ("CSCECL"), an intermediate holding company of the Company, 10,200,000 incentive shares were granted to certain employees of the Company (the "Employees", including one director and certain members of senior management) on 29 December 2016 (the "Grant Date") with an exercise price of RMB4.866 per share, subject to a lock-up period of two-year service from the Grant Date (the "Lock-up Period"). During the Lock-up Period, the incentive shares are not transferrable, nor subject to any guarantee, indemnity or pledge. One-third of the incentive shares are vested each year starting from the beginning of the third year on a time-apportionment basis since the Grant Date. Subject to CSCECL's achievement of performance conditions and individual's key performance indicators, the restriction over the incentive shares will be removed, otherwise, CSCECL has constructive obligation to repurchase the ordinary shares in cash if the performance conditions of CSCECL or individual's key performance indicators are not achieved.

The fair value of the incentive shares on the Grant Date determined using the Black-Scholes valuation model was RMB2.21 per share. The significant inputs adopted in the model include:

Closing price on the Grant Date	RMB9.16 per share
Exercise price	RMB4.866 per share
Cap of the share-based payments	40% of respective Employees' remuneration
Average volatility	44%
Average dividend yield	3.32%
Average annual risk-free interest rate	2.84%

The volatility measured at the standard deviation of continuously compounded share returns is calculated based on statistical analysis of historical daily share prices.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

34. BANK AND OTHER BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank and other borrowings		
– secured	**963,072**	1,296,492
– unsecured	**102,617,619**	94,948,636
	103,580,691	96,245,128

	2017 HK$'000	2016 HK$'000
The bank and other borrowings are repayable as follows:		
Within one year	**13,324,575**	34,471,679
More than one year, but not exceeding two years	**10,464,457**	17,100,765
More than two years, but not exceeding five years	**77,029,249**	41,973,916
After five years	**2,762,410**	2,698,768
Total bank and other borrowings	**103,580,691**	96,245,128
Less: Amounts classified as current liabilities	**(13,324,575)**	(34,471,679)
Amounts classified as non-current liabilities	**90,256,116**	61,773,449

Borrowings of the Group with carrying amount of HK$66,505,362,000 (2016: HK$66,939,546,000) bear interest at rates ranging from 4.28% to 7.50% (2016: 3.91% to 8.30%) per annum and are denominated in RMB. Borrowings of the Group amounting to HK$2,009,229,000 (2016: HK$1,825,960,000), which are denominated in GBP, are based on London Interbank Offered Rate plus a specified margin per annum. The remaining borrowings of the Group amounting to HK$35,066,100,000 (2016: HK$27,479,622,000), which are denominated in HK$, are based on HIBOR plus a specified margin per annum.

The Group's weighted average borrowing cost excluding the effect of capitalisation of exchange losses of HK$324,244,000 (2016: HK$1,303,000,000) is 4.27% (2016: 4.76%) per annum. The borrowings amounting to HK$17,284,337,000 (2016: HK$38,008,620,000) and HK$86,296,354,000 (2016: HK$58,236,508,000) are carried at fixed interest rates and variable interest rates respectively.

At 31 December 2016, borrowings of the Group with carrying amount of HK$1,169,996,000 were loans due to CITIC Group which were fully repaid during the year.

Secured bank and other borrowings of the Group are pledged by certain assets as set out in Note 43.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

35. NOTES PAYABLE

At 31 December 2017 and 2016, the Group issued below notes with similar terms and conditions and different features as follows:

Issue date	Principal amount *(in million)*	Issue price	Fixed interest rate per annum	Maturity date	Fair value at 31 December 2017 ***HK$'000***	Carrying amount at 31 December 2017 ***HK$'000***	Carrying amount at 31 December 2016 *HK$'000*
10 November 2010	US$1,000 [i] (approximately HK$7,750)	100%	5.50% [iv]	10 November 2020	**8,354,128**	**7,726,588**	7,719,219
15 February 2012	US$750 [i] (approximately HK$5,816)	99.816%	4.875% [iv]	15 February 2017	**–**	**–**	5,814,611
15 November 2012	US$700 [i] (approximately HK$5,425)	99.665%	3.95% [iv]	15 November 2022	**5,648,486**	**5,391,484**	5,385,390
15 November 2012	US$300 [i] (approximately HK$2,325)	99.792%	5.35% [iv]	15 November 2042	**2,738,355**	**2,303,148**	2,302,735
29 October 2013	US$500 [i] (approximately HK$3,877)	99.613%	3.375% [iv]	29 October 2018	**3,934,978**	**3,870,708**	3,863,708
29 October 2013	US$500 [i] (approximately HK$3,877)	99.595%	5.375% [iv]	29 October 2023	**4,309,807**	**3,854,459**	3,851,304
29 October 2013	US$500 [i] (approximately HK$3,877)	99.510%	6.375% [iv]	29 October 2043	**5,162,326**	**3,841,059**	3,840,523
8 May 2014	US$550 [i] (approximately HK$4,263)	99.786%	4.25% [iv]	8 May 2019	**4,379,612**	**4,254,386**	4,247,997
8 May 2014	US$450 [i] (approximately HK$3,488)	99.554%	5.95% [iv]	8 May 2024	**4,012,851**	**3,464,760**	3,461,796
8 May 2014	US$250 [i] (approximately HK$1,938)	101.132%	4.25% [iv]	8 May 2019	**1,990,733**	**1,941,430**	1,943,865
8 May 2014	US$250 [i] (approximately HK$1,938)	103.080%	5.95% [iv]	8 May 2024	**2,229,361**	**1,972,546**	1,976,973
11 June 2014	US$500 [i] (approximately HK$3,876)	99.445%	6.45% [iv]	11 June 2034	**4,977,389**	**3,838,472**	3,837,221
15 July 2015	EUR600 [i] (approximately HK$5,086)	99.587%	1.75% [iv]	15 July 2019	**5,755,828**	**5,604,209**	4,861,783
6 November 2015	EUR400 [i] (approximately HK$3,375)	99.541%	1.70% [v]	6 November 2019	**3,846,783**	**3,733,553**	3,239,128
19 November 2015	RMB7,000 [ii] (approximately HK$8,393)	100%	3.40% [v]	19 November 2021	**8,307,229**	**8,433,735**	7,838,746
19 November 2015	RMB1,000 [iii] (approximately HK$1,199)	100%	3.85% [v]	19 November 2022	**1,179,518**	**1,204,819**	1,119,821
9 December 2015	RMB4,000 [ii] (approximately HK$4,749)	100%	4.80% [v]	9 December 2020	**4,819,277**	**4,794,779**	4,441,334
15 January 2016	RMB1,000 [ii] (approximately HK$1,110)	100%	4.40% [v]	15 January 2021	**1,204,819**	**1,198,695**	1,110,333
23 August 2016	RMB6,000 [iii] (approximately HK$6,719)	100%	3.10% [v]	23 August 2026	**7,228,916**	**7,228,916**	6,718,925
						74,657,746	77,575,412
				Less: Amounts classified as current liabilities		**(17,099,222)**	(5,814,611)
				Amounts classified as non-current liabilities		**57,558,524**	71,760,801

