China Properties Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1838

Annual Report 2017

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Wang Shih Chang, George *(Chairman)*
Mr. Wong Sai Chung *(Managing Director)*
Mr. Xu Li Chang

Non-executive Director

Mr. Kwan Kai Cheong

Independent Non-executive Directors

Mr. Warren Talbot Beckwith
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao (retired on June 29, 2017)

COMMITTEES

Audit Committee

Mr. Warren Talbot Beckwith *(Chairman)*
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao (resigned on June 29, 2017)

Remuneration Committee

Mr. Garry Alides Willinge *(Chairman)*
Dr. Wang Shih Chang, George
Mr. Luk Koon Hoo

Nomination Committee

Dr. Wang Shih Chang, George *(Chairman)*
Mr. Warren Talbot Beckwith
Mr. Cheng Chaun Kwan, Michael

AUTHORIZED REPRESENTATIVES

Dr. Wang Shih Chang, George
Mr. Wong Sai Chung

COMPANY SECRETARY

Ms. Yu Ling Ling

STOCK CODE

1838

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

14th Floor, Wheelock House
20 Pedder Street
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
China Minsheng Bank
Postal Savings Bank of China

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPANY'S WEBSITE

www.cpg-group.com

As the 10-year U.S. treasury bonds have timidly delivered a substantial yield of 0.45%, the government bonds with a negative yield rate adds up to US$13 trillion worldwide. In this presence of the enormous bubble in the bond market, the stock market will not turn into a bubble no matter how high the P/E rises, and it will not be problem even if the real estate prices further ascend in Mainland China and Hong Kong. As remarked by Richard Thaler, winner of 2017 Nobel Prize in Economics, "social people are mostly semi-rational instead of rational." Therefore, investors would like to buy anything that is bearing interests without even a glance. Nonetheless, once the bond market bubble bursts, no one can stay unaffected. The selfishness and greediness of no one but the politicians has not only shaped the unnatural order of the global economy today, but also caused the majority to suffer from poverty and man-made disasters: the currency supply across the world has increased by, approximately US$11 trillion just during the past 10 years. Such an enormous amount of hot money has enabled the world's economy to take on a falsely charming appearance. Individuals and enterprises are helplessly exposed to the risks arising from the disordered changes of the world's economy. For instance, when you could easily borrow money with merely your signature, few was able to resist such an allurement and people started rushing to borrow money, make investments and spend money in significant amounts. But now, as far as the annual interest rate in the U.S. hikes to three percent, about twenty percent of individuals and enterprises will turn into "zombies", which means that their investment gains will not be enough to set off the interest expenses, let alone the repayment of significant debts. Fortunately, the Group was an exception, because we were able to uphold the healthy operation principle and maintain low debt level despite of sufficient funds in banks or the capital market. With no doubt, 2018 is another challenging year, in which we are striving to score a victory for the shareholders despite the delay in certain projects in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Group Strategies

Looking ahead, the Group would continue to master property development projects, both residential and commercial, with sizable and distinct quality, in prime locations in the People's Republic of China ("PRC"). Our overall objectives are to exploit business opportunities, achieve sales growth, and enhance income as planned.

Key property development projects are as follows:

- *High-end and sizable middle-class residential projects*

  There are both high-end residential and well-located projects for the growing middle-class in both Shanghai and Chongqing. Luxurious design and leading residential projects, characterised by themes and motifs, are connected with mass transit system with rapid, convenient and efficient transportation.

- *Modern and upscale theme shopping street developments*

  These are modern, well-designed architectural projects situated at prime retail areas in major cities in the PRC which combines retail, residential, entertainment, cultural and recreational users with great accessibility, a focal point with attractions for residential, investment and business operations.

BUSINESS ENVIRONMENT

Overview of the Mainland Property Market

China's GDP in 2017 was recorded at RMB82,712.2 billion, representing a 6.9% year-on-year growth.

The residential property market of China remained positive in 2017. The transaction volume of commodity residential properties in terms of sale area had a growth of 5.3% year-on-year and the investment amount recorded an increment of 9.4% year-on-year. In the 19th National Congress of the Communist Party of China held in October 2017, President Xi recapped that housing should be built for residing, but not for speculation. It showed the determination of the central government to suppress the investment sentiment in the overheated residential market. It was pledged to increase housing supply from various sectors, provide more options for assuring the affordability of housing and promote renting to replace buying flats.

The retail property market of China was buoyant in 2017. The total retail sales expanded to RMB36,626.2 billion, representing a growth of 10.2% year-on-year. The e-commerce market continued to develop in an expeditious pace. In 2017, the national online retail sales of goods & services amounted to RMB7,175.1 billion, implying an increment of 32.2% year-on-year, of which the online retail sales of commodities was recorded at RMB5,480.6 billion, increased by 28.0%, accounting for 15.0% of the total retail sales of consumer goods. Among the online retail sales of physical goods, food, clothing and daily necessities went up by 28.6%, 20.3% and 30.8% respectively. F&B and entertainment retailers were the fastest growing trades, while luxury fashion retailers, particularly the international brands, were relatively conservative in their expansion plans.

The office property market of China was dynamic in 2017. Supported by the robust economy, the office leasing demand was strong, indicated by the positive net take up of office spaces in most major cities. For instance, the net absorption amount of Grade A office spaces in the four tier-one cities totaled 2.8 million square metres. The technology, media and telecommunications (TMT) industry was one of the most eye-catching contributors in the office demand, followed after the finance industry. On the other hand, the new Grade A office supply in China in 2017 was about 7 million square metres.

Overview of the Shanghai Property Market

Shanghai had maintained a steady economic growth. As of 2017, Shanghai's GDP grew by 6.9% year-on-year to RMB3,013.4 billion.

New commodity residential supply in 2017Q4 reached a low level at about 280,000 square metres. Meanwhile, the annual transaction volume in 2017 recorded 633 million square metres, which dropped by over 50% year-on-year. Nevertheless, the average commodity residential price in 2017 was about RMB48,000 per square metre, which showed a growth of 25% year-on-year. The aforementioned statistics revealed that the government intervention since 2016, namely the increase in down payment requirement and the stricter limitation to non-local buyers, was still effective in cooling down the investment sentiment of residential market.

The retail sales was recorded at RMB1,183.0 billion, representing a growth of 8.1% year-on-year. New shopping malls continued to be built in decentralized areas. Out of the seven new retail projects in the second half of 2017, five of them were located in non-core area. For instance, China Resources and Aegean Commercial Group also decided to open their first quality shopping mall in Shanghai in Minhang District. These new projects showed an excellent performance, indicated by the high net absorption of floor space of 682,000 square metres in the second half of 2017. The overall vacancy rate of mid-to-high-end shopping centres dropped to 12.6%, in spite of the vast amount of new retail supply. The strong demand was mainly brought by international brands which opened new flagship stores in prime areas; and the kids' care as well as F&B retailers which selected to expand in non-prime areas.

According to the Shanghai Statistics Bureau, tertiary industry grew by 7.5% year-on-year to RMB2,078.3 billion, accounting for more than two-third of the total GDP. The information transmission, software and information technology services sector outperformed other industries in terms of growth rate, which gave a figure of 18.9% year-on-year. Although a new office supply of 956,000 square metres in core areas entered into the market in 2017, the overall vacancy rate of Grade A office buildings still decreased to about 13.9% at 2017 Q4. The strong absorption was supported by different industries, particularly the technology and co-working sectors, which expanded their footprint rapidly in many Grade A office buildings.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Chongqing Property Market

Chongqing kept a positive growth in its economy. Chongqing's GDP was recorded at a growth of 9.3% year-on-year to RMB1,950.0 billion in 2017.

In September 2017, the government imposed new housing policy in Chongqing, alongside four other cities, in order to stabilize the residential market. All newly developed commodity residential flats and second-hand residential flats located in the core areas could only be resold after a two-year gap period since obtaining the real estate title certificates. The effect of the policy was yet to be seen as the transaction volume in 2017Q4 recorded a growth of 10% quarter-on-quarter. The average commodity residential price was surged to about RMB9,000 per square metre, implying a 30% increment year-on-year.

The retail sales was recorded at RMB806.8 billion, showing a 11% growth year-on-year. The total supply of prime retail properties in Chongqing was increased to about 5.6 million square metres with the opening of four new shopping malls in 2017Q4. Chongqing International Financial Square located in Jiangbeizhui developed by the Wharf Group, comprising a 114,000 square metres shopping arcade, was opened in September 2017, which was one of the most noticeable commercial projects in Chongqing. It positioned on the provision of high-end shopping and dining experience to shoppers and successfully introduced a number of international brands to open their first stores in Chongqing, which set a positive example for the retail market in Chongqing to flourish.

There was a total of 450,000 square metres new office space provided in 2017. A record high net absorption of 250,000 square metres in 2017 pulled down the overall vacancy rate. The strong demand was mainly brought by the financial, insurance and professional services sectors. On top of that, the launch of "Innovating China in Chongqing" led to the rapid growth of leasing activities of the technology, media and telecommunications (TMT) industry, showing a substantial need of office space.

Outlook of the Mainland Property Market

As the determination of suppressing the investment sentiment of housing market by the central government remains unchanged, it is anticipated that the tightening measures will not be relaxed materially in 2018. However, the stagnant transaction market may be rebound in 2018 as developers may accelerate in pushing new residential supply to the market for sale to stabilize their revenues. Overall, the residential price is expected to continue to grow in a steady pace. Meanwhile, the rental market may be favoured under the current market stabilization policy on purchasing market.

The overall national prime retail supply in the pipeline in 2018 is lower than that in the past year, although few major cities will have a significant new supply in the coming year. The retail leasing momentum is expected to remain stable, backed up by the increasing growth rate of residents' disposable income per capita. In order to outperform others in the current competitive retail market, landlords are required to renovate their shopping malls as well as readjust the brand and trade mix to provide a brand-new image to customers, while experiential retail will become the main trend in brick-and-mortar shops to attract customers.

With the positive economic growth, it is expected that the office leasing demand will stay strong. The first-tier cities will be benefited from the opening policy of the government on the financial sector, which is always the major driver of the demand. In spite of the significant Grade A office supply in the pipeline, the robust demand should be able to support the rental level to maintain a steady growth. Co-working space will continue to be the most controversial topic of office market in 2018. With more and more competitors entering into the market, these operators will put more effort in improving the working experience by technology or other innovative ideas on the ways of optimization of space.

FINANCIAL REVIEW

The Group's profit attributable to equity holders for the year amounted to RMB285 million (2016: RMB740 million), decreased by 61.5% when compared to 2016. Basic earnings per share were RMB0.16 (2016: RMB0.41).

As at December 31, 2017, the total assets increased to RMB59,211 million from RMB58,479 million in last year. Net assets, the equivalent of shareholders' funds, similarly increased to RMB37,190 million (2016: RMB36,905 million). In terms of value per share, net assets value per share is RMB20.56 at the end of the reporting period, as compared to RMB20.40 as at December 31, 2016. As the Group continues its investment of premium property developments in PRC with attendant appreciation in fair value, there was a RMB257 million fair value gain from the current portfolio. In addition, the approximate 7.5% appreciation of RMB to HK$ has resulted in the recognition of a RMB159 million exchange translation gain reported in this fiscal year.

The Group's revenue of RMB215 million (2016: RMB206 million) increased by 4.4% when compared with last year, and was mainly due to the increase in revenue from sales of properties.

The revenue from sales of properties amounted to RMB205 million (2016: RMB198 million), increased by 3.5% as compared to 2016. The Group sold properties with total gross floor area ("GFA") of approximately 52,000 sq. ft. (2016: 127,000 sq. ft) in 2017, a 59.1% decrease as compared with last year.

Gross profit margin for sales of properties was 78.3% (2016: 66.6%), a 11.7 percentage point increase when compared with last year.

Income from property leasing increased by 177.8% to RMB2.5 million (2016: RMB0.9 million). The increase was mainly attributable to more carparks rental income during the year. Property management income was RMB8 million (2016: RMB7 million).

During the year, the Group generated income of RMB195 million, RMB8 million and RMB2 million from sales of residential properties of Shanghai Concord City Phase I, residential properties and car parking spaces of Chongqing Manhattan City Phase I, residential properties and car parking spaces of Chongqing Manhattan City Phase II respectively.

Deposits received on sales of properties increased to RMB440 million as at December 31, 2017 from RMB403 million as at December 31, 2016. This was primarily due to the increase in deposits received on sales of Shanghai Concord City Phase I and the pre-sale of residential properties of Chongqing Manhattan City Phase III during the year.

Other income, gains and losses, net were RMB11 million (2016: RMB34 million). The decrease was mainly attributable to the decrease in gain on disposal of investment properties of Shanghai Cannes car parking spaces.

During the year, selling expenses were RMB19 million (2016: RMB22 million) which decreased by 13.6%. It was resulted from the decrease in advertising expenses incurred for pre-sale of residential properties.

Administrative expenses during the year were RMB63 million (2016: RMB78 million) which decreased by 19.2%. The decrease was mainly attributable to the decrease in project consultancy fees as well as other tax and related expenses during the year.

Finance costs represent mainly interest expenses and other borrowing costs in relation to bank and other borrowings, effective interest of convertible note and the fixed-rate senior notes. Finance costs of approximately RMB718 million (2016: RMB832 million) were capitalised on various projects, and the remaining RMB179 million was charged to the profit or loss during the year (2016: Nil).

The changes in fair value of investment properties were RMB257 million (2016: RMB1,114 million), a decrease of 76.9% when compared to 2016. The property price remained steady during the year because the underlying demand remained strong. On the other hand, the central government's blueprint that advocates Shanghai to become an international financial hub in 2020 also benefited local businesses including the retail and office property markets. Combining these factors, the valuation of investment properties in 2017 is still appreciating. The fair value of investment properties in Shanghai experienced an increase of RMB148 million (2016: RMB1,058 million) which was mainly contributed from valuation appreciation of the project of Shanghai Concord City Phase 2. The fair value of investment properties in Chongqing experienced an increase of RMB109 million (2016: RMB56 million) which was mainly contributed from the valuation appreciation of the projects of Chongqing International Commerce Centre and Chongqing Concord City.

Income tax expense was RMB98 million (2016: RMB307 million), a decrease of 68.1%. The Group's effective income tax rate was 25.5% (2016: 29.4%). The decrease in income tax expense was due to the drop in the amount of increase in fair value of investment properties for 2017 in comparison to last year.

LIQUIDITY AND FINANCING

The Group monitors its liquidity requirements on a short to medium-term basis and arranges refinancing of the Group's borrowing when appropriate. During the year, the Group raised new external borrowings totaling of approximately RMB2,592 million (2016: RMB3,019 million); on the other hand, the Group also received advance from a shareholder amounted to RMB171 million (2016: RMB234 million) during the year.

At the end of the reporting period, the Group's senior notes, bank and other borrowings, amount due to a shareholder and debt component of convertible note amounted to RMB1,667 million (2016: RMB1,783 million), RMB5,529 million (2016: RMB5,255 million), RMB2,083 million (2016: RMB1,913 million) and RMB393 million (2016: RMB374 million) respectively, and the Group's total borrowings were RMB9,672 million (2016: RMB9,325 million), an increase of RMB347 million when compared to December 31, 2016. RMB5,933 million (2016: RMB3,367 million) is repayable within one year whilst the remaining is repayable in the second to fifth year inclusive.

The gearing ratio of the Group as at December 31, 2017 was 24.7% (2016: 23.2%), determined as proportion of the Group's net borrowings (after deducting bank balances and cash and pledged bank deposits) to the shareholders' funds.

With bank balances and cash in hand, banking facilities available and those financing plans, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

There was no material acquisition and disposal of group companies during the year.

TREASURY POLICIES

At the end of the reporting period, approximately 79% (2016: 75%) of the Group's borrowings were in RMB. The Group derives its revenue mainly in RMB. Bank balances are maintained mainly in RMB and HK$.

The bank borrowings are principally on a floating-rate basis while the other borrowings and senior notes are on a fixed-rate basis.

The Group has not used any interest rate or foreign currency derivative instrument to hedge its exposure to interest rate and foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

During the year, the Group has complied with all borrowings covenants.

CHARGE ON ASSETS

As at December 31, 2017, the Group pledged assets with an aggregate carrying value of RMB45,319 million (2016: RMB44,828 million) to secure loan facilities utilised.

CONTINGENT LIABILITIES

As at December 31, 2017, the Group guaranteed mortgage loans to purchasers of its properties in the aggregate outstanding principal amount of RMB492 million (2016: RMB483 million). During the year, there was no default case.

LEGAL DISPUTES

As at December 31, 2017, the Group is subjected to several legal claims mainly in relation to disputes under construction contracts in respect of its various property development projects which arose during the normal course of business. In these legal proceedings, the Group has received court orders to restrict the disposition of certain investment properties, properties under development for sales and properties held for sale in an aggregate amount of approximately RMB52 million (2016: RMB62 million) and the withdrawal of bank deposits of approximately RMB6 million (2016: RMB6 million) as at December 31, 2017. In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that not met the required standards and pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or in the process of making countered claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group. The management has sought advices from the independent legal advisors or internal legal counsel, as at December 31, 2017, the Group has provided the construction cost liabilities amounting to RMB69 million (2016: RMB69 million) in relation to the above mentioned construction contracts under dispute.

For those outstanding legal claims that are still in preliminary stage, according to the advices from the independent legal advisors or internal legal counsel, the final outcome is unable to be determined at this stage amounted to approximately RMB42 million (2016: RMB55 million) in aggregate. Accordingly no further provision is required to be made in the consolidated financial statements. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2017, the Group had 346 employees (2016: 371 employees) in Hong Kong and the PRC. The related employees' cost for the year amounted to approximately RMB31 million (2016: RMB35 million). The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis, together with reference to the profitability of the Group, remuneration benchmarks in the industry and prevailing market conditions. In addition, share options may be granted from time to time in accordance with the terms of the Group's approved share option scheme to provide incentives and rewards to the employees.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Dr. Wang Shih Chang, George, aged 84
Dr. Wang is the Chairman of our Board and has been with the Group since 1992. He is the Chairman of the nomination committee and the member of the remuneration committee of the Company. Dr. Wang is jointly responsible for the formulation of the overall corporate direction and business strategies for the Group with the Managing Director. Dr. Wang has extensive experience in property development and management in the PRC. Prior to joining the Group, Dr. Wang served as a vice president of various companies owned by or associated with Bechtel Group, Inc. from 1962 to 1984 and Fluor Corporation from 1984 to 1986. Bechtel and Fluor are construction and project management companies in the United States of America. Dr. Wang has many years of experience in the operation and management of global conglomerates. He obtained a Master Degree in Civil Engineering and Nuclear Engineering from the University of Michigan and a Ph.D. Degree in Engineering from the University of California, Los Angeles. He is the brother of Mr. Wong Sai Chung, the Managing Director of the Company. Dr. Wang also serves as a director of U.S. Concord (Holding) Limited and Pacific Concord Holding Limited ("PCH") (de-listed).

Wong Sai Chung (汪世忠), aged 68
Mr. Wong is the Managing Director of the Company, and has been with the Group since 1992. Mr. Wong is jointly responsible for the formulation of the overall corporate direction and business strategies for the Group with the Chairman, and has overall responsibility for the Group's policy and management. Mr. Wong has over 20 years of experience in property development and management in the PRC, and has extensive experience in identifying and acquiring precious sizable lands and developing the land into highly marketable properties in top-tier cities in the PRC. Throughout the years, Mr. Wong has established strong and solid connections and contacts in the property industry in the PRC. Mr. Wong founded the PCH Group in March 1982 and has served as the Chairman of PCH Group since its establishment. He is the brother of Dr. Wang Shih Chang, George, the Chairman of the Board. Mr. Wong also serves as a director of U.S. Concord (Holding) Limited and PCH (de-listed). In 1996, he was appointed as the executive director of Concord Land Development Company Limited (de-listed).

Xu Li Chang (徐禮昌), aged 78
Mr. Xu is an Executive Director of the Company. Mr. Xu has been responsible for the project management since joining the Group in September 1998. He pursued his studies at the University of Chongqing (重慶大學) (formerly The Chongqing Institute of Civil Engineering and Architecture) (重慶建築工程學院) and qualified as a senior engineer in the PRC. Mr. Xu was appointed the officer-in-charge of the Neijiang City Municipal Foreign Economic and Technological Co-operation Office in the PRC in 1987. Mr. Xu also worked as the vice general manager at a well-known property development company in 1997 and was responsible for the overall management of the construction projects of that company.