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

35. NOTES PAYABLE *(continued)*

Notes:

(i) *The notes payable are unconditionally and irrevocably guaranteed by the Company. They shall become immediately due and payable in the event of the failure to perform or observe certain conditions set out in the trust deed which include, inter alia, the negative pledge given by the Company and the related subsidiaries. The fair values of the notes payable at 31 December 2017 were determined based on the closing market prices of the notes payable at that date and are within Level 1 of the fair value hierarchy.*

(ii) *The notes payable with terms for adjustment of the interest rate and sell back option at the end of the third year from issue date. The fair values of the notes payable at 31 December 2017 were determined based on the closing market prices of the notes payable and are within Level 1 of the fair value hierarchy.*

(iii) *The notes payable with terms for adjustment of the interest rate and sell back option at the end of the fifth year from issue date. The fair values of the notes payable at 31 December 2017 were determined based on the closing market prices of the notes payable and are within Level 1 of the fair value hierarchy.*

(iv) *Payable semi-annually*

(v) *Payable annually*

36. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years.

Deferred tax liabilities/(assets)

	Accelerated tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Fair value adjustment on properties *HK$'000*	Undistributed earnings of PRC subsidiaries and joint ventures *HK$'000*	Other taxable temporary differences *HK$'000*	Unrealised profit *HK$'000*	Tax loss *HK$'000*	Provision for LAT *HK$'000*	Other deductible temporary differences *HK$'000*	Total *HK$'000*
At 1 January 2016	49,333	7,161,271	669,774	392,126	109,615	(203,948)	(205,293)	(2,543,404)	(241,343)	5,188,131
Charged/(credited) to profit or loss	–	1,848,985	(35,254)	–	98,113	7,357	79,127	(430,260)	19,234	1,587,302
Disposal of investment properties	–	(159,416)	–	–	–	–	–	–	–	(159,416)
Acquisition/disposal of subsidiaries	–	(198,670)	152,927	–	–	–	55,721	11,539	7,154	28,671
Exchange realignment	–	(582,377)	(79,771)	(778)	(18,637)	25,296	9,064	45,974	45,884	(555,345)
At 31 December 2016	49,333	8,069,793	707,676	391,348	189,091	(171,295)	(61,381)	(2,916,151)	(169,071)	6,089,343
Charged/(credited) to profit or loss	**–**	**1,388,237**	**(243,586)**	**16,311**	**193,341**	**13,409**	**(60,481)**	**(947,718)**	**(1,544)**	**357,969**
Disposal of investment properties	**–**	**(22,434)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(22,434)**
Acquisition/disposal of subsidiaries	**–**	**–**	**1,638,428**	**–**	**–**	**–**	**26,190**	**–**	**–**	**1,664,618**
Exchange realignment	**–**	**654,009**	**122,056**	**30,294**	**23,119**	**(12,517)**	**(3,220)**	**(90,708)**	**(10,665)**	**712,368**
At 31 December 2017	**49,333**	**10,089,605**	**2,224,574**	**437,953**	**405,551**	**(170,403)**	**(98,892)**	**(3,954,577)**	**(181,280)**	**8,801,864**

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

36. DEFERRED TAX *(continued)*

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2017 HK$'000	2016 HK$'000
Net deferred tax assets	(4,902,484)	(3,767,912)
Net deferred tax liabilities	13,704,348	9,857,255
	8,801,864	6,089,343

Under the CIT Law of PRC, withholding income tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$5,909,801,000 (2016: HK$4,839,364,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group had unused tax losses of HK$12,757,231,000 (2016: HK$12,993,004,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the tax losses are losses of HK$6,808,726,000 (2016: HK$6,360,751,000) that will expire within five years from the end of the reporting period. Other tax losses may be carried forward indefinitely.

37. GOODWILL

	2017 HK$'000	2016 HK$'000
Carrying amounts	64,525	64,525

The amount represented goodwill arising from acquisition of the entire equity interest in Hua Yi Designing Consultants Limited ("Hua Yi"). Hua Yi and its subsidiary are principally engaged in the provision of building design consultancy services and investment holding. For the purpose of impairment testing, the attributable amount of goodwill, having indefinite useful lives, has been allocated to the other operations category in the reporting segment.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

38. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2017

On 20 October 2017, the Group entered into a sale and purchase agreement with 中海物業管理有限公司, a wholly-owned subsidiary of China Overseas Property Holdings Limited ("COPL"), which is a fellow subsidiary of the Company, to dispose of the entire equity interests of 中信物業服務有限公司 ("中信物業") for a cash consideration of RMB190,000,000 (equivalent to HK$220,930,000). 中信物業 and its subsidiaries are principally engaged in property management businesses in mainland China. The disposal was completed on 21 December 2017.

In addition to the above disposal, the Group has also completed a disposal of a subsidiary during the year.

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

	HK$'000
Property, plant and equipment	10,296
Deferred tax assets	26,190
Trade and other receivables	86,593
Bank balances and cash	354,670
Amounts due from related companies	183,721
Other assets	12,122
Trade and other payables	(337,007)
Receipts in advance and other deposits	(120,032)
Tax liabilities	(46,311)
Amounts due to related companies	(97,176)
Net assets	73,066
Non-controlling interests	(2,069)
	70,997
Gain on disposal of subsidiaries	165,865
Considerations	236,862

Analysis of net outflow of cash and cash equivalents in respect of disposal of subsidiaries:

	HK$'000
Cash considerations received during the year	192,678
Less: Cash and cash equivalents disposed	(354,670)
	(161,992)

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

38. DISPOSAL OF SUBSIDIARIES *(continued)*

For the year ended 31 December 2016

In addition to the sale of a portfolio of properties to the CITIC Sellers as disclosed in Note 3(a) to the financial statements, the Group has also completed the following disposals to various related parties of the Group:

- On 11 May 2016, the Group entered into a sale and purchase agreement with Viewtime Limited, a wholly-owned subsidiary of COHL, which is the immediate holding company of the Company, to dispose of the entire issued share capital and shareholder's loan of Treasure Trinity Limited, which indirectly held the Hoover Towers (Tower V) in Hong Kong. The total consideration was HK$507,367,000. The disposal was completed on 18 May 2016.