Non-executive Director

Kwan Kai Cheong (關啟昌), aged 68
Mr. Kwan is a Non-executive Director of the Company and has joined the Group for more than ten years. He is also a Director of HK Electric. He is President of Morrison & Company Limited, a business consultancy firm. Mr. Kwan is also the chairman of the board of Utopa Limited, a commercial property company in the People's Republic of China. Mr. Kwan worked for Merrill Lynch & Co., Inc. for over 10 years during the period from 1982 to 1993, with his last position as President for its Asia Pacific region. He was formerly Joint Managing Director of Pacific Concord Holding Limited. Mr. Kwan is an Independent Non-executive Director of Greenland Hong Kong Holdings Limited, Henderson Sunlight Asset Management Limited (as manager of Sunlight Real Estate Investment Trust), United Photovoltaics Group Limited, Win Hanverky Holdings Limited and CK Life Sciences, all being listed companies (except Sunlight Real Estate Investment Trust being a listed real estate investment trust). He was previously an Independent Non-executive Director of Galaxy Resources Limited, a listed company. Mr. Kwan holds a Bachelor of Accountancy (Honours) degree and is a fellow of the HKICPA, The Institute of Chartered Accountants in Australia and The Hong Kong Institute of Directors Limited. He completed the Stanford Executive Program in 1992.

Independent Non-executive Directors

Warren Talbot Beckwith, aged 78
Mr. Beckwith was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the Chairman of the audit committee and the member of the nomination committee of the Company. Mr. Beckwith has business management experience in Australia, London and Hong Kong in various industries, including mining, petroleum, property and technology development. Mr. Beckwith is a Fellow of the Institute of Chartered Accountants in Australia, the Hong Kong Institute of Certified Public Accountants, the Australian Institute of Company Directors and the Taxation Institute of Australia. In the past, Mr. Beckwith held directorships and executive positions in public companies listed on stock exchanges in Australia and Hong Kong. Mr. Beckwith formerly served as an independent non-executive director on each of the boards of the then listed Pacific Concord Holding Limited and Concord Land Development Company Limited, both property development companies. Mr. Beckwith was a director and shareholder of Avon Real Estate Pty Ltd., a property development company, and he was also a director of Sentinel Investments Pty Ltd, an Australian-based property development company. He is currently the chairman of Westralian Group Pty Ltd., a Western Australian investment company and corporate financial advisor, is a non-executive director of Brockman Mining Limited, a mining company listed in Hong Kong and Australia, and is non-executive chairman of Gondwana Resources Limited, an Australian-listed mining company.

Luk Koon Hoo (陸觀豪), aged 66

Mr. Luk was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the member of the audit committee and the remuneration committee of the Company. Mr. Luk is a retired banker, and served Hang Seng Bank Limited from 1975 as a trainee officer and as a director and deputy chief executive in 1994. He was re-designated as managing director in 1996 and retired from Hang Seng Bank Limited in May 2005. Mr. Luk is currently an independent non-executive director of Computime Group Limited, Hung Hing Printing Group Limited and i-Cable Communications Limited, shares of which are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Wheelock Properties Limited and Octopus Holdings Limited, an non-executive director of Wharf T & T Limited and AXA General Insurance Hong Kong Limited. In public duties, Mr. Luk serves as a council member and treasurer of the Chinese University of Hong Kong, a member of Town Planning Board, a member of Witness Protection Review Board Panel and a non-official member of the Operations Review Committee of ICAC. Mr. Luk was born and educated in Hong Kong. He holds a Bachelor of Social Sciences Degree in Statistics from the University of Hong Kong and a Master Degree in Business Administration from the Chinese University of Hong Kong. He is a Fellow of the Hong Kong Institute of Bankers and the Hong Kong Institute of Directors. Mr. Luk is a Non-official Justice of the Peace.

Garry Alides Willinge, aged 68

Dr. Willinge was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is a member of the audit committee and Chairman of the remuneration committee of the Company.

He is a Fellow of the Australian Institute of Company Directors (AICD) and the Hong Kong Institute of Directors. He chairs the AICD Executive Committee in Hong Kong. He is an experienced company director in public listed, unlisted and not for profit companies in Australia, London and Hong Kong for over 13 years. He graduated with a Bachelor Degree in Science from the University of Melbourne and then attained a Graduate Diploma in Applied Finance and Investment from the Securities Institute Education in Australia (known as "The Securities Institute of Australia") in 1995 and a Graduate Diploma Company Director from the University of New England in 1992. He also attended the INSEAD Asia International Executive Programme in 2004.

Mr. Willinge had served as director, Global Services, of IBM China/Hong Kong Limited until January 2005. He previously held management positions in a number of IBM Asia Pacific and European business units, including director of New Business Ventures of the Asia Pacific, where he was responsible for forging alliances and joint ventures across Asia in order to expand IBM's services business portfolio. He was a director, Information Technology, for the Sydney Olympic Games 2000. He was assigned to the West Australian Premier in 1990, where he led the Office of Public Sector Management, which focused on leading public sector reform and developing CEO leadership within the sector.

He also serves as an Adjunct Professor of Business Studies at Curtin University in Australia. He received the Honorary Degree of Doctor of Technology from Curtin University in February 2014.

Cheng Chaun Kwan, Michael (鄭燦焜), aged 87

Mr. Cheng was appointed as an Independent Non-executive Director of the Company on February 1, 2007. He is the member of the audit committee and the nomination committee of the Company. Mr. Cheng is a retired property investment and development, corporate finance and accounting consultant. Mr. Cheng was the executive director of Sino Land Company Ltd., a company of which shares are listed on the Main Board of the Hong Kong Stock Exchange in 1987 and retired as director at the end of 1998. Prior to that, Mr. Cheng was the executive director of Henderson Investment Ltd., (formerly Wing Tai Development Co. Ltd.), a company of which shares are also listed on the Main Board of the Hong Kong Stock Exchange, for the period from 1981 to 1987. Mr. Cheng was the chief executive responsible for the listing of Sino Hotels (Holdings) Limited in 1995 on the Main Board of the Hong Kong Stock Exchange. Mr. Cheng is a Fellow of the Association of Chartered Certified Accountants in the U.K.

The Executive Directors of the Company are also the Senior Management of the Group.

CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") and the management of the Company are committed to a high standard of corporate governance. The Company considers such commitment is essential for the effective management, a healthy corporate culture, a successful business growth, balancing of business risk and enhancing of shareholders' value.

CORPORATE GOVERNANCE PRACTICES

Throughout 2017 and up to the date of this report, the Company has fully complied with all code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

THE BOARD

Responsibilities

The Board assumes responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs. The management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Company. The delegated functions and work tasks are reviewed by the Board periodically.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises eight members with three executive directors, one non-executive director and four independent non-executive directors (the "INEDs"). It is the policy of the Company to compose majority of the Board by INEDs, the Board at all times meets the requirements of the Listing Rules relating to appointment of at least three INEDs with at least one INED possessing appropriate professional qualifications, or accounting or related financial management expertise.

Executive Directors

Dr. Wang Shih Chang, George *(Chairman)*
Mr. Wong Sai Chung *(Managing Director)*
Mr. Xu Li Chang

Non-executive Director

Mr. Kwan Kai Cheong

Independent Non-executive Directors

Mr. Warren Talbot Beckwith
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao (retired on June 29, 2017)

The relationship among members of the Board and the biographies of the directors were disclosed under the "Directors' and Senior Management's Profile" section of the 2017 Annual Report.

The Company has appointed a Managing Director who performs similar functions as a chief executive officer. The position of the Chairman and Managing Director are held by two different persons in order to maintain an effective segregation of duties, independence and a balanced judgment of views. The Chairman provides leadership and is responsible for effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner.

The Managing Director focuses on implementing objectives, policies and strategies approved and delegated by the Board. He has the executive responsibilities over the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

The Company has received from each INED a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all INEDs to be independent in accordance with the independence guidelines set out in the Listing Rules.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All directors (including non-executive director) of the Company are currently appointed with specific terms for 2 years commencing from February 23, 2017, which are also subject to retirement in accordance with the articles of association of the Company ("Articles"). According to the Articles, at each annual general meeting, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment of directors and assessing the independence of INEDs.

The Board reviews from time to time its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirement and regulations.

In accordance with the Articles, Dr. Wang Shih Chang, George, Mr. Kwan Kai Cheong and Mr. Luk Koon Hoo will retire by rotation and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company's circular contains detailed information of the directors standing for re-election.

TRAINING AND CONTINUING DEVELOPMENT OF DIRECTORS

The Chairman has assessed the development needs of the Board as a whole, with a view to build its effectiveness as a team and to assist in the development of individual skills, knowledge and expertise.

Arrangements have been made to provide each new director a comprehensive, formal and tailored induction on the first occasion of his appointment and continuing briefing and professional development when necessary.

BOARD MEETINGS

The Board aims to meet in person or by means of electronic communication, at least 4 times a year, if necessary, as well as on an ad hoc basis. The individual attendance record of each director at the meetings of the Board, Audit Committee, Remuneration Committees and Nomination Committee during the year ended December 31, 2017 is set out below.

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to all directors in advance. Notices of regular meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board paper together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep them apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the management whenever necessary.

The company secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors and members of committees for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to the current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

Upon reasonable request, the Company should provide separate independent professional advice to directors to assist them to discharge their duties in the appropriate circumstance.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affair. The Board committees of the Company are established with defined written terms of reference. The majority of the members of the Board committees are INEDs and the list of the chairman and members of each Board committees are set out under "Corporate Information" in the 2017 Annual Report.

Meeting attendance during the year ended December 31, 2017 is as follows:

Name of Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
Dr. Wang Shih Chang, George	2/4	N/A	1/2	1/2
Mr. Wong Sai Chung	3/4	N/A	N/A	N/A
Mr. Xu Li Chang	1/4	N/A	N/A	N/A
Mr. Kwan Kai Cheong	4/4	2/2	N/A	N/A
Mr. Warren Talbot Beckwith	4/4	2/2	N/A	2/2
Mr. Cheng Chaun Kwan, Michael	4/4	2/2	N/A	2/2
Mr. Luk Koon Hoo	4/4	2/2	2/2	N/A
Mr. Garry Alides Willinge	4/4	2/2	2/2	N/A
Mr. Wu Zhi Gao (retired on June 29, 2017)	2/4	1/2	N/A	N/A

The Audit Committee

Composition of the Audit Committee
Mr. Warren Talbot Beckwith *(Chairman)*
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao (resigned on June 29, 2017)

The Company established an Audit Committee comprising 5 INEDs (4 INEDs after June 29, 2017) with written terms of reference in compliance with the requirements as set out in Appendix 14 to the Listing Rules. Mr. Warren Talbot Beckwith, who possesses a professional accounting qualification and relevant accounting experience, is the Chairman of the Audit Committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

(a) To review the Company's financial statements and report, and to consider any significant or unusual items raised by the corporate accounting department or external auditor before submission to the Board.

(b) To review the relationship with the external auditor by reference to the work performed by the auditor, the fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditor.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system (including anti-fraud) and risk management system and associated procedures.

During the year ended December 31, 2017, the Audit Committee met twice to review the financial results and reports (including continuing connected transactions), financial reporting (including cash flow forecast) and compliance procedures, to review the effectiveness based on report on the Company's internal control and risk management review and processes and the re-appointment of the external auditor. The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

The Audit Committee has not taken a different view from the Board regarding the selection and re-appointment of external auditor.

The Company's annual results and continuing connected transactions for the year ended December 31, 2017 have been reviewed by the Audit Committee.

The Remuneration Committee

Composition of the Remuneration Committee
Mr. Garry Alides Willinge *(Chairman)*
Dr. Wang Shih Chang, George
Mr. Luk Koon Hoo

The Company established a Remuneration Committee comprising an executive director and two INEDs with written terms of reference in compliance with the requirements as set out in Appendix 14 to the Listing Rules. Mr. Garry Willinge is the Chairman of the Remuneration Committee.

The main duties of the Remuneration Committee include the following:

(a) To make recommendation to the Board on the policy and structure for all remuneration of the directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration.

(b) To determine, review and approve the specific remuneration packages of all executive directors and make recommendations to the Board of the remuneration of non-executive directors, taking into account those factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere and desirability of performance-based remuneration.

(c) To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the year ended December 31, 2017 and up to the date of this report, the Remuneration Committee met on March 30, 2017 and August 30, 2017 to review the remuneration packages of directors and the existing terms of reference for the Remuneration Committee.

The remuneration of the directors for the year ended December 31, 2017 was set out in note 10 to the consolidated financial statements.

The Nomination Committee

Composition of the Nomination Committee
Dr. Wang Shih Chang, George *(Chairman)*
Mr. Warren Talbot Beckwith
Mr. Cheng Chuan Kwan, Michael

The Company established a Nomination Committee comprising an executive director and two INEDs with written terms of reference in compliance with the requirements as set out in Appendix 14 to the Listing Rules. Dr. Wang Shih Chang, George is the Chairman of the Nomination Committee.

The main duties of the Nomination Committee include the following:

(a) To formulate the policy for the nomination of directors in compliance with the requirements of the Listing Rules including but not limited to the following for consideration by the Board and implement the nomination policy laid down by the Board:

(i) all directors shall be subject to re-election at regular intervals as set out in the articles of association of the Company (as amended from time to time);

(ii) the Company must comply with the disclosure requirements in relation to the appointment, resignation or removal of directors under the Listing Rules;

(iii) non-executive directors should be appointed for a specific term, subject to re-election and the term of appointment of the non-executive directors must be disclosed in the Corporate Governance Report under the Listing Rules;

(iv) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

During the year ended December 31, 2017 and up to the date of this report, the Nomination Committee met on March 30, 2017 and August 30, 2017 to review the structure, size and composition of the board of directors and the process for re-election of the directors at regular intervals.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. The obligation to follow the Listing Rules is set out in the terms of the service contracts of each executive director and the letters of appointment of the non-executive directors and each INED.

The directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards as set out in Model Code during the year ended December 31, 2017 and up to the date of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is accountable for overseeing the Group's risk management and internal control systems and reviewing its effectiveness, while Management are responsible for implementing and maintaining the internal controls systems that covers governance, compliance, risk management, financial and operational controls to safeguard the Group's assets and stakeholders' interests. The system is designed to mitigate rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year ended December 31, 2017, the Company has identified, evaluated and managed risks via the following process:

- reviewing the organizational and strategic objectives;
- assessing the risk management philosophy to determine the risk tolerant level of the Group; and
- performing an entity-level risk assessment.

The Group adopted the standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as specified in Appendix 10 of the Listing Rules (Model Code) and received confirmation from all directors that they have complied with the Model Code throughout the period under review.

Risk Management and Internal Control Systems Review

The management team of the Company meets regularly to review the effectiveness of the risk management and internal control systems of the Group and to resolve (if any) material internal control defects of the Group for the year ended December 31, 2017. The review is designed to enhance the risk management of the Group through a holistic and integrated framework so that all material risks faced by the Group are identified and appropriately managed. The risk management system:

- promotes consistent risk identification, measurement, reporting and mitigation;
- sets a common risk language to avoid any conflicting terminology or confusion in risk reporting;
- consists of risk management and internal control policies that are aligned with the business strategy; and
- enhances reporting to provide transparency of risks across the Group.

During the review, the Company conducted the following procedures:

- interviewing department heads and management to identify the risks over the Company business units;
- quantifying risks by financial data and market searches; and
- prioritizing the identified risks as high, medium and low risk.

The Company will perform ongoing assessment to update the entity-level risk factors and report to the Board on a regular basis.

Internal Audit Function

During the year ended December 31, 2017, the Company has appointed an internal control advisor (the "IC Advisor") to perform internal audit function for the Group. The IC Advisor reported to the Audit Committee and to the Company's management. Based on the IC advisor's risk assessment report with three-year internal audit plan that was endorsed by the Board and Audit Committee, the IC Advisor conducted its internal audit review activities during the year ended December 31, 2017. The IC Advisor reported the internal audit findings and recommendations to both the Audit Committee and the management of the Group. The management of the Group agreed on the internal audit findings and adopted the recommendations by the IC Advisor accordingly.

Management's report on risk management

Based on the risk management mechanism and internal audit review activities mentioned in the aforementioned paragraphs, the management of the Group had reported to the Board that the Group had maintained an effective risk management mechanism and internal control system during the year ended December 31, 2017.

MANAGEMENT FUNCTION

The management team of the Company meets regularly to review and discuss with the executive directors on day-to-day operational issues, financial and operating performance as well as to monitor and ensure the management is carrying out the directions and strategies set by the Board properly.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended December 31, 2017.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 48 to 52.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The remuneration paid and payable to the external auditor of the Group in respect of audit services and non-audit services for the year ended December 31, 2017 are set out below:

	Year ended December 31, 2017 RMB'000
Services rendered	
— Audit services	2,927
— Non-audit services	—
	2,927

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The rights of shareholders are contained in the Company's Articles. Details of the poll procedures will be explained to shareholders during the proceedings of any general meetings, if necessary.

Poll results are published on the websites of the Stock Exchange and the Company before the designated time on any business day following the meeting in accordance with the Listing Rules.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board (also chairman of the Nomination Committee for the time being) as well as chairmans of the Audit Committee and Remuneration Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, will be available to answer questions at the shareholders' meetings.

Any enquiries by shareholders requiring the Board's attention can be sent in writing to the company secretary at the Company's principal place of business in Hong Kong.

OTHERS

Annual Confirmation from Mr. Wong Sai Chung

The Board received a confirmation from Mr. Wong Sai Chung ("Mr. Wong") that during the year ended December 31, 2017 and up to the date of this report, Mr. Wong has complied with the non-compete undertaking as set out in the Prospectus.

New Business Opportunities

During the year ended December 31, 2017 and up to the date of this report, there have been no new business opportunities which are required to be referred to the INEDs under the deed of undertaking dated February 8, 2007 entered into between Mr. Wong and the Company.

Properties under the Beijing Concord Option and the General Option (collectively the "Options")

During the year ended December 31, 2017 and up to the date of this report, no options for the acquisition of the properties under the Beijing Concord Option and the General Option are exercised. The INEDs have considered the respective status of the Beijing Concord Option and the General Option and decided that it is not the appropriate time for the Company to exercise these options. Details of the Options are set out in the prospectus dated February 9, 2007 issued by the Company.

The Beijing Cannes Option previously granted by Mr. Wong had automatically lapsed in accordance with the terms of the Option Agreement as Mr. Wong had ceased to be interested in the Beijing Cannes site. Please refer to the Company's announcement dated February 7, 2013 for further details.

The General Option in respect of the Zhuhai Property previously granted by Mr. Wong had automatically lapsed in accordance with the terms of the Option Agreement as Mr. Wong had ceased to be interested in the Zhuhai Property. Please refer to the Company's announcement dated September 21, 2011 for further details.

First Right of Refusal for the Properties under Options

During the year ended December 31, 2017 and up to the date of this report, the Company is entitled to the first right of refusal for the properties under Options.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

China Properties Group Limited (hereafter "We", the "Company") and its subsidiaries (hereafter called the "Group") is pleased to present our second environmental, social and governance ("ESG") report. Being a socially responsible property developer, while creating more and more economic values to the shareholders by developing both residential and commercial projects, the board of the Company also realizes that there is increasing awareness of the ESG issues from the stakeholders, and considers maintaining customer satisfaction and creating a pleasant and ethical workplace our main goals. By continuing our efforts in incorporating sustainability throughout our business operation, we believe we are creating sustainable and mutual benefits between the Company and all stakeholders.

This second ESG report covers the financial year from 1 January 2017 to 31 December 2017 (the "Reporting Period"). The scope of this report covers the operation in Hong Kong office and the activities that are of material significance to the Group, including the following key subsidiaries:

- 上海閔行協和房地產經營有限公司 (Shanghai Minhang Concord Property Development Co., Ltd.)
- 上海靜安協和房地產有限公司 (Shanghai Jingan — Concord Real Estate Co., Ltd.)
- 上海盈多利物業管理有限公司 (Shanghai Yingduoli Property Management Co., Ltd.)
- 重慶茵威房地產有限公司 (Chongqing Ace Blossom Real Estate Co., Ltd.)
- 重慶兩江房地產有限公司 (Chongqing Yangtze-Jialing River Real Estate Co., Ltd.)
- 重慶半山一號房地產有限公司 (Chongqing Mid-Levels No. 1 Real Estate Co., Ltd.)
- 重慶山頂一號房地產有限公司 (Chongqing Peak No. 1 Real Estate Co., Ltd.)
- 重慶江灣房地產有限公司 (Chongqing Riverside Real Estate Co., Ltd.)
- 重慶正天投資有限公司 (Chongqing Zhengtian Investment Ltd.)

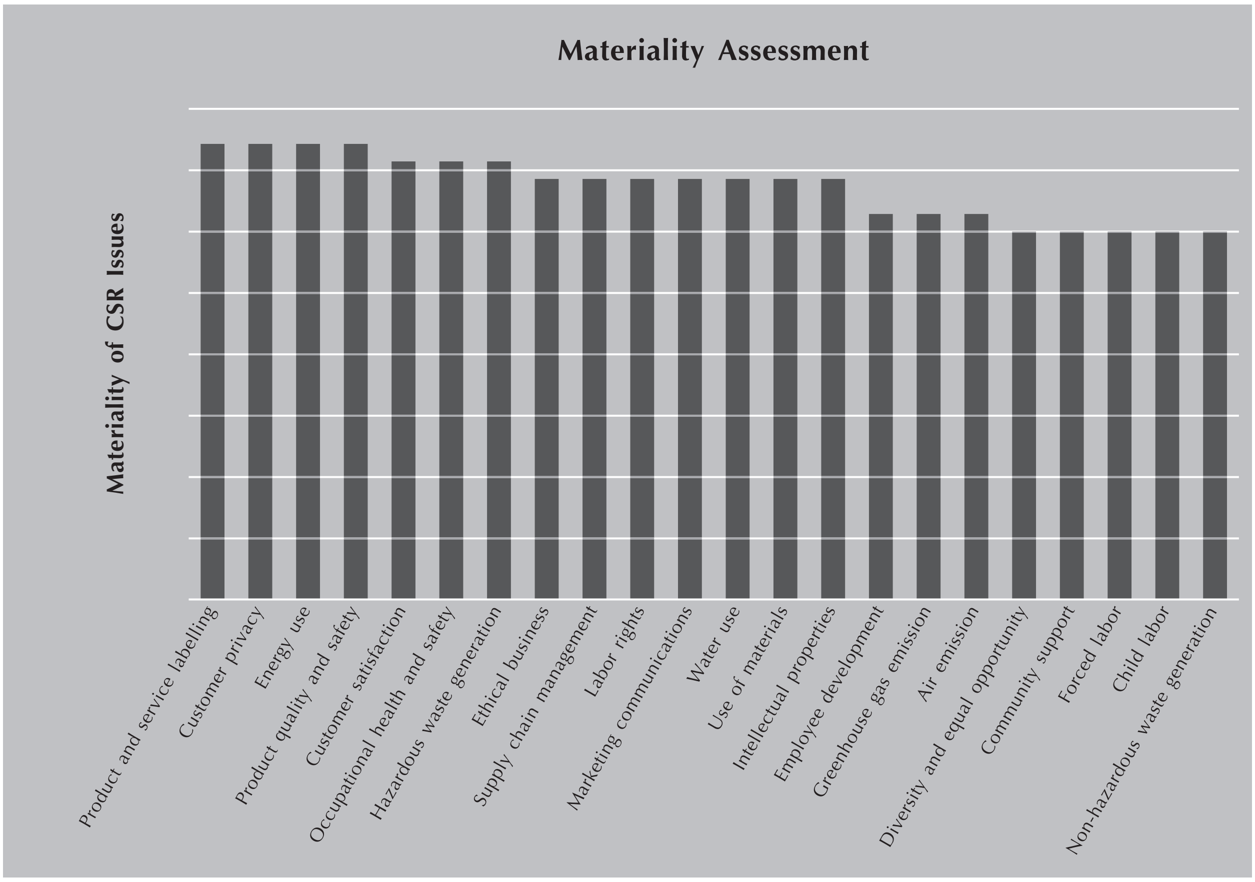
This report demonstrates our sustainability practice and ESG performance, and is prepared in accordance with appendix 27 of the rules governing the listing of securities, Hong Kong Exchanges and Clearing Limited ("HKEx"). This year, we also see the disclosure of the environmental key performance indicators ("KPIs"), signalling another significant progress that the Group has made towards ESG management. The relevant reported ESG issues have already discussed in the Board meetings, and the report has been reviewed and approved by the Board of Directors.

For any feedback on our ESG report, please email us at esg@cpg-group.com.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

To better understand and address interests and expectations of all the stakeholders, a comprehensive stakeholder engagement exercise was done through an online survey by a third party.

Key stakeholders were invited to take part in the questionnaire survey, which comprised a set of rating questions to review the significance and relativity on a range of key sustainability topics, and to share their comments and views on the Group's ESG performance.



Results of the survey have been analyzed to determine the material ESG issues that were of interests and significance to the stakeholders. Thus, the survey has helped the Company develop corresponding ESG management strategies, further address the concerns of the stakeholders and improve the Group's ESG performance continuously.

OUR WORKPLACE

We rely on our employees to execute our Group's missions, and bring out our Group's core values everyday. The performance, success and growth of our employees mean the same for the business of the Group. To realize their potentials, we strive to create a pleasant, safe, motivated and respectful workplace for our employees, and support their continuous growth and development.

Employment

We have established our "Human Resources Policy and Procedure" to help us manage our human resources matters. We offer attractive and performance-based remuneration package to our employees. Apart from providing the basic employment benefits to our staff in accordance with the national labour laws and regulations — including basic salary, statutory holidays, annual leaves, fixed working hours and social welfare insurance; additional leaves and benefits such as marriage and maternity leaves, allowances and commissions are also granted.

To motivate our staff at work, a performance-based award system is in place. The performance of our staff is reviewed regularly (monthly and yearly), and they are subject to monetary incentives including special bonus based on their individual performance. All the employment conditions are clearly stated in the employment contract with employees' voluntary agreement before reporting duty.

During the Reporting Period, no non-compliance cases relating to employment practices had been identified.

An Equal Opportunity Workplace

We are fully committed to the principle of openness and equal opportunity, as it is very important for all of our staff to feel that they have been treated fairly with respect in their workplaces. Our Human Resources Handbook provides guidance for the selection of the most suitable candidate during recruitment and promotion, which is based on their qualification, experience and individual performance.

Knowing the importance of maintaining a respectful and equitable working environment to our staff, we encourage mutual respect between management, subordinates, and co-workers, and strictly prohibit any form of harassment and victimization in our workplace. Our Human Resources Handbook provides guidance on the acceptable behaviour for staff members to follow. Open communication is encouraged between our staff and their supervisors so that our employees can make their suggestions or comments regarding their work. When such communication is received, we will promptly follow up and take necessary actions where appropriate to maintain a good and healthy working environment.

To protect human rights and to fully comply with relevant labour laws and national regulations, employment of child labour and forced labour in our operation are strictly prohibited. Preventive measures such as identity check and job reference check will be conducted to prevent violation of these rules. During the Reporting Period, no non-compliance cases relating to child labour and forced labour were identified.

Training & Development

In order to maintain our competitive edge in the property development industry, we understand that developing and maximizing our employees' potentials is the key to sustain our successive business growth, and simultaneously enhance the job satisfaction of our people.

Through the implementation of the "Training Management Policy and Procedure", we systematically determine the training needs of our employees, and develop annual training programmes for each employee to ensure they receive proper training accordingly. Our orientation training helps our new employees understand our business profile, corporate culture, business ethics, job responsibilities and obligations. Further, our wide spectrum of internal training courses further promote staff development on the technical aspect such as contract management, safety production and construction work supervision.

Besides, eligible employees can receive educational sponsorship to attend professional training programmes organized by external professional institutions. After training, regular reviews are being conducted to evaluate the effectiveness and suitability of those training in order to make adjustments or improvement for future training opportunities where necessary. We also actively encourage our people to advance their job skills by self-directed learning during their spare time.

Health & Safety

Providing a healthy and safe working environment for our employees is our primary duty. We have developed a "Safety & Security procedure" and "Office Environment Management standard" for our staff to prevent work related injuries in our daily operations. To cultivate a safety conscious workplace, we regularly conduct safety training and drills such as fire drills to our employees in order to enhance their safety awareness and competency in dealing with the emergencies. In addition, we advocate work-life balance and have organized various activities for employees such as the Chinese New Year celebration to build a sense of belongings of our staff members.

During the Reporting Period, no non-compliance cases relating to occupational health and safety were identified.

Ethical Business Practices

We firmly believe that upholding business integrity is the cornerstone of business success and continuity. We strictly prohibit bribery and corruption in different stages of property development such as tendering, contractors selection process, materials inspections and test and commission process.

To prevent corruption and bribery in our operation, we have implemented the "Anti-corruption Management Procedure" and ensure our staff are following the ethical business conducts contained. The same is also stated in our staff handbook for all employees to follow when operating our business. We prohibit all employees to receive any advantages such as gifts, commission and entertainment from our business partners, or abuse of power for the own benefits.

Besides, to secure the Group's interests, customer privacy and intellectual rights, we establish a Confidentiality Committee and set out guidelines for all employees to strictly abide by. This is particularly important for handling confidential information such as trade secrets, contracts and price sensitive information. Any leakage of such information to unauthorized persons and parties are strictly prohibited.

Relevant training is provided to all employees to make sure that they fully understand their responsibilities and obligations, and to enable them to perform professionally and ethically in business operations. We also encourage all staff and business partners to report any suspicious/actual corruption and misconduct in good faith. When any malpractice and misconduct are identified in the workplace, we will take immediate actions to verify and remedy the nonconformities. Where necessary, we will report the case to relevant regulatory authorities when offences are committed.

During the Reporting Period, no non-compliance cases relating to bribery, extortion, fraud and money laundering were identified.

PRODUCT RESPONSIBILITIES

Delivering excellent quality properties, and providing good property management services to our customers, are our ultimate goals. To achieve these, we have implemented various management systems and measures to manage our supply chain. These systems and measures help safeguard the quality and safety of the properties developed, and our property management services to our customers.

Supply Chain Management

In our property development and property management activities, we need to closely collaborate with a wide range of suppliers, contractors and service providers in order to execute and support our daily operations. Hence, it is crucial to select our business partners carefully to provide expected services, and to maintain the required products and services quality.

We select and manage our suppliers through our "Project Management Procedure". All the potential suppliers are requested to go through a qualification process before they can be qualified as our suppliers. The process includes a review of the materials. A potential supplier needs to fill-in a pre-qualification assessment form to ensure all supplied materials are nationally qualified and meet the required industrial standards. After that, a business reference check will be conducted on the company. Furthermore, a comprehensive assessment, which includes an on-site inspection, will be carried out by our procurement team to verify and evaluate the qualification, integrity and capability of the suppliers in delivering quality products/services. After successfully meeting all the specified requirements, the suppliers can then be qualified as approved suppliers.

Likewise, when selecting suitable tenderers for the construction works, our tendering team carries out the qualification assessment to all the potential contractors before they are qualified as our on-list approved contractors for project tendering. To obtain desirable tendering results and to minimize disputes during execution of contract requirements, we only invite on-list qualified contractors to compete for our projects. Additionally, we also clearly state all our requirements, specifications, terms and conditions in the tendering documents to make sure they fully understand the project nature and scope, contract requirements and other construction work requirements before their submissions.

In order to make a fair and equitable tender decision, according to the "Project Management Procedure" our dedicated technical team carries out technical review on the received tendering documents. Apart from taking into account merits contained in the cost plan and technical capabilities, we also emphasize on the importance of health, safety an environment ("HSE") management in the construction sites, aiming to minimize environmental and social impact during construction works. Based on the results of the technical evaluations, we select the best candidate who can offer a desirable project price and fulfil all our technical and HSE requirements for the works.

Similarly, to prevent any corruption and bribery occurred in our business operations, we have issued announcements and require all business partners to uphold the highest degree of business ethics and integrity when doing business with our staff members. Business partners are strictly prohibited from providing any benefits such as gifts, commission and entertainment to our staff in order to obtain any own advantages.

Safeguarding all the workers employed by our main contractors is also our fundamental responsibility. To prevent serious work injuries and safety incidents during construction, we have developed a construction safety guideline in which clearly states responsibilities of the contractors, including the need to conduct relevant safety risks assessment, as well as the safe work procedures and inspection procedures during the operations of machinery. All workers must attend safety induction training before commencement of work, and must attend regular safety refresher training in order to increase and maintain their safety awareness at work sites.

Besides, we request all the main contractors to maintain a good site conditions, and require them to carry out daily site inspection to monitor and verify the safety control measures are well maintained. Regularly on-site inspection reports are required by our HSE working group. We also conduct site audit regularly to ensure the contractors are complying with all the safety laws and regulations as well as the contract requirements.

In the event of any accident, the main contractor in the construction site is requested to follow the "Emergency Response Procedure" and report the case to our safety working team. Subsequently, an accident investigation will be conducted in order to find out the root cause of the accident, and take remedial action where appropriate.

Safeguarding Our Customers

We strive to gain our customers' trust and satisfaction by delivering safe properties with good quality and premier property management services.

Properties

To maintain the quality and safety of our properties, our dedicated project management team controls and monitors the overall performance of the project life cycle through the implementation of the "Project Management Procedure". We request our contractors to submit detailed construction plan with respect of budget control, construction schedule and milestone, construction method statements and/or drawings to our project management team for approval before commencement of any construction works. This is to make sure the proposed building works are complied with relevant building laws and regulations, contract requirements, specifications and building standards.

Regarding materials use and its selection, especially for the key construction materials and building services equipment, contractors are required to submit a list of selected supplier(s), sample products and relevant products specification for review and approval. Our engineering and quality assurance teams under the project management team will then conduct an on-site inspection with the selected suppliers and assess the quality of the products before mass purchasing. When the materials are supplied and delivered at the construction site, our engineering and quality assurance teams will carry out material inspection and acceptance test to verify if the types and quality of building materials are matching the qualities of those shown in the sample products before use.

During the construction stage, our engineering team organizes regular site meetings and closely works with the main contractor to supervise the construction progress and follow up with all outstanding engineering and quality issues. Once the construction is complete, our engineering team and quality assurance teams will carry out the quality assurance check on the finished works in accordance with the agreed standards listed on the contract. We also offer a defect warranty period for our properties on various items. With a period of two to five years' warranty in general, we are committed to the satisfaction of our customers by providing properties of good quality in various aspects. We aim to protect and fulfil our product responsibilities and ensure maximum customer satisfaction.

Regarding the sales of our properties, we strictly adhere to the requirements in local laws and regulations when designing our advertisements and brochures. For the protection of customers' rights and interests, transparent and accurate information is provided in the advertisements and brochures so that customers will not be misled.

Property management services

Protecting our residents or tenants' lives and maintaining security in our managed buildings are our first priority and responsibility. We have developed and followed a set of property safety management rules, which emphasize on three areas: personal, property and fire.

Personal	Property	Fire
• Prevent crimes in the properties through regular inspections and by closed circuit television ("CCTV") surveillance	• Install security system, and keep track on the situations within the properties by on-site security guards, to maintain the property safe	• Keep fire facilities and equipment in good conditions • Conduct regular fire alarm system testing and fire drills

In the meantime, it is important to increase our residents or tenants' awareness on emergency preparedness and response such as fire and flooding hazards as these potential risks can threaten their lives and damage their properties. Hence, we conduct drills on a regular basis and promote crime prevention to minimize the impact caused during the time of crisis.

To understand our customers and tenants' needs and expectations and enhance their satisfaction, we have set up a complaint-handling procedure to handle and resolve customers' enquiries and complaints, and how to respond to them in a timely manner. The records of complaints are documented and reviewed properly, so that we can effectively identify any areas for improvement and continuously deliver excellent property management services in future.

During the Reporting Period, no non-compliance cases relating to the product health and safety, advertising and privacy matters relating to products and services provided and methods of redress were identified.

OUR ENVIRONMENT

We strive to develop green buildings that harmonize with the environment and maximize the resource efficiency in our property development.

Harmonizing With the Environment

Prior to construction work of our properties, we carefully consider the lifecycles of our projects, from the design stage to the operational stage. The aim is not only to comply with all relevant national environmental laws and regulations, but also to reduce potential negative impact to the environment. To achieve this, during the project planning stage, we engage specialist environmental consultants to carry out environmental impact assessment (EIA) on our proposed development projects. The identified potential environmental risks, the significant environmental aspects with associated impact of the projects during the construction and operational phases are carefully identified and relevant mitigation measures are formulated for proper control of the identified environmental issues.

During project design stage, we seek for opportunities to incorporate green building designs and features in our properties. "Greening" in our properties by extensive planting within our developments is one of the focused areas we work on. Greening helps not only to reduce greenhouse gas ("GHG") as carbon sinks, but also helps to mitigate heat island effect and increase the aesthetic values of the living environment to our residents. Aiming to maximize the area and hence the benefits of greening, in addition to implementing greening at available open areas at ground levels of our properties, we also explore ways to increase the size of greenery areas such as having rooftop greening and vertical greening.

Besides greening, we adopt energy-efficient features, such as the use of external wall thermal insulation, natural ventilation and LED light fixtures for energy saving in our properties. By taking environmental considerations into account when procuring the construction materials, we aim to purchase materials with greater energy efficiency, higher durability and less toxicity and prioritize to procure materials with national green labels or on the governmental green products list.

In order to prevent adverse impact to the environment and nuisance to the nearby residents during the construction stage, we require our main contractors to strictly comply with all the environmental laws and regulations when carrying out the construction activities. Mitigation measures such as watering for dust suppression, wastewater treatment before discharge, and construction waste sorting and recycling. These measures are also implemented as standard practice in our work sites. Furthermore, our delegated project management team conducts regular site inspections to ensure the mitigation measures are effective to reduce the environmental pollution at our construction site.

During the Reporting Period, no non-compliance cases relating to air emission, wastewater discharge and waste disposal were identified.

Our environmental performance during the Reporting Period is shown in the table below. Since our operations involve the engagement of contractors to carry out our works, the disclosed information is mainly based on available environmental data that we are able to track. We will continue to collaborate with our contractors in order to collect further environmental data in future to further enhance the transparency and traceability of our environmental performance.

Our Environmental Performance (Note 1)

	China Properties Group Limited	
	FY2017	Unit
Types of Resources		
Electricity (Note 2)	**4,883,113.73**	kWh
Water (Note 3)	**193,937.76**	m3
Vehicle fuels (Note 4)		
— Unleaded petrol	**33,249.52**	Litre
Wastewater Discharge (Note 5)	**139,752.00**	m^3
Types of Greenhouse Gas Emissions		
— Direct Emission Scope 1	**76.87**	tCO2e
— Indirect Emission Scope 2	**4,122.64**	tCO2e
— Other Indirect Emission Scope 3 (Business Travel)	**4.79**	tCO2e
Total	**4,204.30**	tCO2e
Energy Intensity		
— Direct Energy	**202.74**	Litre per employee
— Indirect Energy	**30,329.90**	kWh per employee
Water Intensity	**2,731.52**	m^3 per employee
Carbon Intensity		
— Direct Emission Scope 1	**0.47**	tCO_2e per employee
— Indirect Emission Scope 2	**25.61**	tCO_2e per employee
— Other Indirect Emission Scope 3	**0.44**	tCO_2e per employee

Note 1: Being not in the manufacturing industry, the amount of packaging material is considered insignificant as compared to the Group's property development and property management services business.

Note 2: The total electricity consumption only includes the Company office in Hong Kong and its subsidiaries, namely, Shanghai Minhang Concord Property Development Co., Ltd., Shanghai Yingduoli Property Management Co., Ltd., Shanghai Jingan Concord Real Estate Co., Ltd., Chongqing Riverside Real Estate Co., Ltd. and Chongqing Ace Blossom Real Estate Co., Ltd.. The consumption of other companies is not included as their electricity consumption were considered insignificant or no separate bills were issued.

Note 3: The total water consumption only includes the subsidiaries, namely, Shanghai Yingduoli Property Management Co., Ltd., Shanghai Jingan Concord Real Estate Co., Ltd. and Chongqing Riverside Real Estate Co., Ltd.. The consumption of other companies is not included as their water consumption were considered insignificant or no separate bills were issued.

Note 4: The vehicle fuel consumption only includes the Company office in Hong Kong and its subsidiaries, namely, Shanghai Minhang Concord Property Development Co., Ltd., Shanghai Jingan Concord Real Estate Co., Ltd., Chongqing Yangtze-Jialing River Real Estate Co., Ltd., Chongqing Mid-Levels No. 1 Real Estate Co., Ltd., Chongqing Ace Blossom Real Estate Co., Ltd., Chongqing Peak No. 1 Real Estate Co., Ltd., Chongqing Riverside Real Estate Co., Ltd. and Chongqing Zhengtian Investment Ltd..