- On 11 May 2016, the Group entered into a sale and purchase agreement with Total Joy Global Limited, a wholly-owned subsidiary of China State Construction International Holdings Limited, which is a listed fellow subsidiary of the Company, to dispose of the entire issued share capital and shareholder's loan of Precious Deluxe Global Limited, which indirectly held the China Overseas Building in Hong Kong. The total consideration was HK$4,825,147,000. The disposal was completed on 24 June 2016.

- On 12 October 2016, the Group entered into a sale and purchase agreement with COGO, a listed associate of the Company, to dispose of the entire issued share capital of Best Beauty Investments Limited ("Best Beauty"). Best Beauty and its subsidiaries (together the "COGO Disposal Group") have an interest in a property portfolio mainly comprises residential property development projects located in third-tier cities in the PRC. The total consideration was RMB3,518,557,000 (equivalent to HK$4,163,973,000). COGO has also undertaken to procure the COGO Disposal Group to repay loans due to the Group of HK$8,651,425,000 at 31 December 2016 within one year after the completion of the disposal (Note 27). The disposal was completed on 29 December 2016.

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

	HK$'000
Investment properties	3,731,225
Property, plant and equipment	1,518,942
Stock of properties	16,537,838
Trade and other receivables	727,876
Bank balances and cash	2,277,189
Other assets	1,330,593
Trade and other payables	(12,084,705)
Pre-sales, rental and other deposits	(3,102,298)
Deferred tax liabilities	(199,291)
Bank and other borrowings	(4,879,652)
Other liabilities	(1,777,982)
Net assets	4,079,735
Non-controlling interests	(106,738)
	3,972,997
Gain on disposal of subsidiaries	10,175,939
Considerations	14,148,936

38. DISPOSAL OF SUBSIDIARIES *(continued)*

For the year ended 31 December 2016 *(continued)*

Analysis of net inflow of cash and cash equivalents in respect of disposal of subsidiaries:

	HK$'000
Cash considerations received during the year	7,406,768
Less: Cash and cash equivalents disposed	(2,277,189)
	5,129,579

39. ACQUISITION OF SUBSIDIARIES

(a) For the year ended 31 December 2017

On 17 June 2017, Beauty Select Limited ("Beauty Select"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with GCPF Shanghai 65 Corp. ("GCPF"), pursuant to which Beauty Select agreed to purchase and GCPF agreed to sell the 50% of the issued shares of Big Profit Enterprises Limited ("Big Profit") at a total cash consideration of USD232,545,000 (equivalent to HK$1,813,903,000). Related shareholder's loan of USD160,840,000 (equivalent to HK$1,252,185,000) was also acquired as part of the acquisition. Big Profit is an investment holding company and holds 100% equity interest in 上海中海海軒房地產有限公司 (Shanghai COB Haixuan Real Estate Co., Limited) ("Shanghai COB Haixuan"), which is engaged in property investment business in Shanghai, the PRC. The acquisition was completed on 27 June 2017 and Big Profit became a wholly-owned subsidiary of the Company.

Before the acquisition, the Group held 50% equity interest in Big Profit which was accounted for as a joint venture of the Group. The Group remeasured its equity interest in Big Profit immediately prior to the acquisition date, resulting in a gain arising from fair value remeasurement of HK$2,140,171,000. In addition, a gain on acquisition of subsidiaries of HK$326,267,000, being the difference between the fair value of total identifiable net assets acquired and the aggregate consideration transferred and fair value of previously held equity interest, was recognised.

The acquisition-related costs have been expensed off and are included in the administrative expenses in the profit or loss.

The following table summarised the consideration for the acquisition as mentioned above, and the fair value of assets acquired and liabilities assumed at the acquisition date.

	HK$'000
Aggregate consideration transferred and fair value of previously held equity interest:	
Total consideration	1,813,903
Fair value of the previously held equity interest in Big Profit immediately prior to acquisition	2,140,171
	3,954,074

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

39. ACQUISITION OF SUBSIDIARIES *(continued)*

(a) For the year ended 31 December 2017 *(continued)*

	Fair value on acquisition HK$'000
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Investment properties	9,780,396
Property, plant and equipment	286
Other receivables, deposits and prepayments	21,817
Bank balances and cash	58,129
Trade and other payables	(371,664)
Bank borrowings	(1,065,825)
Deferred tax liabilities	(1,638,428)
Loans due to GCPF	(1,252,185)
Loans due to the Group	(1,252,185)
Total identifiable net assets acquired	4,280,341
Gain on acquisition of subsidiaries	(326,267)
	3,954,074
Net cash outflow arising from acquisition:	
Cash consideration paid	(1,813,903)
Acquisition of loans owed by Big Profit to GCPF	(1,252,185)
Cash and cash equivalents acquired	58,129
	(3,007,959)

Big Profit and Shanghai COB Haixuan had contributed to the Group's revenue and profit amounting to HK$10,748,000 and a loss of HK$36,936,000 for the year ended 31 December 2017 respectively since the date of acquisition.

Had the acquisition of Big Profit been completed on 1 January 2017, the Group's revenue and profit for the year ended 31 December 2017 would have been HK$166,044,963,000 and HK$42,141,989,000 respectively.