Note 5: The total wastewater discharge only includes the subsidiaries, namely, Shanghai Yingduoli Property Management Co., Ltd. and Shanghai Jingan Concord Real Estate Co., Ltd.. The wastewater discharge of other companies is not included as they were considered insignificant or no separate bills were issued.

Note 6: Our intensity values are based on subsidiaries with available environmental data.

OUR COMMUNITY

As a socially responsible corporate, it is our responsibility to give back to the society where we operate. We aim to create social values to the local communities by exerting our influence on property development.

Local historical buildings and cultural heritage are highly valued and deserved conservation as much as we can. When designing a project, we strive to minimize the destruction of the historical buildings and cultural heritage uniqueness. Our building design hence emphasizes on the importance of maintaining a harmony with traditional buildings and the characteristics of the local society, so that the features and benefits of modern and traditional buildings can be coexisted in the local community.

To fulfil the needs of all people equally, we aim to provide a barrier-free environment to people with physical disabilities in our properties, to facilitate their physical movements and hence to encourage their social connections. Therefore, barrier-free access is another focus in the design of our properties. Disabled friendly facilities, such as wheelchair ramps, passenger lifts, escalators and stairs have been incorporated into the design.

HKEX ESG REPORTING GUIDE INDEX

HKEx ESG Reporting Guide General Disclosures			Policy/Procedure	Reference Section
A. Environment				
A1	**Emission**	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.	We follow the procedures stipulated in the environmental impact assessment Project Management Procedure	OUR ENVIRONMENT Harmonizing With the Environment
A2	**Use of Resource**	Policies on efficient use of resources including energy, water and other raw materials.	We incorporate green building designs in our proposed property development project	OUR ENVIRONMENT Harmonizing With the Environment
A3	**The Environment and Natural Resources**	Policies on minimizing the operation's significant impact on the environment and natural resources.	We follow the procedures stipulated in the environmental impact assessment We incorporate green building designs in our proposed property development project	OUR ENVIRONMENT Harmonizing With the Environment

HKEx ESG Reporting Guide General Disclosures			Policy/Procedure	Reference Section
B. Social				
B1	**Employment**	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Human Resources Handbook	OUR WORKPLACE — Employment
B2	**Health and Safety**	Information on: (a) the policies; and compliance and material noncompliance with relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards.	Safety Operating Procedure Office Environment Management standard	OUR WORKPLACE — Health & Safety
B3	**Development and Training**	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Training Policy and Management Procedure Human Resources Handbook	OUR WORKPLACE — Training & Development
B4	**Labour Standard**	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labor.	Human Resources Handbook	OUR WORKPLACE — An Equal Opportunity Workplace

HKEx ESG Reporting Guide General Disclosures			Policy/Procedure	Reference Section
B5	**Supply Chain Management**	Policies on managing environmental and social risks of supply chain.	Project Management Procedure Construction Safety Guideline	PRODUCT RESPONSIBILITY — Supply Chain Management
B6	**Product Responsibility**	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Project Management Procedure Property Safety Management Rule Customer Complaint Procedure	PRODUCT RESPONSIBILITY — Safeguarding Our Customers
B7	**Anti-corruption**	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.	Anti-corruption Management Procedure Anti-corruption & Anti-bribery Announcement	OUR WORKPLACE — Ethical Business Practices PRODUCT RESPONSIBILITY — Supply Chain Management
B8	**Community Investment**	Policies on community engagement to understand the community's needs where it operates and to ensure its activities take into consideration communities' interests.	We are developing policy on community engagement	OUR COMMUNITY

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2017.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

The Group is principally engaged in the property development and property investment business in the People's Republic of China (the "PRC" or "China").

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 4 to 10 of this annual report. This discussion forms part of this directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 53.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the year, the Group revalued all of its investment properties at the year end date. The net increase in fair value of investment properties, which has been credited directly to the consolidated statement of profit or loss amounted to RMB256,980,000.

During the year, the addition of investment properties under construction of the Group amounted to approximately RMB373,600,000.

Details of these and other movements during the year in property, plant and equipment and investment properties of the Group are set out in notes 13 and 15 to the consolidated financial statements, respectively.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the five years ended December 31, 2017 is set out on page 141.

PROPERTIES

Particulars of major properties held by the Group are set out on pages 142 to 144.

SHARE PREMIUM AND RESERVES

Details of the movements in the share premium and reserves of the Group for the year ended December 31, 2017 are set out in the consolidated statement of changes in equity on page 56.

SHARE CAPITAL

Details of the movements in Company's share capital during the year are set out in note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2017 were as follows:

	RMB'000
Share premium	**7,967,070**
Accumulated losses	**(2,385,773)**
	5,581,297

Under the Companies Law of the Cayman Islands, the share premium of the Company may be distributed subject to the provisions of the Company's Memorandum or Articles of Association and provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As a responsible property developer, we are dedicated to incorporate sustainability in our developing facilities and buildings, and to create a harmonious environment for our customers and the community. With various environmental practices implemented, we strive to minimize environmental impacts on our property development business. Before commencement of the proposed development projects, we carry out environmental impact assessment to identify the potential environmental impacts, and implement proper mitigation measures in order to avoid and mitigate the adverse impacts at an early stage. Besides, green building designs and features are adopted in our properties to reduce energy consumption and greenhouse gas emissions. Moreover, we also manage our construction contractors to ensure all relevant environmental laws and regulations are fully complied, and that effective mitigation measures are implemented to minimize air emission, wastewater discharge, waste generation and disposal onsite.

For more details, please refer to the "Environmental, Social and Governance Report" section of this annual report.

During the reporting period, we confirmed that no non-compliance with applicable laws and regulations that have significant impacts to the Group has been identified.

KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group has maintained a good relationship with its employees, customers, suppliers and contractors:

Employees:	We recognize the importance of our employees and value their every contributions. We strive to create a motivated, respectful and safe workplace for our employees. Reasonable remuneration packages and monetary incentives are offered to our employees to reward their efforts and contribution. By providing various training courses and educational sponsorship, we foster our employees' career development and maximize their potentials in order to support the Group's business growth. Regular safety trainings and drills are conducted to increase our employees' safety awareness and their preparedness in dealing with emergencies. To build up mutual trusts, we maintain open communication with our employees to understand their needs and concerns on works.
Customers:	We aim to gain our customers satisfaction by delivering the best quality properties and property management services to them. The quality and safety of our properties is maintained by proper managing our construction contractors and closely monitoring their performance throughout the project life cycle. To protect our customers' interests, we ensure accurate information is provided in our advertisements and sales brochures. Besides, a defects warranty period is offered for our sold properties. Security and fire safety systems are in place to ensure safe operations of our properties. We also set up a complaint-handling procedure to ensure all our customers' needs and expectations are appropriately addressed and handled.
Suppliers & Contractors:	We maintain good relationships with our suppliers and contractors via regular communications with them. Our comprehensive suppliers & contractors selection and tendering processes help us to ensure their qualifications, integrity and capabilities in delivering the required products and services. Besides, we require all our contractors to comply with the relevant national safety laws and regulations and fulfil the requirements of our safety standards in order to prevent serious work injuries and safety incidents during construction works. Moreover, to uphold the highest business integrity, we further request our suppliers and contractors to observe our anti-corruption practices.

For more details, please refer to the "Environmental, Social and Governance Report" section of this annual report.

DIRECTORS

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

Executive directors:
Dr. Wang Shih Chang, George *(Chairman)*
Mr. Wong Sai Chung *(Managing Director)*
Mr. Xu Li Chang

Non-executive director:
Mr. Kwan Kai Cheong

Independent non-executive directors:
Mr. Warren Talbot Beckwith
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao (retired on June 29, 2017)

Details of the directors' and senior management's biographies have been set out on pages 11 to 14.

Each of the executive directors has entered into a service agreement with the Company for another term of two years commencing February 23, 2017.

In accordance with article 87 of the Company's Articles of Association, Dr. Wang Shih Chang, George, Mr. Kwan Kai Cheong and Mr. Luk Koon Hoo will retire by rotation and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

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

The Company has received from each of the independent non-executive directors a confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

Directors' and Chief Executives' Interests in Securities of the Company

As at December 31, 2017, the interests and/or short positions of the directors and chief executives and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in ordinary shares of HK$0.1 each of the Company

As at December 31, 2017, the long position in ordinary shares and underlying shares of the Company of the directors and the chief executives are as follows:

Name of director	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company	Note
Mr. Wong Sai Chung ("Mr. Wong")	Corporate	1,563,411,570 shares	86.42%	(i) & (ii)
Mr. Cheng Chaun Kwan, Michael ("Mr. Cheng")	Personal & family	1,000,000 shares	0.06%	(iii)

Notes:

(i) Of these shareholding interests, 1,356,800,000 shares of the Company are directly held by Hillwealth Holdings Limited ("Hillwealth") whose entire issued share capital is owned by Mr. Wong.

(ii) Such shareholding interests also included deemed interests in 206,611,570 shares of the Company to be issued upon the exercise of the conversion rights under the convertible note of HK$500 million of the Company agreed to be subscribed for by Hillwealth pursuant to the conditional subscription agreement dated January 27, 2012 entered into between the Company and Hillwealth (as amended by a supplemental agreement dated February 21, 2012).

(iii) Of these shareholding interests, 500,000 shares are directly held by Mr. Cheng and 500,000 shares are held by Mr. Cheng's spouse.

(b) Long position in shares of associated corporations of the Company

Name of director	Nature of interest	Name of associated corporation	Number of issued ordinary shares held	Percentage of the issued share of the same class in the associated corporation	Note
Mr. Wong	Corporate	Concord Properties Holding (Shanghai) Limited ("CPH (Shanghai)")	100 non-voting deferred class "B" shares of HK$1.00 each	100%	(iv)
	Personal	Hillwealth	1 share of US$1.00	100%	(v)

Notes:

(iv) CPH (Shanghai) is an indirectly owned subsidiary of the Company. It has in issue 100 non-voting deferred class "B" shares (the rights attached to which are set out in the Prospectus), all of which are beneficially owned by Concord China Land Holdings Limited which is in turn beneficially and wholly owned by Pacific Concord Holding Limited ("PCH") (which is wholly owned by Mr. Wong).

(v) As Hillwealth directly holds approximately 75% of the total issued share capital of the Company and thus being the holding company of the Company, Hillwealth is an associated corporation of the Company under the SFO. The entire issued share capital of Hillwealth is owned by Mr. Wong.

As at December 31, 2017, Mr. Wong was a director of Hillwealth, Concord China Land Holdings Limited and PCH, and Dr. Wang Shih Chang, George and Mr. Kwan Kai Cheong were also directors of PCH.

(c) Long positions in debentures of the Company

As at December 31, 2017, the long position in debentures of the Company of the directors and chief executives are as follows:

Name of director	Nature of interest	Amount of Debentures
Mr. Cheng	Family	US$200,000

Save as disclosed herein, as at December 31, 2017, none of the directors or chief executives nor their associates had or deemed to have any interests or short positions in any shares or underlying shares or debentures of the Company or any of its associated corporations.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 34 to the consolidated financial statements.

On January 17, 2011, 20,000,000 share options to subscribe for ordinary shares of HK$0.10 each of the Company were granted to certain eligible participants ("the Grantees 1"), subject to acceptance of each of the Grantees 1, under the share option scheme adopted by the Company on February 2, 2007. The 20,000,000 share options were lapsed on March 22, 2013.

On July 3, 2013, 36,000,000 share options to subscribe for ordinary shares of HK$0.10 each of the Company were granted to certain eligible participants ("the Grantees 2"), subject to acceptance of each of the Grantees 2, under the share option scheme adopted by the Company on February 2, 2007. The 36,000,000 share options were lapsed on July 3, 2015.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes as disclosed in note 34 to the consolidated financial statements, at no time during the year was the Company, its ultimate holding company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company or their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the related party transactions, certain of which also constitute connected transactions under the Listing Rules disclosed below, during the year are set out in note 35 to the consolidated financial statements.

Other than as disclosed above, no contracts of significance to which the Company, its holding company, fellow subsidiaries or subsidiaries 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 the year.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in "Directors' and chief executives' interests in shares and underlying shares and debentures", the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued capital of the Company as at December 31, 2017 and as at the date of this report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2017, the Group had the following connected transactions under the Listing Rules. In the opinion of the directors, such connected transactions were conducted in the normal course of business.

Continuing connected transaction

Office rental and other charges

On July 31, 2008, a tenancy agreement (the "Tenancy Agreement") for the use of the principal place of business of the Company in Hong Kong (the "Principal Office") was entered into between Marnav Holdings Limited (an independent third party) of one part, and Frank Union Limited ("Frank Union") (an associate of Mr. Wong) and the Group of the other part. The Tenancy Agreement is effective from August 1, 2008 to July 31, 2011. The Tenancy Agreement was renewed on July 22, 2011 for a further term of three years from August 1, 2011 to July 31, 2014 and was further renewed for a term of three years from August 1, 2014 to July 31, 2017. As the Tenancy Agreement expired on July 31, 2017, on October 4, 2017, Magico Group Limited ("Magico ") (an indirect wholly-owned subsidiary of the Company) entered into a new tenancy agreement (the "New Tenancy Agreement") as a co-tenant with Oripuma Investments Limited, the new landlord, and Frank Union, the other co-tenant to lease the Principal Office for a further term of three years from August 1, 2017 to July 31, 2020.

A sharing agreement dated July 31, 2008 and subsequently renewed on July 22, 2011 and September 22, 2014 for a further term of three years from August 1, 2011 to July 31, 2014 and from August 1, 2014 to July 31, 2017 respectively (the "Sharing Agreement") was entered into between Frank Union and the Group which both parties agreed that the principal office will be divided into two equal halves and each party will be entitled to occupy, use and possess half of the principal office. The rental and the electricity fee, fixed line telephone charge and other charges will be shared equally by the parties. As the Sharing Agreement expired on July 31, 2017, on October 4, 2017, Magico entered into a new sharing agreement (the "New Sharing Agreement") with Frank Union to specify their respective rights and liabilities under the New Tenancy Agreement for a further term of three years from August 1, 2017 to July 31, 2020.

Having regard to the fact that (i) the Company is to share at cost the rent, rates, service fee and utilities charges incurred in respect of the premises subject to the New Tenancy Agreement and New Sharing Agreement proportional to the area used; and (ii) the rent and service fee are negotiated and agreed with an independent third party, rates are imposed by the government and utilities charges by the relevant independent third party service providers, the Directors consider the terms of the New Tenancy Agreement and New Sharing Agreement to be on normal commercial terms and are fair and reasonable so far as the Company is concerned. The Directors are of the view that the transactions under the New Tenancy Agreement and New Sharing Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the shareholders as a whole.

During the year, a total amount of RMB3,702,000 was paid for the office rental and office premises expenses in relation to the use of the principal place of business of the Company in Hong Kong.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

Mr. Wong, managing director of the Company, is interested in certain property development projects in the PRC. Pursuant to the option agreements entered into between the Company and Mr. Wong on February 8, 2007, the Company has the right to acquire most of the properties held, whether directly or indirectly, by Mr. Wong. In addition, pursuant to the non-competition deed dated February 8, 2007 signed by Mr. Wong in favour of the Company (the "Non-competition Deed"), Mr. Wong has undertaken to the Company to make necessary arrangements as stated in the Non-competition Deed to avoid competing with the business of the Group. Details of such arrangements are set out in the prospectus dated February 9, 2007 issued by the Company ("Prospectus").

The Company has received confirmation from Mr. Wong that he has complied with the terms of the Deed of Undertaking since the Listing and up to the date of this report. Furthermore, there was no new business opportunities referred from Mr. Wong to the Company during the same period.

Saved as disclosed above, during the year ended December 31, 2017 and up to the date of this report, none of the directors, the substantial shareholders or the management shareholders had any interests in any business which competed with or might compete with the business of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's five largest customers were less than 30% of total revenue.

The largest supplier of the Group by itself and taken together with the next four largest suppliers accounted for 11.3% and 34.4% respectively of the Group's total purchases for the year.

At no time during the year did a director, an associate of a director, or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest suppliers.

EMOLUMENT POLICY

As at December 31, 2017, the Group had 346 employees in Hong Kong and in the PRC. The total staff costs incurred were approximately RMB31 million.

The Group remunerates its employees mainly with reference to individual performance, qualification, experience and the prevailing industry practice. Apart from basic remuneration and statutory retirement benefit scheme, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as individual performance. In addition, share options may be granted from time to time in accordance with the terms of the Company's approved share option scheme to provide incentives and rewards to the employees.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Board and management of the Company are committed to maintain high standards of corporate governance. A report on the principal corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 15 to 24.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the directors, there is sufficient public float of 25% of the Company's issued shares as required under the Listing Rules as at the latest practicable date prior to the issue of this report.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Dr. Wang Shih Chang, George
Chairman

Hong Kong, March 29, 2018

Deloitte. 德勤

TO THE MEMBERS OF CHINA PROPERTIES GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Properties Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 140, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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 — Continued

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the judgment associated with determining the fair value. The carrying value of the Group's investment properties amounted to approximately RMB52,051,301,000 as at December 31, 2017 and the fair value changes recorded in profit for the year in respect of investment properties was approximately RMB256,980,000. The Group's investment properties comprise offices, carparks, and commercial buildings. The valuation is carried out by an independent professional valuer (the "Valuer"). As disclosed in note 15 to the consolidated financial statements, for completed investment properties, the valuations have been arrived at using the capitalisation of net income method of valuation, based on the present value of the income to be derived from the properties. For the properties which are currently vacant, the valuation was based on capitalisation of the hypothetical and reasonable market rents with a typical lease term. For investment properties under construction, the valuations have been arrived at using the residual approach by making reference to recent sales transactions of completed properties or rental information in the relevant market as publicly available to determine the potential rental income of the completed investment properties, less estimated costs to completion and expected developer profit margin so as to determine the value of the proposed development as if these were completed as at the date of valuation.	Our procedures in relation to the valuation of investment properties included: • obtaining valuation reports of the Group's investment properties performed by the Valuer from the management; • assessing the qualification, objectivity and experience of the Valuer; • evaluating the methodologies and assumptions, such as discount rates, reversionary rates and market rents, adopted in the valuation models based on our knowledge of the real estate industry; and • checking input data used in the valuation of the Group's investment properties, on a sample basis including rental income, tenancy schedules, capital expenditure details, acquisition cost schedules and development plan, on a sample basis, against appropriate supporting documents.

KEY AUDIT MATTERS — Continued

Key audit matter	How our audit addressed the key audit matter
Provision for legal disputes and disclosure of contingent liabilities under construction contracts	
We identified provision for legal disputes and disclosure of contingent liabilities under construction contracts as a key audit matter due to the involvement of estimation and significant judgment by the management in determining the adequacy of provision. As at December 31, 2017, the Group was the subject of several legal claims mainly in relation to disputes related to its various property construction projects. Where necessary, the management has engaged independent legal advisors to address the potential exposures arising from these legal proceedings. For the exposures where no provision has been made, the obligation to disclose the nature and estimation of contingent liabilities and possible financial impact also requires management's judgment in determining the appropriate disclosure in the consolidated financial statements. The relevant provision and contingent liabilities are disclosed in note 28 to the consolidated financial statements.	Our procedures in relation to provision for legal disputes and disclosure of contingent liabilities under construction contracts included: • reading related construction contracts, external and internal quantity surveyor reports and correspondence with contractors; • reading the analysis prepared by the Group's internal legal counsel and legal opinions issued by the independent legal advisors engaged by the Group, to evaluate the appropriateness of provision made for those cases; and • assessing the adequacy of the Group's disclosures in respect of its contingent liabilities and the provision for legal disputes set out in note 28 to the consolidated financial statements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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.

Those charged with governance are 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 skepticism throughout the audit. We also:

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

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

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

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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Tsang Yiu Chung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 29, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	6	**215,414**	206,217
Cost of sales		**(54,493)**	(77,605)
Gross profit		**160,921**	128,612
Other income, gains and losses, net	6	**10,856**	33,745
Net exchange gain (loss)		**159,454**	(133,107)
Selling expenses		**(18,594)**	(21,914)
Administrative expenses		**(62,817)**	(78,464)
Finance costs	7	**(179,156)**	—
Profit (loss) from operation before changes in fair value of investment properties and conversion option derivative		**70,664**	(71,128)
Changes in fair value of investment properties	15	**256,980**	1,114,147
Changes in fair value of conversion option derivative	24	**54,574**	4,064
Profit before tax		**382,218**	1,047,083
Income tax expense	8	**(97,546)**	(307,499)
Profit and total comprehensive income for the year attributable to owners of the Company	9	**284,672**	739,584
Earnings per share			
— Basic (RMB)	12	**0.16**	0.41
— Diluted (RMB)	12	**0.11**	0.36

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current Assets			
Property, plant and equipment	13	**382,196**	350,030
Prepaid lease payments	14	**92,934**	95,892
Investment properties	15	**52,051,301**	51,458,045
		52,526,431	51,903,967
Current Assets			
Properties under development for sales	16	**5,585,706**	5,155,483
Properties held for sales	17	**427,501**	467,793
Other receivables, deposits and prepayments	18	**170,210**	199,256
Pledged bank deposits	19	**210,441**	278,517
Bank balances and cash	19	**290,775**	474,306
		6,684,633	6,575,355
Current Liabilities			
Deposits received for sales of properties	20	**439,603**	402,739
Construction costs accruals		**207,660**	207,928
Other payables and accruals		**154,145**	122,298
Amount due to a shareholder	21	**2,083,409**	1,912,761
Tax payable		**703,070**	680,241
Borrowings — due within one year	22	**1,789,332**	1,395,171
13.5% fixed-rate senior notes, current portion	23	**1,667,295**	49,912
Convertible note, current portion	24	**393,425**	8,673
Conversion option derivative	24	**2,517**	—
		7,440,456	4,779,723
Net Current (Liabilities) Assets		**(755,823)**	1,795,632
Total Assets Less Current Liabilities		**51,770,608**	53,699,599

	NOTES	**2017 RMB'000**	2016 RMB'000
Non-current Liabilities			
Borrowings — due after one year	22	**3,740,000**	3,860,000
13.5% fixed-rate senior notes, non-current portion	23	—	1,732,822
Convertible note, non-current portion	24	—	365,789
Conversion option derivative	24	—	59,297
Deferred tax liabilities	25	**10,841,017**	10,776,772
		14,581,017	16,794,680
Net Assets		**37,189,591**	36,904,919
Capital and Reserves			
Share capital	26	**170,073**	170,073
Share premium and reserves		**37,019,518**	36,734,846
Total Equity		**37,189,591**	36,904,919

The consolidated financial statements on pages 53 to 140 were approved and authorised for issue by the board of directors on March 29, 2018 and are signed on its behalf by:

Dr. Wang Shih Chang, George
DIRECTOR

Wong Sai Chung
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Revaluation reserve RMB'000	Special reserve RMB'000 (Note a)	Other reserve RMB'000 (Note b)	General reserve RMB'000 (Note c)	Shareholder contribution reserve RMB'000 (Note d)	Retained earnings RMB'000	Total RMB'000
At January 1, 2016	170,073	1,331,968	6,259	782,789	2,468,576	51,223	188,137	31,166,310	36,165,335
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	739,584	739,584
At December 31, 2016	170,073	1,331,968	6,259	782,789	2,468,576	51,223	188,137	31,905,894	36,904,919
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	284,672	284,672
At December 31, 2017	170,073	1,331,968	6,259	782,789	2,468,576	51,223	188,137	32,190,566	37,189,591

Notes:

(a) Special reserve represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company (as defined in note 1 to the consolidated financial statements) issued for the acquisition at the time of the corporate reorganisation ("Corporate Reorganisation") to rationalise the group structure of the Group (as defined in note 1 to the consolidated financial statements) prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(b) Other reserve arose from the acquisition by Mr. Wong Sai Chung ("Mr. Wong"), the ultimate controlling shareholder of the Company, of the interests in the Company's subsidiaries owned by other shareholders and the implementation of the Corporate Reorganisation.

(c) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the subsidiaries established in the PRC may make an allocation to the general reserve from its profit for the year (prepared under the generally accepted accounting principles in the PRC) at a rate determined by directors of the relevant subsidiaries. The general reserve can only be used upon approval by the board of directors of the relevant subsidiaries to offset accumulated losses or increase capital.

(d) Shareholder contribution reserve represents the deemed contribution arising from the loan from a shareholder, Mr. Wong.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

	2017	2016
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before tax	**382,218**	1,047,083
Adjustments for:		
Amortisation of prepaid lease payments	**44**	44
Depreciation of property, plant and equipment	**1,376**	1,605
Changes in fair value of investment properties	**(256,980)**	(1,114,147)
Changes in fair value of conversion option derivative	**(54,574)**	(4,064)
Finance costs	**179,156**	—
Interest income	**(4,109)**	(4,144)
Gain on disposal of investment properties	**(6,207)**	(28,772)
(Gain) loss on disposal of property, plant and equipment	**(268)**	22
Unrealised exchange (gain) loss, net	**(161,195)**	144,439
Operating cash flows before movements in working capital	**79,461**	42,066
Increase in properties under development for sales	**(45,396)**	(185,191)
Decrease in properties held for sales	**42,647**	41,860
Decrease (increase) in other receivables, deposits and prepayments	**29,046**	(50,489)
Increase in deposits received for sales of properties	**36,864**	332,095
Decrease in construction costs accruals	**(268)**	(6,462)
Increase in other payables and accruals	**31,847**	60,118
Cash from operations	**174,201**	233,997
PRC taxes paid	**(10,472)**	(29,852)
NET CASH FROM OPERATING ACTIVITIES	**163,729**	204,145
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(3,998)**	(2,956)
Additions to investment properties	**(69,374)**	(67,315)
Proceeds received from disposal of investment properties	**44,014**	36,712
Withdrawal of pledged bank deposits	**272,067**	30,530
Placement of pledged bank deposits	**(203,991)**	(178,517)
Interest received	**4,109**	4,144
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**42,827**	(177,402)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

	2017	2016
	RMB'000	RMB'000
FINANCING ACTIVITIES		
New borrowings raised	**2,592,019**	3,019,488
Repayments of borrowings	**(2,311,600)**	(2,255,076)
Advance from a shareholder	**170,648**	234,144
Interest paid	**(841,154)**	(733,997)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(390,087)**	264,559
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(183,531)**	291,302
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**474,306**	183,004
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**290,775**	474,306

1. GENERAL AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

China Properties Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is a public limited company incorporated in Cayman Islands and its shares are listed on the Stock Exchange. Its parent and ultimate holding company is Hillwealth Holdings Limited ("Hillwealth"), a limited company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Wong, who is also the Managing Director of the Company. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is 14th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

The Company acts as an investment holding company. The subsidiaries of the Company are principally engaged in property development and property investment in the PRC. The principal activities of its principal subsidiaries are set out in note 36.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that as of December 31, 2017, the Group has amount due to a shareholder, borrowings, 13.5% fixed-rate senior notes and convertible note with carrying amounts of RMB2,083,409,000, RMB1,789,332,000, RMB1,667,295,000 and RMB393,425,000 respectively, which are due to be repaid within one year from the end of the reporting period. Furthermore, the Group had other commitments contracted for but not provided in the consolidated financial statements of approximately RMB1,530,143,000 as stated in note 29.

The conditions described above indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, the consolidated financial statements were prepared based on the assumption that the Group can be operated as a going concern and the directors are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from December 31, 2017, after taking into consideration of the following:

(1) the availability of the Group's credit facilities. Unutilised credit facility of the Group as at December 31, 2017 is RMB500,000,000;

(2) the confirmation from a shareholder, Mr. Wong, that he would not demand repayment of the amount due to him of approximately RMB2,083,409,000 until the Group has excess cash to repay;

(3) the confirmation from Hillwealth, the sole holder of the convertible note, that Hillwealth will either convert the convertible note into ordinary shares of the Company or defer the repayment date until the Group has excess cash; and

1. GENERAL AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS — Continued

(4) the estimated cash flows of the Group for the next twelve months from the end of the reporting period, in particular

(i) the consideration of the upcoming plan for sales of its properties held for sales and pre-sale of properties under development for sales; and

(ii) planning to obtain alternative funding activities including but not limited to bond offering and overseas loan under domestic guarantee.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014–2016 cycle

Except as described below, the application of these amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 27. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 27, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — Continued

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[4]
HK(IFRIC)—Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC)—Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014–2016 cycle[1]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015–2017 cycle[2]

[1] Effective for annual periods beginning on or after January 1, 2018
[2] Effective for annual periods beginning on or after January 1, 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after January 1, 2021

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — Continued

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss; and

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial instruments: Recognition and measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at December 31, 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

"Classification and measurement"

- All financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

"Impairment"

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — Continued

HKFRS 9 "Financial instruments" — Continued

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at January 1, 2018 would have no material difference as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on other receivables.

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS15 is not expected to have a material impact on the timing and amounts of revenue recognised in respect of the Group's sales of properties during the year ended December 31, 2017. However, the application of HKFRS15 in the future may have an impact should the Group's contracts with customers in respect of sales of properties involve other additional terms and conditions. In addition, the directors of the Company anticipate that the application of HKFRS15 in the future may result in more disclosures.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — Continued

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset for prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of approximately RMB9,572,000 as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — Continued

HKFRS 16 "Leases" — Continued

In addition, the Group currently considers refundable rental deposits paid of RMB1,087,000 and refundable rental deposits received of RMB96,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Except as disclosed above, the directors of the Company anticipate that the application of the other new and revised HKFRSs in issue but not yet effective will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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 Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

3. SIGNIFICANT ACCOUNTING POLICIES — Continued

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES — Continued

Revenue recognition

Revenue is measured at the fair value at consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from sale of properties and pre-completion contracts for the sale of development properties in the ordinary course of business is recognised when all of the following criteria are satisfied:

- the significant risks and rewards of ownership of the properties are transferred to purchasers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The above criteria are met when the construction of relevant properties has been completed, and the title of properties has been transferred or the properties have been delivered to the purchasers pursuant to the sales agreement whichever is earlier and the collectability of related receivables is reasonably assumed. Deposits and instalments received from purchasers for pre-sale of properties prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

Service income is recognised when services are provided.

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 asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

3. SIGNIFICANT ACCOUNTING POLICIES — Continued

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" 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. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES — Continued

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised on a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

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. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in 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 profit or loss in the period in which the property is derecognised.

Properties under development for sales

Properties under development for sales are stated at the lower of cost and net realisable value. Cost comprises both the prepaid lease payments for the land and development cost for the property. Net realisable value takes into account the price ultimately expected to be realised, less applicable selling expenses and the anticipated costs to completion.

Development cost of property comprises construction costs, borrowing costs capitalised according to the Group's accounting policy and directly attributable cost incurred during the development period. On completion, the properties are transferred to properties held for sales.

3. SIGNIFICANT ACCOUNTING POLICIES — Continued

Properties held for sales

Properties held for sales are stated at the lower of cost and net realisable value. Cost includes the cost of land, development costs attributable to the properties held for sale, other costs that have been incurred in bringing the properties to their existing condition such as finance costs are capitalised.

Financial instruments

Financial assets and financial liabilities are recognised 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 ("FVTPL")) 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 FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. 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 debt instrument 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 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

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 other receivables, pledged bank deposits, and bank balances) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy in respect of impairment of financial assets below).

3. 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 each reporting period. They are considered to be impaired when 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.

Objective evidence of impairment could include:

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

For loans and receivables 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 for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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 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.

Financial liabilities and equity instruments

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES — Continued

Financial instruments — Continued

Financial liabilities and equity instruments — Continued

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 exactly 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.

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and financial liabilities at amortised cost. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at FVTPL

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial instruments: Recognition and measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value at the end of each reporting period, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost, other than convertible note and conversion option derivative (see accounting policy below), including construction costs accruals, other payables and accruals, amount due to a shareholder, borrowings and 13.5% fixed-rate senior notes are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES — Continued

Financial instruments — Continued

Convertible note and conversion option derivative

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and conversion option derivative are recognised at fair value. In subsequent periods, the debt component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option derivative together with other embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

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

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.

On derecognition of a financial asset, in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Impairment losses on tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets with finite useful lives 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES — Continued

Impairment losses on assets — Continued

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset 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, but 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 in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. 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. Other than investment properties measured under fair value model, such costs are 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.

Borrowing costs

Borrowing costs including exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to borrowing cost which are 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.

3. 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 statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of 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 associated with investments in subsidiaries, 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 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 each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax 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.

3. SIGNIFICANT ACCOUNTING POLICIES — Continued

Taxation — Continued

For the purposes of measuring deferred taxes for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred taxes for such investment properties are measured in accordance with the above general principles set out in HKAS 12 "Income taxes" (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each 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 at that 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.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

4. CRITICAL ACCOUNTING JUDGMENT AND 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 judgments, 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. Revision to accounting estimate is 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.

Critical judgment in applying accounting policies

The following is the critical judgment that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. Accordingly, deferred taxation in relation to the Group's investment properties has been measured based on the tax consequences of recovering the carrying amounts entirely through use.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each 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.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY — Continued

Key sources of estimation uncertainty — Continued

Estimate of fair value of investment properties under construction

As described in note 15, investment properties under construction are mainly measured at fair value at the end of each reporting period using a residual method by independent professional valuers. Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation reflect market condition. Where there are any changes in the assumptions due to the market conditions in the PRC, the estimate of fair value of investment properties under construction may be significantly affected. As at December 31, 2017, investment properties under construction of approximately RMB49,359,290,000 (2016: RMB48,768,565,000) are revalued using a residual method.

Estimate of fair value of conversion option derivative

As described in note 24, the directors of the Company engaged an independent valuer who applied an appropriate valuation technique for conversion option derivative embedded in convertible debt that is not quoted in an active market. The conversion option derivative was valued using the binomial option pricing model that incorporated market data available and involved uncertainty in estimates in the assumptions. Because binomial option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions used are disclosed in notes 24 and 31. As at December 31, 2017, the fair value of conversion option derivative is approximately RMB2,517,000 (2016: RMB59,297,000). The directors of the Company believe that the chosen valuation technique and assumptions are appropriate in determining the fair value of the conversion option derivative.

Estimate of net realisable value of properties under development for sales and properties held for sales

As at December 31, 2017, properties under development for sales of approximately RMB5,585,706,000 (2016: RMB5,155,483,000) and properties held for sales of approximately RMB427,501,000 (2016: RMB467,793,000) are stated at lower of cost and net realisable value. Cost of each unit in each phase of development is determined using the weighted average method. The estimated net realisable value is estimated selling price less selling expenses and estimated costs of completion (if any), which are estimated based on best available information. Where there are any decrease in the estimated selling price arising from any changes to the market conditions in the PRC, there may be impairment loss recognised on the properties under development for sales and properties held for sales.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY — Continued

Key sources of estimation uncertainty — Continued

Land appreciation taxes

PRC land appreciation tax ("LAT") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including land costs, borrowing costs and all property development expenditure.

The Group is subject to LAT in the PRC which has been included in income tax expense of the Group. Significant judgment is required in determining the amount of land appreciation and the related taxes. The Group recognises these liabilities based on the management's best estimates. Where the final outcome of this matter is different from the amounts that were initially recorded, such differences will impact the income tax expense in the period in which such determination is made. As at December 31, 2017, the Group has LAT payable of approximately RMB556,457,000 (2016: RMB562,929,000) included in tax payable.

Provision for legal disputes and contingent liabilities under construction contracts

As at December 31, 2017, the Group is subjected to several legal claims mainly in relation to disputes under construction contracts in respect of its various property development projects which arose during the normal course of business. Determining whether provision for construction costs in dispute is necessary requires an estimation of probability that an outflow of resources embodying economic benefits to be required for settling the obligation and an estimation of the amount of the obligation which can be measured reliably at the end of the reporting period. Based on the advices from the independent legal advisors or internal legal counsel, those outstanding legal claims that are still in a preliminary stage and the final outcome is unable to be determined at this stage amounted to approximately RMB42 million (2016: RMB55 million) in aggregate. In the opinion of the directors of the Company, the Group has possible obligation in relation to these legal disputes; however, a sufficiently reliable estimate of the amount of the obligation cannot be made at the end of the reporting period. Disclosure of such contingent liabilities has been made in note 28. As a result, amount of RMB42 million (2016: RMB55 million) has been disclosed as contingent liabilities and such amount has not been included in construction cost accruals nor provision made in the consolidated financial statements.

5. SEGMENT INFORMATION

The Company's Chief Executive Officer is the chief operating decision maker ("CODM"). The Group is principally operating in two operating locations and engaged in three principal business activities. Information reported to the CODM for the purposes of resource allocation and assessment of segment performance focuses on the operating locations of each principal business activity. The principal locations are Shanghai and Chongqing in the PRC. The Group's operating segments under HKFRS 8 are therefore as follows:

Property development	—	Shanghai
(developing and selling of properties)	—	Chongqing
Property investment	—	Shanghai
(leasing of investment properties)	—	Chongqing
Others		

No operating segments identified by CODM have been aggregated in arriving at the reportable segments of the Group.

Information regarding the above segments is presented below.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the year ended December 31, 2017

	Property development		Property investment			
	Shanghai RMB'000	Chongqing RMB'000	Shanghai RMB'000	Chongqing RMB'000	Others RMB'000	Total RMB'000
Revenue						
External sales	195,825	9,343	896	1,627	7,723	215,414
Segment profit (loss)	159,689	1,025	149,239	110,265	(2,317)	417,901
Other income, gains and losses, net						10,856
Net exchange gain						159,454
Finance costs						(179,156)
Unallocated items						(26,837)
Profit before tax						382,218

5. SEGMENT INFORMATION — Continued

Segment revenue and results — Continued

For the year ended December 31, 2016

	Property development		Property investment			
	Shanghai	Chongqing	Shanghai	Chongqing	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue						
External sales	164,838	33,119	613	270	7,377	206,217
Segment profit (loss)	130,024	1,705	1,058,925	56,105	(4,000)	1,242,759
Other income, gains and losses, net						33,745
Net exchange loss						(133,107)
Unallocated items						(96,314)
Profit before tax						1,047,083

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by (loss incurred from) each segment including the changes in fair value of investment properties, without allocation of other income, gains and losses, finance costs, net exchange gains and losses, changes in fair value of conversion option derivative, selling expenses and administrative expenses including directors' emoluments. This is the measure reported to the Company's Chief Executive Officer for the purposes of resource allocation and performance assessment.

5. SEGMENT INFORMATION — Continued

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment which is also the information presented to the Company's Chief Executive Officer:

	2017	2016
	RMB'000	RMB'000
Segment assets:		
Property development		
— Shanghai	**1,298,577**	1,159,940
— Chongqing	**4,625,338**	4,465,790
Property investment		
— Shanghai	**41,213,425**	41,021,926
— Chongqing	**10,837,876**	10,436,119
Others	**434,718**	404,814
Segment total	**58,409,934**	57,488,589
Unallocated assets	**801,130**	990,733
Consolidated assets	**59,211,064**	58,479,322
Segment liabilities:		
Property development		
— Shanghai	**678,977**	697,808
— Chongqing	**1,946,078**	1,814,550
Property investment		
— Shanghai	**3,601,511**	3,452,224
— Chongqing	**1,800,179**	1,927,989
Others	**282,252**	255,722
Segment total	**8,308,997**	8,148,293
Unallocated liabilities	**13,712,476**	13,426,110
Consolidated liabilities	**22,021,473**	21,574,403

5. SEGMENT INFORMATION — Continued

Segment assets and liabilities — Continued

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reporting segments other than certain property, plant and equipment, certain prepaid lease payments, other receivables, deposits and prepayments, pledged bank deposits, and bank balances and cash, which are commonly used among segments or used for corporate operation.

- all liabilities are allocated to operating and reporting segments other than certain other payables and accruals, amount due to a shareholder, tax payable and deferred tax liabilities, which are corporate liabilities that are unallocated either. Borrowings, 13.5% fixed-rate senior notes and convertible note are allocated on a consistent basis with finance costs capitalised. Conversion option derivative is allocated according to the portion of convertible note allocated.