(b) For the year ended 31 December 2016

On 21 April 2016, as part of the reorganisation of the CITIC Acquired Group prior to the completion of the CITIC Assets Acquisition, the CITIC Acquired Group acquired the remaining 80% equity interest in Huijin Real Estate Fund No. 1 ("Huijin No.1") at a cash consideration of RMB15,098,000 (equivalent to HK$17,867,000). Huijin No.1 held 100% equity interest in Tianjin CITIC Tianjiahu Investment Co., Ltd. ("Tianjiahu"), which is engaged in property development business in Tianjin, PRC. Upon the completion of the acquisition, Huijin No.1 was dissolved and Tianjiahu became a wholly-owned subsidiary of the CITIC Acquired Group.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

39. ACQUISITION OF SUBSIDIARIES *(continued)*

(b) For the year ended 31 December 2016 *(continued)*

On 26 April 2016, as part of the reorganisation of the CITIC Acquired Group prior to the completion of the CITIC Assets Acquisition, the CITIC Acquired Group acquired the remaining 60% equity interest in Huijin Read Estate Fund No. 3 ("Huijin No.3") at a cash consideration of RMB314,479,000 (equivalent to HK$372,165,000). Huijin No.3 held 100% equity interest in Qingdao Lianheng Real Estate Co., Ltd., Qingdao Lianming Real Estate Co., Ltd. and Qingdao Shaohai Real Estate Co., Ltd. (collectively referred to as "Qingdao Forest Lake Project Companies"), which are engaged in property development business in Qingdao, PRC. Upon the completion of the acquisition, Huijin No.3 was dissolved and Qingdao Forest Lake Project Companies became wholly-owned subsidiaries of the CITIC Acquired Group.

As a result of the above acquisitions, goodwill of HK$1,903,104,000, being the difference between the consideration and the fair values of identifiable net liabilities assumed, was arisen. However, management of the CITIC Acquired Group considered that such goodwill is not expected to generate any economic benefit or cash inflow in the future. As such, impairment losses on the entire goodwill were recognised in the consolidated financial statements immediately upon the completion of the above acquisitions.

The following table summarised the consideration for the acquisitions as mentioned above, the fair value of assets acquired and liabilities assumed at the acquisition date.

	Fair value on acquisition *HK$'000*
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	7,729
Stock of properties	11,173,066
Trade and other receivables, and prepayments	501,002
Other assets	129,498
Bank balances and cash	315,620
Trade and other payables	(3,848,352)
Pre-sales, rental and other deposits	(778,720)
Bank and other borrowings	(8,850,872)
Deferred tax liabilities	(152,927)
Other liabilities	(9,116)
Total identifiable net liabilities assumed	(1,513,072)
Impairment losses in respect of goodwill	1,903,104
Cash consideration paid	390,032
Net cash outflow arising from acquisition:	
Cash consideration paid	(390,032)
Cash and cash equivalents acquired	315,620
	(74,412)

Tianjiahu and Qingdao Forest Lake Project Companies had contributed to the Group's revenue and profit amounting to HK$1,970,619,000 and HK$135,049,000 respectively for the year ended 31 December 2016 since the date of acquisition.

Had the acquisition of Tianjiahu and Qingdao Forest Lake Project Companies been completed on 1 January 2016, the Group's revenue and profit for the year ended 31 December 2016 would have been HK$164,366,236,000 and HK$37,000,591,000 respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

40. OPERATING LEASE COMMITMENTS

The Group as Lessor

At the end of the reporting period, completed investment properties and other properties with carrying amounts of HK$83,171,366,000 (2016: HK$54,910,652,000) and HK$163,802,000 (2016: HK$749,536,000) respectively, were let out under operating leases.

Property rental income earned during the year is HK$2,450,060,000 (2016: HK$2,137,167,000), of which HK$1,629,212,000 (2016: HK$1,618,129,000) was derived from the letting of investment properties. All of the properties leased out have committed tenants for one to eighteen years without termination options granted to tenants.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**1,767,453**	1,749,113
In the second to fifth year inclusive	**3,391,968**	2,943,146
After five years	**1,243,992**	1,304,702
	6,403,413	5,996,961

The Group as Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**59,206**	49,487
In the second to fifth year inclusive	**74,083**	63,323
	133,289	112,810

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for two to six years (2016: two to six years).

41. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments not provided for in the consolidated financial statements:

	2017	2016
	HK$'000	*HK$'000*
Capital expenditure in respect of investment properties:		
Contracted but not provided for	**1,041,127**	1,765,653

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

42. CONTINGENT LIABILITIES

At the end of the reporting period, the financial guarantees were as follows:

(a) Guarantees given by the Group to banks in respect of credit facilities granted to:

	2017 HK$'000	2016 HK$'000
Associates		
– Maximum	**1,474,104**	2,082,867
– Utilised	**1,474,104**	2,033,595
Joint ventures		
– Maximum	**1,241,988**	709,574
– Utilised	**1,241,988**	709,574

(b) At 31 December 2017, the Group had counter indemnities amounted to HK$20,191,000 (2016: HK$2,666,381,000) for guarantees issued in respect of certain construction contracts undertaken by the Group.

(c) At 31 December 2017, the Group provided guarantees amounted to HK$51,140,067,000 (2016: HK$42,452,979,000) for the repayment of the mortgage bank loans granted to purchasers of the Group's properties.

The directors of the Company considered that the fair values of financial guarantee contracts at their initial recognition and at the end of the reporting period are insignificant on the basis of short maturity periods and low applicable default rates.

43. PLEDGE OF ASSETS

At the ended of the reporting period, certain assets of the Company's subsidiaries have been pledged to secure the bank and other borrowings of the Company's subsidiaries. The carrying values of the pledged assets at 31 December 2017 and 2016 were as follows:

	2017 HK$'000	2016 HK$'000
Stock of properties	–	340,145
Investment properties	**1,937,760**	3,905,128
	1,937,760	4,245,273

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

44. RELATED PARTY TRANSACTIONS

(a) In addition to those disclosed in other sections of the financial statements, the following material related party transactions have been entered into by the Group during the year:

Nature of transaction	*NOTES*	**2017 HK$'000**	2016 HK$'000
Fellow subsidiaries			
Property development project construction fee	*(a)*	**4,521,464**	2,687,064
Rental income	*(b)*	**2,486**	11,695
Rental expenses	*(b)*	**–**	3,665
Insurance fee	*(c)*	**125**	241
Heating pipes connection service fee	*(a)*	**41,259**	33,175
Building design consultancy income	*(c)*	**1,939**	–
Property management fee	*(f)*	**253,109**	269,275
Engineering service fee	*(f)*	**9,510**	14,885
Associates			
Royalty income	*(e)*	**203,537**	172,863
Rental expenses	*(b)*	**15,301**	16,047
Interest income	*(d)*	**294,682**	69,458
Joint ventures			
Interest income	*(d)*	**86,524**	237,678

Notes:

(a) Property development project construction fee and heating pipes connection service fee are charged in accordance with respective contracts. The amounts represent aggregate transaction amounts during the year in relation to contracts signed in current and prior years.