Other segment information

For the year ended December 31, 2017

	Property development		Property investment			Segments'		
	Shanghai	Chongqing	Shanghai	Chongqing	Others	total	Adjustments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
							(Note a)	
Amounts included in the measure of segment profit or loss or segment assets:								
Changes in fair value of investment properties	—	—	148,342	108,638	—	256,980	—	256,980
Additions to non-current assets (Note b)	—	—	80,481	293,119	34,306	407,906	662	408,568
Depreciation of property, plant and equipment	—	—	—	—	40	40	2,547	2,587
Gain on disposal of investment properties	—	—	—	—	—	—	6,207	6,207
Amortisation of prepaid lease payments	—	—	—	—	3,105	3,105	44	3,149

5. SEGMENT INFORMATION — Continued

Other segment information — Continued

For the year ended December 31, 2016

	Property development		Property investment			Segments'		
	Shanghai	Chongqing	Shanghai	Chongqing	Others	total	Adjustments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000
Amounts included in the measure of segment profit or loss or segment assets:								
Changes in fair value of investment properties	—	—	1,058,312	55,835	—	1,114,147	—	1,114,147
Additions to non-current assets (Note b)	—	—	407,391	234,346	41,300	683,037	210	683,247
Depreciation of property, plant and equipment	—	—	—	—	40	40	3,037	3,077
Gain on disposal of investment properties	—	—	—	—	—	—	28,772	28,772
Amortisation of prepaid lease payments	—	—	—	—	3,105	3,105	44	3,149

Notes:

(a) All amounts included in the measure of segment profit or loss or segment assets are allocated to operating segments other than certain additions to non-current assets, depreciation of property, plant and equipment, gain or loss on disposal of investment properties and amortisation of prepaid lease payments which are related to unallocated assets commonly used between segments or used for corporate operation.

(b) Non-current assets include investment properties, property, plant and equipment and prepaid lease payments.

Geographical information

All revenue of the Group are derived from operations in the PRC.

Non-current assets of the Group are mainly located in the PRC (group entities' country of domicile).

Information about major customer

For the years ended December 31, 2017 and 2016, no revenue from a customer of the corresponding year contributed over 10% of the total revenue of the Group.

6. REVENUE AND OTHER INCOME, GAINS AND LOSSES, NET

	2017 RMB'000	2016 RMB'000
Revenue		
Sales of properties	**205,168**	197,957
Property rental income	**2,523**	883
Property management income	**7,723**	7,377
	215,414	206,217
Other income, gains and losses, net		
Gain on disposal of investment properties	**6,207**	28,772
Interest on bank deposits	**4,109**	4,144
Gain (loss) on disposal of property, plant and equipment	**268**	(22)
Others	**272**	851
	10,856	33,745
Total revenue and other income, gains and losses, net	**226,270**	239,962

7. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on other borrowings	**588,144**	226,581
Interest on bank borrowings	**2,728**	308,590
Effective interest expense on 13.5% fixed-rate senior notes	**237,975**	236,107
Effective interest expense on convertible note	**68,562**	60,360
Total finance costs	**897,409**	831,638
Less: Amount capitalised in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales	**(718,253)**	(831,638)
	179,156	—

Borrowing costs capitalised during the year arose on the specific borrowings are approximately RMB258,354,000 (2016: RMB429,615,000). Borrowing costs capitalised during the year arose on the general borrowing pool of approximately RMB459,899,000 (2016: RMB402,023,000) are calculated by applying a capitalisation rate of 12.51% (2016: 12.83%) per annum to expenditure on qualifying assets.

8. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current tax in the PRC	**33,301**	37,848
Deferred tax (note 25):		
Current year	**64,245**	269,651
	97,546	307,499

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC group entities is 25% for both years.

Under the Provisional Regulations on Land Appreciation Tax ("LAT") implemented upon the issuance of the Provisional Regulations of the PRC on January 27, 1995, all gains arising from transfer of real estate property in the PRC effective from January 1, 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including land costs, borrowings costs and all property development expenditures.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Income tax expense for the year can be reconciled from the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 RMB'000	2016 RMB'000
Profit before tax	**382,218**	1,047,083
Tax at PRC enterprise income tax rate of 25%	**95,555**	261,771
Tax effect of expenses not deductible for tax purpose	**57,025**	48,775
Tax effect of income not taxable for tax purpose	**(55,034)**	(3,047)
Income tax expense for the year	**97,546**	307,499

9. PROFIT FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (note 10)	**1,304**	1,319
Other staff costs		
— salaries and other benefits	**24,608**	28,113
— contributions to retirement benefits schemes	**5,421**	6,026
Total staff costs	**31,333**	35,458
Less: Amount capitalised in investment properties under construction and properties under development for sales	**(5,877)**	(10,656)
	25,456	24,802
Auditor's remuneration	**2,927**	2,850
Amortisation of prepaid lease payments	**3,149**	3,149
Less: Amount capitalised in construction in progress under property, plant and equipment	**(3,105)**	(3,105)
	44	44
Depreciation of property, plant and equipment (note 13)	**2,587**	3,077
Less: Amount capitalised in properties under development for sales	**(1,211)**	(1,472)
	1,376	1,605
Cost of properties sold (included in cost of sales)	**44,456**	66,228
Gross rental income from investment properties	**2,523**	883
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	**(93)**	(30)
	2,430	853

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's emoluments

	2017 RMB'000	2016 RMB'000
Fees	**1,064**	1,079
Salaries and allowances	**240**	240
	1,304	1,319

The emoluments paid to the directors and chief executive are as follows:

For the year ended December 31, 2017

	Fees RMB'000	Salaries and allowances RMB'000	Total RMB'000
Executive directors:			
Dr. Wang Shih Chang, George	—	—	—
Mr. Wong (Note (a))	—	—	—
Mr. Xu Li Chang	—	240	240
	—	240	240
Non-executive director:			
Mr. Kwan Kai Cheong	208	—	208
Independent non-executive directors:			
Mr. Warren Talbot Beckwith	208	—	208
Mr. Cheng Chaun Kwan, Michael	208	—	208
Mr. Luk Koon Hoo	208	—	208
Mr. Garry Alides Willinge	208	—	208
Mr. Wu Zhi Gao (Note (b))	24	—	24
	856	—	856
	1,064	240	1,304

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS — Continued

Directors' and chief executive's emoluments — Continued

For the year ended December 31, 2016

	Fees RMB'000	Salaries and allowances RMB'000	Total RMB'000
Executive directors:			
Dr. Wang Shih Chang, George	—	—	—
Mr. Wong (Note (a))	—	—	—
Mr. Xu Li Chang	—	240	240
	—	240	240
Non-executive director:			
Mr. Kwan Kai Cheong	206	—	206
Independent non-executive directors:			
Mr. Warren Talbot Beckwith	206	—	206
Mr. Cheng Chaun Kwan, Michael	206	—	206
Mr. Luk Koon Hoo	206	—	206
Mr. Garry Alides Willinge	206	—	206
Mr. Wu Zhi Gao	49	—	49
	873	—	873
	1,079	240	1,319

Notes:

(a) Mr. Wong is also the chief executive of the Company and no emoluments for his services rendered as the chief executive was provided by the Group.

(b) The disclosed emoluments for Mr. Wu Zhi Gao represented the emoluments received or receivable before his retirement of directorship on June 29, 2017.

The executive director's emolument shown above was for his service in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' and non-executive director's emoluments shown above were for their services as directors of the Company.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS — Continued

Employees' emoluments

The emoluments for the five individuals with the highest emoluments in the Group did not include any director and chief executive of the Company for both years, details of whose emoluments are set out above. The emoluments of the five highest paid individuals (2016: five) are as follows:

	2017	2016
	RMB'000	RMB'000
Salaries and allowances	**4,793**	4,900
Retirement benefits scheme contributions	**127**	122
	4,920	5,022

Their emoluments were within the following bands:

	2017	2016
	Number of employees	Number of employees
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**1**	—
	5	5

During both years, no remuneration was paid by the Group to any of the directors and chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and chief executive waived any remuneration during both years.

11. DIVIDEND

No dividend was paid or declared during the years ended December 31, 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

12. 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 RMB'000	2016 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**284,672**	739,584
Effect of dilutive potential ordinary shares:		
— Change in fair value of conversion option derivative	**(54,574)**	(4,064)
Earnings for the purpose of diluted earnings per share	**230,098**	735,520

	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares in issue during the year for the purpose of basic earnings per share	**1,809,077**	1,809,077
Effect of dilutive potential ordinary shares:		
— Convertible note	**206,612**	206,612
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,015,689**	2,015,689

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Office equipment, improvements furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At January 1, 2016	53,577	19,873	41	10,844	9,769	262,375	356,479
Additions	—	—	—	468	—	41,033	41,501
Disposals	—	—	—	(78)	—	—	(78)
At December 31, 2016	53,577	19,873	41	11,234	9,769	303,408	397,902
Additions	—	—	—	394	268	34,306	34,968
Disposals	—	—	—	—	(734)	—	(734)
At December 31, 2017	53,577	19,873	41	11,628	9,303	337,714	432,136
DEPRECIATION							
At January 1, 2016	17,412	9,699	41	9,284	8,412	—	44,848
Provided for the year (Note 9)	1,339	918	—	216	604	—	3,077
Eliminated on disposals	—	—	—	(53)	—	—	(53)
At December 31, 2016	18,751	10,617	41	9,447	9,016	—	47,872
Provided for the year (Note 9)	1,339	920	—	175	153	—	2,587
Eliminated on disposals	—	—	—	—	(519)	—	(519)
At December 31, 2017	20,090	11,537	41	9,622	8,650	—	49,940
CARRYING VALUES							
At December 31, 2017	33,487	8,336	—	2,006	653	337,714	382,196
At December 31, 2016	34,826	9,256	—	1,787	753	303,408	350,030

13. PROPERTY, PLANT AND EQUIPMENT — Continued

The above items of property, plant and equipment except for construction in progress are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the lease terms
Buildings	Shorter of lease terms and 4.5%
Leasehold improvements	Shorter of the remaining term of the land lease on which the buildings are located and 4.5%
Office equipment, furniture and fixtures	18%–19%
Motor vehicles	18%–19%

Certain of the Group's leasehold land, buildings and construction in progress with a carrying value of approximately RMB33,487,000 (2016: RMB34,826,000), RMB3,326,000 (2016: RMB3,860,000) and RMB273,878,000 (2016: RMB242,184,000) respectively were pledged to secure certain borrowing facilities granted to the Group.

14. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments represents land use rights in the PRC. Certain of the Group's prepaid lease payments with a carrying amount of approximately RMB2,005,000 (2016: RMB2,035,000) were pledged to secure certain borrowing facilities granted to the Group.

15. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
FAIR VALUE		
Completed properties held for rental purpose (Note):		
At the beginning of the year	**2,689,480**	2,582,850
Disposals	**(37,324)**	(55,720)
Net changes in fair value recognised in profit or loss	**39,855**	162,350
At the end of the year	**2,692,011**	2,689,480
Investment properties under construction:		
At the beginning of the year	**48,768,565**	47,175,459
Additions	**373,600**	641,309
Net changes in fair value recognised in profit or loss	**217,125**	951,797
At the end of the year	**49,359,290**	48,768,565
Total	**52,051,301**	51,458,045
Unrealised gain on properties revaluation included in profit or loss for the financial year	**256,980**	1,114,147

Note: As at December 31, 2017, included in the Group's completed properties held for rental purpose, balance are properties in Shanghai, namely, Phase 1 of Shanghai Concord City with carrying amount of approximately RMB2,210,480,000 (2016: RMB2,170,250,000); of which 100% (2016: 100%) is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants. For the Group's marketing strategy, upon the completion of the northern portion of Phase 2 of Shanghai Concord City ("Phase 2 North Portion"), the Group will then recruit their target tenants for both Phase 1 and Phase 2 North Portion of Shanghai Concord City.

The investment properties are under Level 3 fair value measurements. At the end of each reporting period, the senior management works closely with the independent qualified professional valuer to establish and determine the appropriate valuation techniques and inputs. Discussion of valuation process and results are held between senior management and the directors of the Company at least twice a year.

15. INVESTMENT PROPERTIES — Continued

The fair values the Group's investment properties at December 31, 2017 were arrived at on the basis of a valuation carried out on those dates by Colliers International (Hong Kong) Limited ("Colliers") in respect of the properties situated in Shanghai and Chongqing, the PRC. Colliers is a firm of independent qualified professional valuers not connected with the Group, a member of the Institute of Valuers and has appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

The fair values of investment properties in Shanghai and Chongqing as at December 31, 2017 and 2016 determined by Colliers are approximately RMB41,213,425,000 (2016: RMB41,021,926,000) and RMB10,837,876,000 (2016: RMB10,436,119,000) respectively. For completed investment properties, the valuations have been arrived at using the capitalisation of net income method of valuation, based on the present value of the income to be derived from the properties. For the properties which are currently vacant, the valuation was based on capitalisation of the hypothetical and reasonable market rents with a typical lease term. For investment properties under construction, the valuations have been arrived at using the residual approach by making reference to recent sales transactions of completed properties or rental information in the relevant market as publicly available to determine the potential rental income of the completed investment properties, less estimated costs to completion and expected developed profit margin so as to determine the value of the proposed development as if these were completed as at the date of valuation. The rental income included in the residual method was principally based on income approach by taking into account the current rents passing and the reversionary income potential of tenancies. There has been no change in the valuation technique used as compared with 2016.

The overall development areas on two pieces of land plot located in Chongqing has been proceeded to the government's final approval to develop Chongqing International Commerce Centre ("CQICC") with gross floor area of 2,050,000 square meter and the application is under processing as at December 31, 2017. At December 31, 2017, the fair value of these two pieces of land in Chongqing amounted to approximately RMB4,536,231,000 (2016: RMB4,338,293,000) is determined by Colliers.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the Level 3 of the fair value hierarchy as at December 31, 2017 and 2016 are as follows:

	2017 **RMB'000**	2016 RMB'000
Investment Properties		
Retail	**47,657,073**	47,211,497
Office	**4,394,228**	4,246,548
Total	**52,051,301**	51,458,045

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2017 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(1) Completed properties — fair values determined by Colliers					
Shanghai Cannes and Phase 1 of Shanghai Concord City					
Retail	**2,692,011**	Income capitalisation approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	6% (for Shanghai Cannes) 3% (for Phase 1 of Shanghai Concord City)	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB374 per square meter per month (for Shanghai Cannes) RMB1,478 per square meter per month (for Phase 1 of Shanghai Concord City)	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	50%–80% (for Shanghai Cannes) 40%–80% (for Phase 1 of Shanghai Concord City)	The higher the expected occupancy rate, the higher the fair value.
			(iv) Discount rate	9% (for Shanghai Cannes) 8% (for Phase 1 of Shanghai Concord City)	The higher the discount rate, the lower the fair value.
			(v) Rental growth rate	5% (for Shanghai Cannes) 6% (for Phase 1 of Shanghai Concord City)	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2017 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Shanghai Commercial Street at Minhang District ("Minhang"), Huashan Building ("Huashan") and Phase 2 of Shanghai Concord City ("Phase 2 of SH Concord City")					
Retail	**36,390,474**	Residual approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	6% (for Minhang) 3–4% (for Huashan and Phase 2 of SH Concord City)	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB579 per square meter per month (for Minhang) RMB1,628 — RMB1,800 per square meter per month (for Huashan and Phase 2 of SH Concord City)	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	80%–98%	The higher the expected occupancy rate, the higher the fair value.
			(iv) Expected developer profit	10%–20%	The higher the expected developer profit, the lower the fair value.
			(v) Construction cost	RMB9,955 per square meter	The higher the cost, the lower the fair value.
			(vi) Discount rate	8%–9%	The higher the discount rate, the lower the fair value.
			(vii) Rate of finance cost	5%–6%	The higher the rate of finance cost, the lower the fair value.
			(viii) Rental growth rate	5%–6%	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2017 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Shanghai Phase 2 of Shanghai Concord City					
Office	**2,130,940**	Residual approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	4%	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB395 per square meter per month	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	85%–95%	The higher the expected occupancy rate, the higher the fair value.
			(iv) Expected developer profit	20%	The higher the expected developer profit, the lower the fair value.
			(v) Construction cost	RMB8,000 per square meter	The higher the cost, the lower the fair value.
			(vi) Discount rate	9%	The higher the discount rate, the lower the fair value.
			(vii) Rate of finance cost	6%	The higher the rate of finance cost, the lower the fair value
			(viii) Rental growth rate	6%	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2017 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Chongqing Manhattan City					
Retail	**1,520,140**	Residual approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	8%	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB220 per square meter per month	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	65%–85%	The higher the expected occupancy rate, the higher the fair value.
			(iv) Expected developer profit	25%–30%	The higher the expected developer profit, the lower the fair value.
			(v) Construction cost	RMB3,536 per square meter	The higher the cost, the lower the fair value.
			(vi) Discount rate	10%	The higher the discount rate, the lower the fair value.
			(vii) Rate of finance cost	5%	The higher the rate of finance cost, the lower the fair value
			(viii) Rental growth rate	5%	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2017 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Chongqing Concord City					
Retail	**3,220,283**	Residual approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	7%	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB826 per square meter per month	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	65%–85%	The higher the expected occupancy rate, the higher the fair value.
			(iv) Expected developer profit	30%	The higher the expected developer profit, the lower the fair value.
			(v) Construction cost	RMB7,439 per square meter	The higher the cost, the lower the fair value.
			(vi) Discount rate	10%	The higher the discount rate, the lower the fair value.
			(vii) Rate of finance cost	5%	The higher the rate of finance cost, the lower the fair value
			(viii) Rental growth rate	6%	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2017 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Chongqing Concord City					
Office	**1,561,222**	Residual approach	(i) Selling price, taking into account the differences in building age and value. frontage between the comparables and the property	RMB29,162 per square meter	The higher the selling price, the higher the fair
			(ii) Expected developer profit	30%	The higher the expected developer profit, the lower the fair value.
			(iii) Construction cost	RMB9,000 per square meter	The higher the cost, the lower the fair value.
			(iv) Discount rate	5%	The higher the discount rate, the lower the fair value.
			(v) Rate of finance cost	5%	The higher the rate of finance cost, the lower the fair value

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2017 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Chongqing International Commerce Centre					
Retail	**3,834,165**	Residual approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	7%	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB461 per square meter per month	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	60%–85%	The higher the expected occupancy rates, the higher the fair value.
			(iv) Expected developer profit	30%	The higher the expected developer profit, the lower the fair value.
			(v) Discount rate	10%	The higher the discount rate, the lower the fair value.
			(vi) Construction cost	RMB5,614 per square meter	The higher the cost, the lower the fair value.
			(vii) Rate of finance cost	5%	The higher the rate of finance cost, the lower the fair value
			(viii) Rental growth rate	6%	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2017 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Chongqing International Commerce Centre — continued					
Office	**702,066**	Residual approach	(i) Selling price, taking into account the differences in building age and frontage between the comparables and the property	RMB22,303 per square meter	The higher the selling price, the higher the fair value.
			(ii) Expected developer profit	30%	The higher the expected developer profit, the lower the fair value.
			(iii) Construction cost	RMB9,000 per square meter	The higher the cost, the lower the fair value.
			(iv) Discount rate	5%	The higher the discount rate, the lower the fair value.
			(v) Rate of finance cost	5%	The higher the rate of finance cost, the lower the fair value
	49,359,290				

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input

Description	Fair value as at December 31, 2016 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(1) Completed properties — fair values determined by Colliers					
Shanghai Cannes and Phase 1 of Shanghai Concord City					
Retail	2,689,480	Income capitalisation approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	6% (for Shanghai Cannes) 3% (for Phase 1 of Shanghai Concord City)	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB359 per square meter per month (for Shanghai Cannes) RMB1,403 per square meter per month (for Phase 1 of Shanghai Concord City)	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	50% — 80% (for Shanghai Cannes) 40% — 80% (for Phase 1 of Shanghai Concord City)	The higher the expected occupancy rate, the higher the fair value.
			(iv) Discount rate	9% (for Shanghai Cannes) 8% (for Phase 1 of Shanghai Concord City)	The higher the discount rate, the lower the fair value.
			(v) Rental growth rate	5% (for Shanghai Cannes) 6% (for Phase of Shanghai Concord City)	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2016 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers					
Shanghai Commercial Street at Minhang District ("Minhang"), Huashan Building ("Huashan") and Phase 2 of Shanghai Concord City ("Phase 2 of SH Concord City")					
Retail	36,201,206	Residual approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	6% (for Minhang) 3 — 4% (for Huashan and Phase 2 of SH Concord City)	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB562 per square meter per month (for Minhang) RMB1,539 — RMB1,740 per square meter per month (for Huashan and Phase 2 of SH Concord City)	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	80%–98%	The higher the expected occupancy rate, the higher the fair value.
			(iv) Expected developer profit	10%–20%	The higher the expected developer profit, the lower the fair value.
			(v) Construction cost	RMB9,955 per square meter	The higher the cost, the lower the fair value.
			(vi) Discount rate	8%–9%	The higher the discount rate, the lower the fair value.
			(vii) Rate of finance cost	5%–6%	The higher the rate of finance cost, the lower the fair value.
			(viii) Rental growth rate	5%–6%	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2016 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Shanghai Phase 2 of Shanghai Concord City					
Office	2,131,240	Residual approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	4%	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB383 per square meter per month	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	85%–95%	The higher the expected occupancy rate, the higher the fair value.
			(iv) Expected developer profit	20%	The higher the expected developer profit, the lower the fair value.
			(v) Construction cost	RMB8,000 per square meter	The higher the cost, the lower the fair value.
			(vi) Discount rate	9%	The higher the discount rate, the lower the fair value.
			(vii) Rate of finance cost	6%	The higher the rate of finance cost, the lower the fair value
			(viii) Rental growth rate	6%	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2016 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Chongqing Manhattan City					
Retail	1,487,572	Residual approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	8%	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB216 per square meter per month	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	65%–85%	The higher the expected occupancy rate, the higher the fair value.
			(iv) Expected developer profit	25%–30%	The higher the expected developer profit, the lower the fair value.
			(v) Construction cost	RMB3,536 per square meter	The higher the cost, the lower the fair value.
			(vi) Discount rate	10%	The higher the discount rate, the lower the fair value.
			(vii) Rate of finance cost	5%	The higher the rate of finance cost, the lower the fair value
			(viii) Rental growth rate	5%	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2016 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Chongqing Concord City					
Retail	3,130,072	Residual approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	7%	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB820 per square meter per month	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	65%–85%	The higher the expected occupancy rate, the higher the fair value.
			(iv) Expected developer profit	30%	The higher the expected developer profit, the lower the fair value.
			(v) Construction cost	RMB7,439 per square meter	The higher the cost, the lower the fair value.
			(vi) Discount rate	10%	The higher the discount rate, the lower the fair value.
			(vii) Rate of finance cost	5%	The higher the rate of finance cost, the lower the fair value
			(viii) Rental growth rate	6%	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2016 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Chongqing Concord City — Continued					
Office	1,480,182	Residual approach	(i) Selling price, taking into account the differences in building age and frontage between the comparables and the property	RMB28,489 per square meter	The higher the selling price, the higher the fair value.
			(ii) Expected developer profit	30%	The higher the expected developer profit, the lower the fair value.
			(iii) Construction cost	RMB9,000 per square meter	The higher the cost, the lower the fair value.
			(iv) Discount rate	5%	The higher the discount rate, the lower the fair value.
			(v) Rate of finance cost	5%	The higher the rate of finance cost, the lower the fair value

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2016 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Colliers — continued					
Chongqing International Commerce Centre					
Retail	3,703,167	Residual approach	(i) Gross capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property and prevailing market conditions	7%	The higher the gross capitalisation rate, the lower the fair value.
			(ii) Market rent, taking into account the differences in location, and individual factors, such as frontage and building age, between the comparables and the property	RMB450 per square meter per month	The higher the market rent, the higher the fair value.
			(iii) Expected occupancy rate	60%–85%	The higher the expected occupancy rates, the higher the fair value.
			(iv) Expected developer profit	30%	The higher the expected developer profit, the lower the fair value.
			(v) Discount rate	10%	The higher the discount rate, the lower the fair value.
			(vi) Construction cost	RMB5,614 per square meter	The higher the cost, the lower the fair value.
			(vii) Rate of finance cost	5%	The higher the rate of finance cost, the lower the fair value
			(viii) Rental growth rate	6%	The higher the rental growth rate, the higher the fair value.

15. INVESTMENT PROPERTIES — Continued

Information about fair value measurements using significant unobservable input — Continued

Description	Fair value as at December 31, 2016 RMB'000	Valuation techniques	Unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
(2) Investment properties under construction — fair values determined by Collier — continued					
Chongqing International Commerce Centre — continued					
Office	635,126	Residual approach	(i) Selling price, taking into account the differences in building age and frontage between the comparables and the property	RMB21,633 per square meter	The higher the selling price, the higher the fair value.
			(ii) Expected developer profit	30%	The higher the expected developer profit, the lower the fair value.
			(iii) Construction cost	RMB9,000 per square meter	The higher the cost, the lower the fair value.
			(iv) Discount rate	5%	The higher the discount rate, the lower the fair value.
			(v) Rate of finance cost	5%	The higher the rate of finance cost, the lower the fair value
	48,768,565				

As at December 31, 2017, certain of the Group's investment properties with a carrying value of approximately RMB43,086,058,000 (2016: RMB42,576,579,000) were pledged to secure certain borrowing facilities granted to the Group.

All the Group's properties interests 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.

16. PROPERTIES UNDER DEVELOPMENT FOR SALES

	2017 RMB'000	2016 RMB'000
Cost		
At the beginning of the year	**5,155,483**	4,877,607
Additions	**432,943**	438,376
Transfer to properties held for sale	**(2,720)**	(160,500)
At the end of the year	**5,585,706**	5,155,483
Properties under development for sales of which:		
— expected to be completed within twelve months	**622,774**	721,634
— expected to be completed after twelve months after the end of the reporting period	**4,962,932**	4,433,849
	5,585,706	5,155,483

As at December 31, 2017, certain of the Group's properties under development for sales with a carrying value of approximately RMB1,556,106,000 (2016: RMB1,501,790,000) were pledged to secure certain borrowing facilities granted to the Group.

17. PROPERTIES HELD FOR SALES

As at December 31, 2017, certain of the Group's properties held for sales with a carrying value of approximately RMB153,464,000 (2016: RMB188,152,000) were pledged to secure certain borrowing facilities granted to the Group.

18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Considerations in respect of completed properties sold are received from customers in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the agreement date.

Considerations in respect of properties sold under pre-sale contracts will be fully received prior to the delivery of the properties to the purchasers.

	2017 RMB'000	2016 RMB'000
Prepayment of business taxes and other PRC taxes	**35,133**	29,669
Other receivables, deposits and prepayments	**135,077**	169,587
	170,210	199,256

19. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At December 31, 2017, pledged bank deposits of approximately RMB210,441,000 (2016: RMB278,517,000) were pledged for short term borrowings due within one year and thus the amount was classified as current.

The pledged bank deposits carry effective interest rates which range from 0.01% to 2.10% (2016: 0.01% to 2.10%) per annum. The pledged bank deposits will be released upon the settlement of the relevant bank borrowings. Bank balances carry interest at market rates which range from 0.01% to 1.10% (2016: 0.01% to 1.10%) per annum.

At December 31, 2017, pledged bank deposits and bank balances and cash with banks in the PRC amounted to approximately RMB471,613,000 (2016: RMB579,662,000). Remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

20. DEPOSITS RECEIVED FOR SALES OF PROPERTIES

	2017	2016
	RMB'000	RMB'000
Deposits received for sales of properties — expected to be realised within twelve months	**439,603**	402,739

21. AMOUNT DUE TO A SHAREHOLDER

Amount due to a shareholder, Mr. Wong, is non-trade in nature, unsecured, interest-free and repayable on demand while request for payment will only be made when the Group has excess cash.

22. BORROWINGS

	2017 RMB'000	2016 RMB'000
Bank borrowings, secured	—	255,144
Other borrowings, secured	**5,529,332**	5,000,027
	5,529,332	5,255,171
Carrying amounts of the borrowings repayable based on contractual term#:		
On demand or within one year	**1,789,332**	1,395,171
More than one year, but not exceeding two years	**2,440,000**	2,060,000
More than two years, but not exceeding five years	**1,300,000**	1,800,000
	5,529,332	5,255,171
Less: Amount due within one year shown under current liabilities	**(1,789,332)**	(1,395,171)
Amount shown under non-current liabilities	**3,740,000**	3,860,000

As at December 31, 2016, bank borrowings of approximately RMB255,144,000 with a "repayable on demand" clause are included in the "on demand or within one year" time band.

The amounts due are based on scheduled repayment dates set out in the loan agreements.

22. BORROWINGS — Continued

The Group's borrowings that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2017 RMB'000	2016 RMB'000
Hong Kong Dollar ("HK$")	—	37,900
United States Dollar ("US$")	—	120,111

Bank borrowings

	2017 RMB'000	2016 RMB'000
Carrying amounts of secured variable-rate bank borrowings repayable based on contractual term#:		
On demand or within one year	—	255,144
More than one year, but not exceeding two years	—	—
More than two years, but not exceeding five years	—	—
	—	255,144
Less: Amount due within one year shown under current liabilities (Note)	—	(255,144)
Amount shown under non-current liabilities	—	—

\# The amounts due are based on scheduled repayment dates set out in the loan agreements.

Note: As at December 31, 2016, including the amounts due within one year shown under current liabilities, all of the bank borrowings contain a repayable on demand clause.

22. BORROWINGS — Continued

Bank borrowings — Continued

As at December 31, 2016, the interest rates of the Group's variable-rate bank borrowings are based on base rate fixed by the People's Bank of China ("PBOC") plus a premium, Hong Kong Interbank Offered Rate ("HIBOR") plus a premium and London Interbank Offered Rate ("LIBOR") plus a premium. Details are as follows:

	2016 RMB'000
Base rate fixed by PBOC plus a premium:	
Carrying amounts repayable:	
Within one year	97,133
HIBOR plus a premium:	
Carrying amounts repayable:	
Within one year	37,900
LIBOR plus a premium:	
Carrying amounts repayable:	
Within one year	120,111

As at December 31, 2016, the ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2016
Effective interest rate:	
Variable-rate bank borrowings	2.65% to 4.35%

22. BORROWINGS — Continued

Other borrowings

	2017 RMB'000	2016 RMB'000
Carrying amount of the fixed-rate other borrowings repayable based on contractual term#:		
Within one year	**1,789,332**	1,140,027
More than one year, but not exceeding two years	**2,440,000**	2,060,000
More than two years, but not exceeding five years	**1,300,000**	1,800,000
	5,529,332	5,000,027
Less: Amount due within one year shown under current liabilities	**(1,789,332)**	(1,140,027)
Amount shown under non-current liabilities	**3,740,000**	3,860,000

The amounts due are based on scheduled repayment dates set out in the loan agreements.

The other borrowings are secured and carrying at fixed interest rate ranging from 7.20% to 11.34% (2016: 7.20% to 11.34%) per annum. The weighted average rate is 10.18% (2016: 10.22%) per annum.

As at December 31, 2017, the Group has four (2016:four) significant secured fixed-rate other borrowings from three (2016:three lenders), which are denominated in RMB, carry interests in fixed-rate arranging from 7.20% to 11.34% (2016: 7.20% to 11.34%) per annum. At December 31, 2017, the carrying amount of such other borrowings amount to RMB4,573,593,000 (RMB1,333,593,000 repayable within one year, RMB2,440,000,000 repayable one to two years and RMB800,000,000 repayable two to five years) (2016: RMB4,628,513,000 (RMB768,513,000 repayable within one year, RMB2,060,000,000 repayable one to two years and RMB1,800,000,000 repayable two to five years)).

23. 13.5% FIXED-RATE SENIOR NOTES

On October 8, 2013 and October 22, 2013, the Company issued approximately US$150 million and US$100 million respectively in aggregate principal amount of the fixed-rate senior notes which contain two components, liability and early redemption options.

The notes bear interest at a fixed-rate of 13.50% per annum. The interest charged for the year is calculated by applying an effective interest rate of approximately 13.67% per annum. Interest on the notes is payable on April 16 and October 16 of each year. The notes will mature on October 16, 2018. The notes are guaranteed by certain of the Company's subsidiaries.

At any time before October 16, 2016, the Company may redeem the notes, in whole or in part, at redemption price equal to 100% of their principal amount plus premium and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to October 16, 2016, the Company may redeem up to 35% of the principal amount of the notes with the net cash proceeds of one or more equity offerings at a redemption price of 113.50% of the principal amount of the notes plus accrued and unpaid interest, if any, to the redemption date. Up to December 31, 2017 and date of this report, the Company did not redeem any 13.5% fixed-rate senior note.

12-month period commencing in the year	**Percentage**
2016	106.750%
2017	103.375%
2018	100.000%

The directors of the Company consider that the fair values of the redemption options at December 31, 2016 and at December 31, 2017 are insignificant.

The carrying amounts of 13.5% fixed-rate senior notes is analysed as follows:

	2017 **RMB'000**	2016 RMB'000
Current portion	**1,667,295**	49,912
Non-current portion	—	1,732,822
	1,667,295	1,782,734

24. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE

On January 27, 2012, the Company and Hillwealth (the "Subscriber"), entered into a conditional subscription agreement pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for a convertible note of HK$500,000,000 in cash. The convertible note is interest bearing at a fixed rate of 5% per annum and matures on the fourth anniversary of the issue date. The conversion price of the convertible note is HK$2.42 per share.

On February 21, 2012, the Company and the Subscriber entered into a supplemental agreement to extend the maturity date and the period for conversion of the convertible note to the sixth anniversary of the issue date. Both the Company and the Subscriber have no early redemption rights on the convertible note. The Company shall repay the principal amount outstanding under the convertible note to the Subscriber together with all interest accrued on the sixth anniversary of the date of issue of the convertible note.

The issuance of the convertible note was approved at the extraordinary general meeting of the Company held on March 16, 2012. On March 19, 2012, the Listing Committee of the Stock Exchange conditionally granted the listing of and permission to deal with the conversion shares, subject to (i) approval by the independent shareholders of the issue of the convertible note under Rule 13.36 of the Listing Rules and (ii) fulfillment of all other conditions of the subscription agreement. In accordance with the subscription agreement, all of the conditions precedent had been fulfilled on August 14, 2012 and the issue of the convertible note had been agreed between the Company and the Subscriber to fall on August 14, 2012 with settlement against funds previously advanced by Mr. Wong to the Company.

The convertible note is denominated in HK$ and contains two components, debt component and conversion option derivative. The effective interest rate of the debt component is 18.838% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

24. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE — Continued

The fair value of the conversion option derivatives at end of the reporting period is calculated using the binomial option pricing model by an independent valuer, Asset Appraisal Limited. The inputs into the model are as follows:

	At December 31, 2017	At December 31, 2016
Spot price (HK$)	**1.69**	1.80
Exercise price (HK$)	**2.42**	2.42
Risk-free interest rate	**1.03%**	0.97%
Discount rate	**17.135%**	20.59%
Volatility	**25.943%**	39.894%
Dividend yield	**0%**	0%

Note: Pursuant to the subscription agreement and the supplemental agreement, the conversion option may be exercised at any time after full repayment of the loan principal and all outstanding accrued interest under the facility agreement entered into with China Development Bank Corporation, Hong Kong Branch or the date falling 36 months from the first date a loan was made under the facility agreement (whichever is earlier). The Subscriber will have the right to convert the whole or part of the principal amount of the convertible note into shares at any time and from time to time up to the sixth anniversary of the date of inception of the convertible note. As settlement was made before December 31, 2016, such option is exercisable at end of both of the reporting period.

Expected volatility of the conversion option derivative was determined using the historical volatility of the price return of the ordinary shares of comparable companies. Because the binominal option pricing model requires the input of subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

24. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE — Continued

The movements of the different components of the convertible note for the year are set out as below:

	Debt component	Conversion option derivative	Total
	RMB'000	RMB'000	RMB'000
Carrying amount at January 1, 2016	311,862	59,363	371,225
Interest charged (Note 7)	60,360	—	60,360
Interest paid	(21,483)	—	(21,483)
Gain arising on changes in fair value	—	(4,064)	(4,064)
Effect of foreign currency exchange differences recognise to profit or loss	23,723	3,998	27,721
As at December 31, 2016	374,462	59,297	433,759
Interest charged (Note 7)	68,562	—	68,562
Interest paid	(21,653)	—	(21,653)
Gain arising on changes in fair value	—	(54,574)	(54,574)
Effect of foreign currency exchange differences recognise to profit or loss	(27,946)	(2,206)	(30,152)
As at December 31, 2017	393,425	2,517	395,942

25. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Fair value adjustment of investment properties	Other temporary differences	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2016	10,447,993	59,128	10,507,121
Charged to profit or loss (Note 8)	269,651	—	269,651
At December 31, 2016	10,717,644	59,128	10,776,772
Charged to profit or loss (Note 8)	64,245	—	64,245
At December 31, 2017	10,781,889	59,128	10,841,017

Other temporary differences mainly represent the temporary differences arising from the construction costs capitalised in investment properties under construction, properties under development for sales and properties held for sales which were deductible for tax purpose in the year those costs incurred.

The Group had no significant unprovided deferred tax during the two years ended December 31, 2017 and 2016, and at the end of the reporting periods.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately RMB842,236,000 (2016: RMB858,396,000) 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.

26. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At January 1, 2016, December 31, 2016 and December 31, 2017	5,000,000,000	500,000
Issued and fully paid:		
At January 1, 2016, December 31, 2016 and December 31, 2017	1,809,077,000	180,907
Presented in consolidated financial statements as:		
At January 1, 2016, December 31, 2016 and December 31, 2017		RMB170,073,000

None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during the year.

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Convertible note RMB'000	13.5% fixed-rate senior note RMB'000	Amount due to a shareholder RMB'000	Borrowings RMB'000	Total RMB'000
At January 1, 2017	374,462	1,782,734	1,912,761	5,255,171	9,325,128
Financing cash flows (Note)	(21,653)	(228,001)	170,648	(311,081)	(390,087)
Financing costs recognised (Note 7)	68,562	237,975	—	590,872	897,409
Effect of foreign currency exchange difference recognise to profit or loss	(27,946)	(125,413)	—	(5,630)	(158,989)
At December 31, 2017	393,425	1,667,295	2,083,409	5,529,332	9,673,461

Note: The financing cash flows represent the new borrowings raised, advance from a shareholder, payment of finance costs and repayments of borrowings.

28. CONTINGENT LIABILITIES

At the end of the reporting period, the contingent liabilities of the Group are as follows:

Guarantee

	2017 **RMB'000**	2016 RMB'000
Guarantees given to banks in connection with credit facilities granted to the purchasers of the Group's properties (Note)	**492,352**	483,114

Note: The guarantees were given to banks with respect to loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the delivery of the properties to the purchasers and completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. In the opinion of the directors of the Company, the fair value of the financial guarantee contracts is not significant. Deposits received on sales of properties prior to the date of revenue recognition are classified as current liabilities in the consolidated statement of financial position.

Legal disputes

As at December 31, 2017, the Group is subjected to several legal claims mainly in relation to disputes under construction contracts in respect of its various property development projects which arose during the normal course of business. In these legal proceedings, the Group has received court orders to restrict the disposition of certain investment properties, properties under development for sales and properties held for sale in an aggregate amount of approximately RMB52 million (2016: RMB62 million) and the withdrawal of bank deposits of approximately RMB6 million (2016: RMB6 million) as at December 31, 2017. In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that not met the required standards and pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or in the process of making countered claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group. The management has sought advices from the independent legal advisors or internal legal counsel, as at December 31, 2017, the Group has provided the construction cost liabilities amounting to RMB69 million (2016: RMB69 million) in relation to the above mentioned construction contracts under dispute.

For those outstanding legal claims that are still in preliminary stage, according to the advices from the independent legal advisors or internal legal counsel, the final outcome is unable to be determined at this stage amounted to approximately RMB42 million (2016: RMB55 million) in aggregate. Accordingly no further provision is required to be made in the consolidated financial statements. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

29. OTHER COMMITMENTS

	2017 RMB'000	2016 RMB'000
Construction commitment contracted for but not provided	**1,530,143**	1,100,543

30. 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 shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the amount due to a shareholder, borrowings, 13.5% fixed-rate senior notes and convertible note disclosed in notes 21, 22, 23 and 24 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings. The directors of the Company monitor current and expected liquidity requirement as well as the summary compliance report on loan covenants regularly.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through payments of dividends, new shares issues, shares buy-backs and issue of new debts or redemption of existing debts.

31. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**534,808**	765,402
Financial liabilities		
Financial liabilities classified as at FVTPL	**2,517**	59,297
Amortised cost	**10,035,266**	9,655,354

31. FINANCIAL INSTRUMENTS — Continued

Financial risk management objectives and policies

The Group's financial instruments include other receivables, pledged bank deposits, bank balances, construction costs accruals, other payables and accruals, amount due to a shareholder, borrowings, 13.5% fixed-rate senior notes, convertible note and conversion option derivative. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The Group's transactions are mainly denominated in RMB (which is the functional currency of respective group entities), except for certain pledged bank deposits, bank balances, borrowings, fixed-rate senior notes, convertible note and conversion option derivative which are denominated in HK$ and US$ as disclosed below. The Group has not used any forward contract to hedge its exposure to currency risk. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. A significant depreciation/appreciation in the RMB against US$ and HK$ may have a material impact on the Group's results.