(b) Rental income and rental expenses are charged in accordance with respective tenancy agreements.

(c) Insurance fee and building design consultancy income are charged in accordance with respective contracts.

(d) Interest income is charged at interest rates as specified in Notes 22 on the outstanding amounts.

(e) Royalty income is charged at annual fee as specified in the contracts.

(f) Property management fee and engineering service fee are charged at rates in accordance with respective contracts.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

44. RELATED PARTY TRANSACTIONS *(continued)*

(b) The remuneration of the Company's directors and other members of key management of the Group during the year were as follows:

	2017 **HK$'000**	2016 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**37,650**	34,334
Bonus	**95,140**	103,869
Mandatory Provident Fund contribution	**290**	309
	133,080	138,512

The emoluments of other members of key management of the Group were within the following bands:

	2017	2016
HK$1,000,001 to HK$2,500,000	**2**	1
HK$2,500,001 to HK$5,000,000	**3**	2
HK$5,000,001 to HK$7,500,000	**5**	7
HK$7,500,001 to HK$10,000,000	**7**	6
	17	16

The remuneration of directors and key executives are determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

44. RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with Other State-Controlled Entities in the PRC

The Group operates in an economic environment predominated by entities directly or indirectly owned or controlled by the PRC government. In addition, the Group is itself part of a larger group of companies under CSCEC which is controlled by the PRC government. Apart from the transactions already disclosed above, the Group also conducts business with other state-controlled entities ("State-controlled Entities"). The directors of the Company consider those State-controlled Entities are independent third parties so far as the Group's businesses with them are concerned.

In connection with their property development activities, the Group awarded certain construction and other works contracts to entities, which to the best knowledge of management, are State-controlled Entities.

The Group has also entered into various transactions with PRC government departments or agencies which include the acquisition of land mainly through tendering to those government departments or agencies.

Other than those disclosed in section (a) above and the acquisition of land from the government departments or agencies, the directors of the Company consider that the other transactions with those State-controlled Entities are not material to the Group.

In addition, in the normal course of business, the Group has maintained various trade balances with contractors and have entered into various deposits and lending transactions with banks and financial institutions which are State-controlled Entities. In view of the nature of those transactions, the directors of the Company are of the opinion that quantitative information on the extent of transactions between the Group and the government related entities would not be meaningful.

The Group is active in sales and lease of properties, the provision of real estate agency and management services and other services in various provinces in the PRC. The directors of the Company are of the opinion that it is impracticable to ascertain the identity of all the counterparties and accordingly whether the transactions are with State-controlled Entities. However, the directors of the Company are of the opinion that other than those disclosed in section (a) above, the transactions with State-controlled Entities are not material to the Group's operations.

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in the consolidated statement of financial position and Notes 22, 27, 28, 31 and 32.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		2017 HK$'000	2016 HK$'000
Non-current Assets			
Property, plant and equipment		953	2,859
Investments in subsidiaries		1,389,998	1,689,525
Amounts due from subsidiaries		6,921,452	15,282,796
		8,312,403	16,975,180
Current Assets			
Stock of properties		1,139	1,163
Other receivables		15,378	48,122
Deposits and prepayments		27,955	38,997
Amounts due from subsidiaries		155,946,947	132,858,711
Tax prepaid		118	118
Bank balances and cash		8,627,574	17,890,558
		164,619,111	150,837,669
Current Liabilities			
Other payables		51,110	49,019
Other deposits		163	167
Amounts due to subsidiaries		26,193,168	44,988,700
Bank borrowings – due within one year		4,738,295	4,738,295
Other financial liabilities		190,755	380,639
		31,173,491	50,156,820
Net Current Assets		133,445,620	100,680,849
Total Assets Less Current Liabilities		141,758,023	117,656,029
Capital and Reserves			
Share capital		90,420,438	90,420,438
Reserves	*Note (a)*	20,586,739	(344,220)
Total Equity		111,007,177	90,076,218
Non-current Liabilities			
Bank borrowings – due after one year		30,327,805	27,043,678
Other financial liabilities		423,041	536,133
		30,750,846	27,579,811
		141,758,023	117,656,029

The statement of financial position of the Company was approved by the Board of Directors on 26 March 2018 and were signed on its behalf by:

Yan Jianguo
DIRECTOR

Luo Liang
DIRECTOR

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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

Note (a): Reserves of the Company

	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2016	(1,104,204)	5,937,746	4,833,542
Profit and total comprehensive income for the year	(7,401,386)	10,101,133	2,699,747
2015 final dividend paid	–	(4,042,838)	(4,042,838)
2016 interim dividend paid	–	(3,834,671)	(3,834,671)
At 31 December 2016	(8,505,590)	8,161,370	(344,220)
Profit and total comprehensive income for the year	8,794,520	20,572,715	29,367,235
2016 final dividend paid	–	(4,601,605)	(4,601,605)
2017 interim dividend paid	–	(3,834,671)	(3,834,671)
At 31 December 2017	**288,930**	**20,297,809**	**20,586,739**

The Company's reserves available for distribution to shareholders at 31 December 2017 represents the retained profits of HK$20,297,809,000 (2016: HK$8,161,370,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following is the particulars of the principal subsidiaries at 31 December 2017 which, in the opinion of the directors of the Company, principally affect the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. All subsidiaries registered in the PRC are operating in the PRC. Unless otherwise specified, all other subsidiaries are incorporated and operating principally in Hong Kong.

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
Ace Dragon Development Limited	1 ordinary share HK$1	–	100	Property development
Carmelite Riverside London S.a.r.l [(vii)]	15,000 shares of GBP1 each	–	100	Property investment
China Overseas Finance (Cayman) II Limited [(v)]	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) III Limited [(v)]	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) IV Limited [(v)]	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) V Limited [(v)]	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) VI Limited [(v)]	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Land International (Cayman) Limited [(v)]	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Land International II (Cayman) Limited [(v)]	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Property Limited	100 ordinary shares HK$1,000	100	–	Investment holding, property consultancy and real estate agency
China Overseas (Zhong Guo) Limited	5,000,000 ordinary shares HK$50,000,000	–	100	Investment holding
Chung Hoi Finance Limited	500,000 ordinary shares HK$5,000,000	100	–	Loan financing, investment holding and security investments

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
Gain Regent Company Limited	2 ordinary shares HK$2	–	100	Property development
Goldwell Development Limited	100 ordinary shares HK$100	–	100	Property development and investment
Great Fortune Property Limited (viii)	48,100,000 shares of GBP1 each	–	100	Property investment
Great Sky Property Investment Company Limited (vii)	MOP25,000	–	100	Property development
Longcross Limited	30,370,000 ordinary shares HK$30,370,000 404,552,883 non-voting deferred shares HK$404,552,883	–	100	Property investment
Macyat Limited	10,000 ordinary shares HK$10,000	–	100	Property development
Maxdo Investments Limited	10,000,000 ordinary shares HK$10,000,000	–	100	Investment holding
Maxjet Company Limited	10 ordinary shares HK$10	–	100	Property development
Omar Property Development Company Limited (vi)	MOP26,000	–	85	Property development
One Finsbury Circus London PropCo S.a.r.l.(vi)	12,024 shares of GBP1 each	–	100	Property investment
Wealth Join Development Limited	1 ordinary share HK$1	–	100	Property development
中海發展（上海）有限公司 (ii)	US$17,000,000	–	100	Property development
上海新海匯房產有限公司 (iii)	RMB40,000,000	–	99.5	Property development
上海中海海怡房地產有限公司 (iv)	RMB20,000,000	–	100	Property development
上海海創房地產有限公司 (iv)	RMB10,000,000	–	100	Property development
上海中建投資有限公司 (iv)	RMB450,000,000	–	51	Property investment
上海中海海軒房地產有限公司 (iv)	US$196,000,000	–	100	Property investment

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
大連中海地產有限公司 (iv)	RMB20,000,000	–	100	Property development
大連中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
中海新海匯（大連）置業有限公司 (iv)	RMB20,000,000	–	100	Property development
大連中海新城置業有限公司 (iv)	RMB378,520,000	–	100	Property development
中海鼎盛（西安）房地產有限公司 (ii)	RMB2,000,000,000	–	100	Property development
西安中海振興房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
西安中建地產有限公司 (iv)	RMB50,000,000	–	100	Property development
中海海潤（蘇州）房地產有限公司 (iv)	RMB30,000,000	–	100	Property development
中海海納（蘇州）房地產有限公司 (iv)	RMB445,000,000	–	100	Property development
寧波中海創城有限公司 (iv)	RMB1,800,000,000	–	100	Property development
寧波中海海興置業有限公司 (iv)	RMB20,000,000	–	100	Property development
天津中海海盛地產有限公司 (iv)	RMB3,540,000,000	–	100	Property development
天津中海海華地產有限公司 (iv)	RMB100,000,000	–	90	Property development
北京中海金石房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
北京中海新城置業有限公司 (iv)	RMB100,000,000	–	100	Property development
北京智地願景房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
北京仁和燕都房地產開發有限公司 (iv)	RMB40,000,000	–	100	Property development
北京中建興華房地產開發有限公司 (iv)	RMB10,000,000	–	80	Property development
北京慧眼置業有限公司 (iv)	RMB25,000,000	–	80	Property development
佛山中海千燈湖房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
佛山中海環宇城房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
佛山中海嘉益房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
佛山海裕房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海新海匯置業有限公司 (iv)	RMB20,000,000	–	100	Property development
中海地產(瀋陽)有限公司 (iv)	US$199,600,000	–	100	Property development
瀋陽中海嘉業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海鼎業房地產開發有限公司 (iv)	US$290,000,000	–	100	Property development
杭州中海宏鯤房地產有限公司 (iv)	RMB500,000,000	–	100	Property development
長沙中海興業房地產有限公司 (ii)	RMB662,000,000	–	100	Property development
長沙中建投資有限公司 (iv)	RMB100,000,000	–	70	Investment holding
長沙中海梅溪房地產開發有限公司 (iv)	RMB50,000,000	–	95	Property development
長春中海地產有限公司 (iii)	RMB100,000,000	–	100	Property development
長春海華房地產開發有限公司 (ii)	US$49,800,000	–	100	Property development
長春海悦房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
長春海成房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
青島中海海灣置業有限公司 (iv)	RMB10,000,000	–	100	Property development
青島中海海岸置業有限公司 (iv)	RMB500,000,000	–	100	Property development
南昌中海金鈺地產有限公司 (iv)	RMB10,000,000	–	100	Property development
重慶中工建設有限公司 (iv)	RMB380,000,000	–	100	Property development
重慶中海實業有限公司 (ii)	HK$1,300,000,000	–	100	Property development
重慶嘉安置業有限公司 (ii)	HK$300,000,000	–	100	Property development
重慶寶民置業有限公司 (ii)	HK$490,000,000	–	100	Property development
重慶海安投資有限公司 (iv)	RMB20,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
重慶安喬置業有限公司 (iv)	RMB440,000,000	–	100	Property development
中海地產重慶有限公司 (iv)	RMB20,000,000	–	100	Investment holding
重慶中海興業實業有限公司 (iv)	HK$258,000,000	–	100	Property development
重慶中海投資有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海黎香湖投資有限公司 (iv)	RMB10,000,000	–	100	Property development
重慶中海海能房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海海盛房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海興城房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
香港華藝設計顧問(深圳)有限公司 (ii)	RMB12,000,000	–	100	Design consultancy services
北京中海華藝城市規劃設計有限公司 (iv)	RMB1,000,000	–	90	Design consultancy services
中海地產(珠海)有限公司 (ii)	RMB405,000,000	–	100	Property development
珠海市嘉業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
珠海市永福通房地產開發有限公司	RMB20,000,000	–	100	Property development
珠海市嘉燁房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
中海地產集團有限公司 (ii)	RMB10,000,000,000	–	100	Property development and investment, and investment holding
深圳中海地產有限公司 (iii)	HK$50,000,000	–	100	Property development
深圳市中海凱驪酒店管理有限公司 (iv)	RMB5,000,000	–	100	Hotel management
深圳市毅駿房地產開發有限公司 (iv)	RMB12,500,000	–	80	Property development
海口中海興業房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
中海地產商業發展(深圳)有限公司 (ii)	RMB20,000,000	–	100	Commercial project
廈門中海海怡地產有限公司 (iv)	RMB10,000,000	–	100	Property development
昆明中海房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
雲南中海城投房地產開發有限公司 (iv)	RMB10,000,000	–	65	Property development
昆明泰運房地產開發有限公司 (ii)	RMB504,375,770	–	100	Property development
煙台中海地產有限公司 (iv)	RMB10,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
中海鼎業（煙台）地產有限公司 (ii)	RMB300,000,000	–	100	Property development
煙台中海興業地產有限公司 (iv)	RMB10,000,000	–	100	Property development
廣州毅源房地產開發有限公司 (iv)	RMB10,000,000	–	90	Property development
廣州世佳房地產開發有限公司 (iv)	RMB10,000,000	–	90	Property development
廣州荔安房地產開發有限公司 (iv)	RMB2,800,000,000	–	100	Property development
廣州荔駿房地產開發有限公司 (iv)	RMB2,800,000,000	–	100	Property development
廣州荔旭房地產開發有限公司 (iv)	RMB1,300,000,000	–	100	Property development
廣州荔璟房地產開發有限公司 (iv)	RMB1,350,000,000	–	100	Property development
濟南中海地產投資有限公司 (iv)	RMB50,000,000	–	100	Property development
濟南中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
濟南中海城房地產開發有限公司 (iv)	RMB30,000,000	–	100	Property development
哈爾濱中海地產有限公司 (iv)	RMB20,000,000	–	100	Property development
哈爾濱中海龍祥房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
太原冠澤置業有限公司 (iv)	RMB200,000,000	–	100	Property development
福州中海地產有限公司 (iv)	RMB30,000,000	–	100	Property development
無錫中海太湖新城置業有限公司 (iv)	RMB10,200,000	–	51	Property development
無錫中海海潤置業有限公司 (iv)	RMB10,200,000	–	51	Property development
鄭州海創房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
新疆中海地產有限公司 (iv)	RMB100,000,000	–	60	Property development
北京中信房地產有限公司 (iv)	RMB50,000,000	–	100	Property development
北京中信新城房地產有限公司 (iv)	RMB500,000,000	–	80	Property development
北京國泰飯店有限公司 (iv)	RMB96,536,700	–	100	Hotel and services apartment operation

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
北京中信新城逸海房地產開發有限公司 (iv)	RMB100,000,000	–	67	Property development
大連中信海港投資有限公司 (iv)	RMB250,000,000	–	80	Property development
大連中海興隆房地產開發有限公司 (formerly known as 大連中信房地產開發有限公司)(iv)	RMB20,000,000	–	100	Property development
煙台中海華業地產有限公司 (formerly known as 中信房地產煙台有限公司)(iv)	RMB26,430,000	–	100	Property development
中海華南(深圳)有限公司 (formerly known as 中信華南(集團)有限公司)(iv)	RMB472,900,000	–	100	Property development
中海深圳地產投資有限公司 (formerly known as 中信地產深圳投資有限公司)(iv)	RMB20,000,000	–	100	Property development
中海興隆深圳地產有限公司 (formerly known as 中信深圳(集團)有限公司)(iv)	RMB1,500,000,000	–	100	Property development
中海地產(海南)投資有限公司 (formerly known as 中信地產海南投資有限公司)(iv)	RMB20,000,000	–	100	Property development
中信華南(集團)成都有限公司 (iv)	RMB50,000,000	–	100	Property development
大連匯港置業有限公司 (iv)	RMB50,000,000	–	80	Property development
北京信有成投資有限公司 (iv)	RMB2,000,000	–	100	Property development
上海中信華南房地產有限公司 (iv)	RMB20,000,000	–	100	Property development
湖南省中信控股有限公司 (iv)	RMB100,000,000	–	100	Property development
蘇州中信投資有限公司 (iv)	RMB200,000,000	–	100	Property development
珠海市盈凱達房地產有限公司 (formerly known as 中信地產珠海投資有限公司)(iv)	RMB100,000,000	–	100	Property development
中信重慶投資有限公司 (iv)	RMB20,000,000	–	100	Property development
中信地產成都有限公司 (iv)	RMB100,000,000	–	98	Property development
廣州市東港房地產開發有限公司 (iv)	RMB8,000,000	–	55	Property development
中海深圳集團房地產開發有限公司 (formerly known as 中信深圳集團房地產開發有限公司)(iv)	RMB50,000,000	–	95	Property development
佛山市南海中信星暉房地產開發有限公司 (iv)	RMB30,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
中信前海(深圳)投資有限公司 (iv)	RMB100,000,000	–	67	Property development
深圳市信航城資產管理有限公司 (iv)	RMB5,000,000	–	100	Property development
青島博萊置業有限公司 (iv)	RMB60,000,000	–	100	Property development
天津中信翔達房地產開發有限公司 (iv)	RMB30,000,000	–	70	Property development
深圳市雲龍城投資發展有限公司 (iv)	RMB100,000,000	–	80	Property development
湖南省中信城城市廣場投資有限公司 (iv)	RMB100,000,000	–	100	Property development
湖南省中信置業開發有限公司 (iv)	RMB30,000,000	–	100	Property development
成都信蓉投資有限公司 (iv)	RMB20,000,000	–	100	Property development
成都信蜀投資有限公司 (iv)	RMB40,000,000	–	100	Property development
四川金水灣投資有限公司 (iv)	RMB50,000,000	–	60	Property development
重慶中海振興房屋銷售有限公司 (formerly known as 中信重慶置業開發有限公司)(iv)	RMB50,000,000	–	100	Property development
中信保利達地產(天津)有限公司 (iv)	US$49,500,000	–	51	Property development
成都信勤置業有限公司 (iv)	RMB20,000,000	–	100	Property development
成都信新置業有限公司 (iv)	RMB200,000,00	–	100	Property development
青島博富置業有限公司(iii)	RMB863,975,000	–	81.48	Property development
中海(萬寧)房地產有限公司 (formerly known as 中信泰富萬寧發展有限公司)(iv)	US$25,000,000	–	100	Property development
中海聯合(萬寧)房地產有限公司 (formerly known as 中信泰富萬寧(聯合)開發有限公司)(iv)	RMB100,000,000	–	80	Property development
中海仁信(萬寧)房地產開發有限公司 (formerly known as 萬寧仁信發展有限公司)(iv)	US$100,000,000	–	100	Property and tourism development

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
萬寧仁和發展有限公司 (iv)	US$206,200,000	–	99.9	Property development and hotel operation
萬寧金信發展有限公司 (iv)	US$53,200,000	–	99.9	Property development
中海鼎業(萬寧)房地產有限公司 (formerly known as 中信泰富萬寧瑞安發展有限公司)(iv)	US$86,000,000	–	99.9	Property development
紀亮(上海)房地產開發有限公司 (iv)	US$79,600,000	–	100	Property development
上海老西門新苑置業有限公司 (iv)	RMB2,500,000	–	100	Property development
上海珠街閣房地產開發有限公司 (iv)	US$161,500,000	–	100	Property development

(i) Incorporated in the British Virgin Islands
(ii) Foreign investment enterprise registered in the PRC
(iii) Joint stock limited company established in the PRC
(iv) Limited liability company registered in the PRC
(v) Incorporated in the Cayman Islands
(vi) Incorporated in Macau
(vii) Incorporated in Luxembourg
(viii) Incorporated in Jersey

None of the subsidiaries had any debt securities in issue at the end of the year except for China Overseas Finance (Cayman) II Limited, China Overseas Finance (Cayman) III Limited, China Overseas Finance (Cayman) IV Limited, China Overseas Finance (Cayman) V Limited, China Overseas Finance (Cayman) VI Limited, China Overseas Land International (Cayman) Limited, China Overseas Land International II (Cayman) Limited, 中海地產集團有限公司 and 中信房地產集團有限公司, which have issued US$1,000,000,000, US$1,500,000,000, US$750,000,000, US$1,000,000,000, US$2,000,000,000, EUR600,000,000, EUR400,000,000, RMB14,000,000,000 and RMB50,000,000 notes payable (Note 35), respectively.

Five Year Financial Summary

For the year ended 31 December 2017

(A) CONSOLIDATED RESULTS

	For the year ended 31 December				
	2013 *HK$'000*	2014 *HK$'000*	2015 *HK$'000*	2016 *HK$'000*	**2017** ***HK$'000***
Revenue	125,973,434	164,654,215	169,561,797	164,068,528	**166,044,963**
Business tax	(6,679,725)	(9,026,503)	(9,222,727)	(5,351,547)	**(2,072,793)**
Net revenue	119,293,709	155,627,712	160,339,070	158,716,981	**163,972,170**
Operating profit	34,036,381	49,226,431	50,553,590	57,905,305	**62,874,375**
Net gain on distribution in specie	–	–	2,512,965	–	**–**
Fair value remeasurement of the Group's previously held equity interests in certain joint ventures immediately prior to acquisitions	1,458,176	–	–	–	**–**
Share of profits of					
Associates	1,143,212	650,382	408,425	476,682	**1,164,116**
Joint ventures	3,090,051	512,786	650,333	775,770	**774,352**
Finance costs	(2,300,959)	(2,635,748)	(2,757,312)	(2,055,956)	**(1,393,544)**
Profit before tax	37,426,861	47,753,851	51,368,001	57,101,801	**63,419,299**
Income tax expenses	(12,243,898)	(18,638,990)	(15,953,805)	(18,711,025)	**(21,277,184)**
Profit for the year	25,182,963	29,114,861	35,414,196	38,390,776	**42,142,115**
Attributable to:					
Owners of the Company	24,837,497	28,682,784	34,643,211	37,020,638	**40,766,835**
Non-controlling interests	345,466	432,077	770,985	1,370,138	**1,375,280**
	25,182,963	29,114,861	35,414,196	38,390,776	**42,142,115**

Five Year Financial Summary (continued)

For the year ended 31 December 2017

(B) CONSOLIDATED NET ASSETS

	At 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Non-current assets					
Investment properties	41,656,923	55,861,441	65,467,036	67,093,181	**97,377,389**
Deposits for acquisition of investment properties	–	–	166,555	–	**–**
Property, plant and equipment	4,504,812	4,457,116	4,128,129	3,886,507	**3,897,596**
Prepaid lease payments for land	912,184	859,017	1,483,302	567,873	**575,810**
Interests in associates	6,268,614	6,563,700	6,025,552	5,512,064	**8,232,345**
Interests in joint ventures	12,405,695	12,339,637	11,883,616	10,526,289	**12,405,070**
Investments in syndicated property project companies	18,907	20,873	24,233	24,212	**24,212**
Available-for-sale investments	2,499,429	2,467,369	2,310,662	147,211	**115,842**
Amounts due from associates	1,751,650	2,455,571	4,998,094	2,728,181	**8,969,792**
Amounts due from joint ventures	3,602,788	2,508,588	2,693,588	2,058,017	**6,592,674**
Amounts due from CITIC Group	127,189	1,542,616	4,277,386	–	**–**
Other financial assets	68,179	67,249	–	–	**–**
Other receivables	–	–	–	–	**456,540**
Goodwill	109,021	109,021	64,525	64,525	**64,525**
Deferred tax assets	3,424,821	3,593,121	3,622,190	3,767,912	**4,902,484**
	77,350,212	92,845,319	107,144,868	96,375,972	**143,614,279**
Current assets	452,133,396	463,042,142	475,103,225	474,913,305	**501,790,506**
Total assets	529,483,608	555,887,461	582,248,093	571,289,277	**645,404,785**
Non-current liabilities					
Bank and other borrowings – due after one year	(89,099,309)	(78,327,240)	(100,510,978)	(61,773,449)	**(90,256,116)**
Notes payable – due after one year	(32,688,088)	(48,177,442)	(70,949,813)	(71,760,801)	**(57,558,524)**
Amounts due to non-controlling shareholders	(1,078,734)	(1,321,743)	(1,238,436)	(869,939)	**(3,799,801)**
Deferred tax liabilities	(6,301,672)	(7,263,570)	(8,810,321)	(9,857,255)	**(13,704,348)**
	(129,167,803)	(135,089,995)	(181,509,548)	(144,261,444)	**(165,318,789)**
Current liabilities	(267,572,080)	(263,608,523)	(185,159,018)	(199,604,474)	**(206,542,566)**
Total liabilities	(396,739,883)	(398,698,518)	(366,668,566)	(343,865,918)	**(371,861,355)**
Net assets	132,743,725	157,188,943	215,579,527	227,423,359	**273,543,430**
Equity attributable to Owners of the Company	129,145,204	151,415,880	209,564,281	222,248,442	**265,694,287**
Non-controlling interests	3,598,521	5,773,063	6,015,246	5,174,917	**7,849,143**
	132,743,725	157,188,943	215,579,527	227,423,359	**273,543,430**

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