As at the end of the reporting period, certain financial assets and financial liabilities of the Group were denominated in HK$ and US$ which are the currencies other than the functional currency of the relevant group entities. The carrying amounts of those foreign currency monetary items are set out below:

	HK$		**US$**	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank balances and cash	**4,751**	173,096	**43**	62
Borrowings	**—**	37,900	**—**	120,111
13.5% fixed-rate senior notes	**—**	—	**1,667,295**	1,782,734
Convertible note	**393,425**	374,462	**—**	—
Conversion option derivative	**2,517**	59,297	**—**	—

Sensitivity analysis

The Group is mainly exposed to the currency of HK$ and US$ and the sensitivity analysis includes only outstanding foreign currency denominated monetary items and their translation at the year end for a 5% (2016: 5%) change in foreign currency rates. 5% (2016: 5%) is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates.

31. FINANCIAL INSTRUMENTS — Continued

Market risk — Continued

Foreign currency risk — Continued

Sensitivity analysis — Continued

A positive number below indicates an increase in post-tax profit for the year where RMB strengthens 5% against US$ and HK$ for the current year. For a 5% weakening of RMB against US$ and HK$, there would be an equal but opposite impact on the post-tax profit for the year.

	HK$ impact		**US$ impact**	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit for the year	**19,560**	14,928	**83,363**	95,139

Interest rate risk

As at December 31, 2016, the Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 22 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of base rate fixed by PBOC, HIBOR and LIBOR arising from the Group's bank borrowings. The Group currently does not have any interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

As at December 31, 2017 and 2016, the Group's fair value interest rate risk relates primarily to its fixed-rate bank deposits, fixed-rate other borrowings (see note 22 for details), 13.5% fixed-rate senior notes (see note 23 for details) and convertible note (see note 24 for details). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. In addition, the management monitors the interest rate movement for long term borrowings and will consider to exercise the redemption option of the fixed-rate senior notes if necessary.

31. FINANCIAL INSTRUMENTS — Continued

Market risk — Continued

Interest rate risk — Continued

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank borrowings as at December 31, 2016. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 1% increase or decrease is used in management's assessment of the reasonably possible change in interest rates.

If interest rates relating to the variable-rate borrowings of the Group increase or decrease by 1%, finance costs would increase or decrease by approximately RMB2,551,000. Since all the Group's finance costs had been capitalised in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales, there would be no effect on the Group's post-tax profit for the year.

Other price risk

The Group is required to estimate the fair value of the conversion option derivative embedded in the convertible note at the end of each reporting period with changes in fair value to be recognised in the profit or loss as long as the convertible note is outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk and volatility risk arising from conversion option derivative at the end of the reporting period only as the directors of the Company consider that the change in market interest rate may not have significant financial impact on the fair value of conversion option derivative.

(i) Changes in share price

If the Company's share price had been 5% higher/lower and all other variables were held constant, the Group's profit for the year (as a result of changes in fair value of conversion option derivative) would decrease by approximately RMB1,868,000/increase by approximately RMB1,316,000 (2016: decrease by approximately RMB9,361,000/increase by approximately RMB8,601,000).

31. FINANCIAL INSTRUMENTS — Continued

Market risk — Continued

Other price risk — Continued

Sensitivity analysis — Continued

(ii) Changes in volatility

If the volatility of the Company's share price had been 5% higher/lower while all other variables were held constant, the Group's profit for the year ended December 31, 2017 (as a result of changes in fair value of conversion option derivative) would decrease by approximately RMB579,000/increase by approximately RMB505,000 (2016: decrease by approximately RMB2,757,000/increase by approximately RMB2,763,000).

Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The management closely monitors the utilisation of bank and other borrowings and ensure compliance with loan covenants.

Having considered the factors and circumstances set out in note 1 to the consolidated financial statements, the directors are satisfied that the Group will have sufficient liquidity to meet its cash flows requirements for the next twelve months from the end of the reporting period.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings at December 31, 2016 with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

31. FINANCIAL INSTRUMENTS — Continued

Liquidity risk — Continued

Liquidity table

	Weighted average interest rate	On demand or less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2017							
Construction costs accruals	N/A	**207,660**	**—**	**—**	**—**	**207,660**	**207,660**
Other payables and accruals	N/A	**154,145**	**—**	**—**	**—**	**154,145**	**154,145**
Amount due to a shareholder	N/A	**2,083,409**	**—**	**—**	**—**	**2,083,409**	**2,083,409**
Borrowings — fixed-rate	10.18%	**2,241,356**	**2,702,680**	**1,314,250**	**—**	**6,258,286**	**5,529,332**
13.5% fixed-rate senior notes	13.5%	**1,854,079**	**—**	**—**	**—**	**1,854,079**	**1,667,295**
Convertible note (Note)	5%	**438,427**	**—**	**—**	**—**	**438,427**	**395,942**
Financial guarantee contracts	N/A	**492,352**	**—**	**—**	**—**	**492,352**	**—**
		7,471,428	**2,702,680**	**1,314,250**	**—**	**11,488,358**	**10,037,783**
As at December 31, 2016							
Construction costs accruals	N/A	207,928	—	—	—	207,928	207,928
Other payables and accruals	N/A	122,298	—	—	—	122,298	122,298
Amount due to a shareholder	N/A	1,912,761	—	—	—	1,912,761	1,912,761
Borrowings — variable-rate	3.3%	258,695	—	—	—	258,695	255,144
Borrowings — fixed-rate	10.2%	1,590,116	2,320,834	1,861,039	—	5,771,989	5,000,027
13.5% fixed-rate senior notes	13.5%	286,337	1,937,808	—	—	2,224,145	1,782,734
Convertible note (Note)	5%	22,452	471,502	—	—	493,954	433,759
Financial guarantee contracts	N/A	483,114	—	—	—	483,114	—
		4,883,701	4,730,144	1,861,039	—	11,474,884	9,714,651

Note: As at December 31, 2017, the carrying amount represents the total carrying amounts of the convertible note and conversion option derivative of approximately RMB393,425,000 (2016: RMB374,462,000) and RMB2,517,000 (2016: RMB59,297,000) respectively.

31. FINANCIAL INSTRUMENTS — Continued

Liquidity risk — Continued

As at December 31, 2016, bank borrowings with a repayment on demand clause were included in the "on demand or less than 1 year" time band in the above maturity analysis. The aggregate undiscounted principal amounts were approximately RMB255,011,000, which is, based on scheduled repayment dates set out in loan agreement, repayable within one year. Taking into account the Group's financial position, the directors of the Company did not believe that it was probable that the banks would exercise their discretionary rights to demand immediate repayment. At that time, the aggregate principal and interest cash outflows would amount to approximately RMB288,047,000.

For properties that are still under construction, the Group typically provides financial guarantees to banks in connection with its customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. Such guarantees will expire upon the completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely 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 which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Credit risk

As at December 31, 2017, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 28.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

31. FINANCIAL INSTRUMENTS — Continued

Credit risk — Continued

For the financial guarantees provide to banks in connection with customers' borrowing of mortgage, if a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstance, the Group is able to retain the customer's deposit and sell the property to recover any amount paid by the Group to the bank. 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.

Fair value measurement of financial instruments

This note provides information about how the Group determines fair value of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Conversion option derivative is measured at fair value at the end of each reporting period. The following table gives information about how the fair value of this conversion option derivative is determined (in particular, the valuation technique and inputs used).

Financial liability	Fair value	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Conversion option derivative	Liability: RMB2,517,000 (as at December 31, 2017) Liability: RMB59,297,000 (as at December 31, 2016)	Level 3	Binominal option pricing model The fair value is estimated based on risk-free interest rate, discount rate, share price (from observable market date), volatility of the share price of the comparable companies and dividend yield and exercise price	Volatility of the share price of the comparable companies, determined by reference to the historical share price of the comparable companies (Note)

Note: The higher the volatility of the share price of the comparable company, the higher the fair value of the conversion option derivative. The volatility of the share price of the Company used in the fair value measurement is 25.943% (2016: 39.894%). Details of the sensitivity analysis is set out in "other price risk".

There is no transfer between different levels of the fair value hierarchy for the years ended December 31, 2017 and 2016.

31. FINANCIAL INSTRUMENTS — Continued

Fair value measurement of financial instruments — Continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis — Continued

Reconciliation of Level 3 fair value measurements of conversion option derivative

	Conversion option derivative RMB'000
Carrying amount at January 1, 2016	59,363
Fair value gain recognised in profit or loss	(4,064)
Effect of foreign currency exchange difference recognised to profit or loss	3,998
At December 31, 2016	59,297
Fair value gain recognised in profit or loss	(54,574)
Effect of foreign currency exchange difference recognised to profit or loss	(2,206)
At December 31, 2017	2,517

Fair value measurements and valuation processes

The Group engages qualified external valuers to perform valuations for financial instruments. At the end of each reporting period, the senior management works closely with the independent qualified professional valuer to establish and determine the appropriate valuation techniques and inputs. Discussion of valuation process and results are held between senior management and the directors of the Company at least twice a year. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

(ii) Fair value of financial assets and liabilities that are not measured on a recurring basis

Except for the fixed-rate senior notes, the directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. At December 31, 2017, the carrying amount of the fixed-rate senior notes was RMB1,667,295,000 and the fair values of fixed-rate senior notes (categorised within Level 2 hierarchy) of approximately RMB1,663,117,000 have been determined using discounted cash flows at an approximate debt yield which being the sum of base interest rate representing the US risk-free rate of 1.82%, and the spread of 9.15% derived from the Hull-White One-Factor Model. The fair values of other financial assets and financial liabilities (categorised within Level 3 hierarchy) have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

32. OPERATING LEASE COMMITMENTS

As lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017 RMB'000	2016 RMB'000
Within one year	**613**	583
In the second to fifth year inclusive	**2,545**	2,474
After the fifth year	**2,022**	2,706
	5,180	5,763

Leased properties have committed tenants from ten (2016: ten) years.

As lessee

Minimum lease payments paid under operating leases during the year:

	2017 RMB'000	2016 RMB'000
Premises	**3,765**	3,552

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**3,877**	2,023
In the second to fifth year inclusive	**5,695**	—
	9,572	2,023

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and are fixed for an average of three (2016: three) years.

33. RETIREMENT BENEFITS PLANS

The Group operates in a MPF Scheme under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made by both the Group and the employees based on 5% of the employees' salaries (capped at HK$25,000 as effective from June 1, 2012 and capped at HK$30,000 as effective from June 1, 2014) and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The total contributions incurred in this connection for the year was approximately RMB5,421,000 (2016: RMB6,026,000).

34. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was conditionally adopted pursuant to a resolution passed on February 5, 2007 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Scheme was expired on February 5, 2017 and all options which were granted under that Scheme had also lapsed. On June 29, 2017, the Company by ordinary resolution approved the adoption of a new share option scheme ("New Scheme"). No options have yet been granted under such New Scheme during the year ended December 31, 2017 and up to the date of this report.

Under the New Scheme, the board of directors of the Company may grant options to directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group.

34. SHARE OPTION SCHEME — Continued

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme is not permitted to exceed 180,907,700 shares, being 10% of the shares of the Company in issue as at the date on which the shares of the Company are listed on the Stock Exchange, which can be refreshed according to the Scheme. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the Scheme shall not exceed 30% of the issued share capital of the Company from time to time.

The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders in accordance with the Scheme. Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the shares in the Company issued and to be issued upon exercise of all options to such person in the 12-month period up to and including the date of grant in excess of 0.1% of the shares of the Company in issue and with a value (based on the closing price of the shares of the Company at the offer date of each offer) in excess of HK$5,000,000, such grant of options must be approved in advance by the Company's shareholders in accordance with the Scheme.

An option may be exercised at any time during the period to be determined and notified by the directors to the grantee and in the absence of such determination, from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses and ten years from the date of offer of that option. A consideration of HK$1 is payable upon acceptance of the offer.

The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the share; the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

35. RELATED PARTY TRANSACTIONS

Apart from the related party transaction as disclosed elsewhere in the financial statements, the Group had the following transactions during both years:

Nature of transactions

	2017	2016
	RMB'000	RMB'000
Office premises expenses (Note)	**28**	32

Note: On July 22, 2014, a tenancy agreement (the "Tenancy Agreement") for the use of the principal place of business of the Company in Hong Kong was entered into between the landlord, a subsidiary of Pacific Concord Holding Limited ("PCH") of which ultimate shareholder is Mr. Wong, and the Group. The Tenancy Agreement is effective from August 1, 2014 to July 31, 2017 and a new agreement is entered which is effective from August 1, 2017 to July 31, 2020.

On the same date, a sharing agreement was entered into between a subsidiary of PCH and the Group which both parties agreed that the principal office will be divided into two equal halves and each party will be entitled to occupy, use and possess half of the principal office. The rental and the electricity fee, fixed line telephone charge and other charges will be shared equally by the parties.

Compensation of key management personnel

The directors of the Company considered that the directors are the key management of the Group. The remuneration of key management personnel of the Group during both years was as follows:

	2017	2016
	RMB'000	RMB'000
Short-term benefits	**1,304**	1,319

The remuneration of directors is determined by the remuneration committee with reference to the involvement and the business performance of the directors of the Company.

36. LIST OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at December 31, 2017 and 2016 are as follows:

Name of subsidiaries	Country of establishment	Equity interest attributable to the Group as at December 31, 2017	2016	Issued and fully paid registered and paid-up capital as at December 31, 2017 and 2016	Principal activities
上海靜安協和房地產有限公司 Shanghai Jingan — Concord Real Estate Co., Ltd.#	PRC	**100%**	100%	US$68,000,000	Property development and investment
上海閔行協和房地產經營有限公司 Shanghai Minhang Concord Property Development Co., Ltd.#	PRC	**100%**	100%	US$99,600,000	Property development and investment
上海盈多利物業管理有限公司 Shanghai Yingduoli Property Management Co., Ltd.##	PRC	**100%**	100%	RMB500,000	Property management service
重慶茵威房地產有限公司 Chongqing Ace Blossom Real Estate Co., Ltd.#	PRC	**100%**	100%	US$50,000,000	Property development and investment
重慶半山一號房地產有限公司 Chongqing Mid-Levels No. 1 Real Estate Co., Ltd.#	PRC	**100%**	100%	US$50,000,000	Property development and investment
重慶山頂一號房地產有限公司 Chongqing Peak No. 1 Real Estate Co., Ltd.#	PRC	**100%**	100%	US$50,000,000	Property development and investment
重慶江灣房地產有限公司 Chongqing Riverside Real Estate Co., Ltd.#	PRC	**100%**	100%	US$50,000,000	Property development and investment
重慶兩江房地產有限公司 Chongqing Yangtze-Jialing River Real Estate Co., Ltd.#	PRC	**100%**	100%	US$50,000,000	Property development and investment
重慶正天投資有限公司 Chongqing Zhengtian Investment Ltd.##	PRC	**100%**	100%	RMB51,000,000	Property development and investment

\# Wholly foreign owned enterprises registered in the PRC.

\## A limited liability company registered in the PRC.

The English names stated above are for identification purpose only.

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

None of the subsidiaries had issued any debt securities at the end of the both years.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 RMB'000	2016 RMB'000
Non-current Assets		
Plant and equipment	**42**	49
Investments in subsidiaries	**7,636,573**	7,381,894
	7,636,615	7,381,943
Current Assets		
Other receivables, deposits and prepayments	**1,150**	947
Other current asset	**1,229,346**	1,574,506
Bank balances and cash	**2**	15
	1,230,498	1,575,468
Current Liabilities		
Other payables and accruals	**6,241**	6,222
Amounts due to subsidiaries	**1,046,265**	870,226
13.5% fixed-rate senior notes, current portion	**1,667,295**	49,912
Convertible note, current portion	**393,425**	8,673
Conversion option derivative	**2,517**	—
	3,115,743	935,033
Net Current (Liabilities) Assets	**(1,885,245)**	640,435
Total Assets Less Current Liabilities	**5,751,370**	8,022,378

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY — Continued

	2017 RMB'000	2016 RMB'000
Non-current Liabilities		
13.5% fixed-rate senior notes, non-current portion	—	1,732,822
Convertible note, non-current portion	—	365,789
Conversion option derivative	—	59,297
	—	2,157,908
Net Assets	**5,751,370**	5,864,470
Capital and Reserves		
Share capital	**170,073**	170,073
Share premium and reserves (Note)	**5,581,297**	5,694,397
Total Equity	**5,751,370**	5,864,470

Note:

Movement of reserves

	Attributable to owners of the Company		
	Share premium RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At January 1, 2016	7,967,070	(1,823,990)	6,143,080
Loss and other comprehensive expense for the year	—	(448,683)	(448,683)
At December 31, 2016	7,967,070	(2,272,673)	5,694,397
Loss and other comprehensive expense for the year	—	(113,100)	(113,100)
At December 31, 2017	7,967,070	(2,385,773)	5,581,297

FINANCIAL SUMMARY

RESULTS

	For the year ended December 31,				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	828,983	234,628	71,704	206,217	**215,414**
Profit before tax	1,164,498	2,029,089	1,679,191	1,047,083	**382,218**
Income tax expense	(267,189)	(506,764)	(434,230)	(307,499)	**(97,546)**
Profit for the year attributable to owners of the Company	897,309	1,522,325	1,244,961	739,584	**284,672**
Earnings per share					
Basic	RMB0.50	RMB0.84	RMB0.69	RMB0.41	**RMB0.16**
Diluted	RMB0.42	RMB0.73	RMB0.61	RMB0.36	**RMB0.11**

ASSETS AND LIABILITIES

	As at December 31,				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	50,591,943	53,342,301	55,841,235	58,479,322	**59,211,064**
Total liabilities	(17,183,847)	(18,424,336)	(19,675,900)	(21,574,403)	**(22,021,473)**
	33,408,096	34,917,965	36,165,335	36,904,919	**37,189,591**
Equity attributable to owners of the Company	33,408,096	34,917,965	36,165,335	36,904,919	**37,189,591**

PARTICULARS OF MAJOR PROPERTIES

AT DECEMBER 31, 2017

Properties held by the Group as at December 31, 2017 are as follows:

Location	**Type** (Notes)	**Gross floor area** (Square meters)	**Effective % held**	**Stage of completion**	**Anticipated completion**
Portion of Phases 1,2, 3, 4A and 4B of Shanghai Cannes No. 958 Xin Song Road Minhang District Shanghai The PRC	R & C	131,402	100	Completed	N/A
Commercial Street and Service Apartment located at No. 958 Xin Song Road Minhang District Shanghai The PRC	R & C	293,815	100	Under planning	2020–2021
Portion of Phase 1 of Shanghai Concord City (Commercial Street, Hotel, Office Premise and Service Apartment) located at West of Nanjing Road Jing'an District Shanghai The PRC	R & C	51,545	100	Completed	N/A
The whole of Phase 2 of Shanghai Concord City (Commercial Street, Hotel, Office Premise and Service Apartment) located at West of Nanjing Road Jing'an District Shanghai The PRC	R & C	338,074	100	Construction in progress	2019–2022

Location	Type (Notes)	Gross floor area (Square meters)	Effective % held	Stage of completion	Anticipated completion
Huashan Building West Nanjing Road Jing'an District Shanghai The PRC	C	7,340	100	Renovation in progress	2019–2020
Chongqing International Commerce Centre located at Nan Bin Road Chongqing The PRC	R & C	2,050,000	100	Construction in progress	2019–2021
Portion of Commercial Street Manhattan Luxury Residence and Beverly Hills located at Lijiu Road Chongqing The PRC	R & C	341,980	100	Construction in progress	2012–2018
Chongqing Manhattan City Villa Zone located at Lijiu Road Chongqing The PRC	R	456,940	100	Construction in progress	2012–2019
Chongqing Manhattan City European Type House Zone located at Lijiu Road Chongqing The PRC	R	477,995	100	Construction in progress	2019–2020

PARTICULARS OF MAJOR PROPERTIES

AT DECEMBER 31, 2017

Location	Type (Notes)	Gross floor area (Square meters)	Effective % held	Stage of completion	Anticipated completion
Chongqing Concord City located at Jiefangbei Chongqing The PRC	R & C	408,927	100	Construction in progress	2019–2021
Golden Tower located at Lijiu Road Chongqing The PRC	R & C	571,992	100	Under planning	2019–2021

Notes:

Types of properties: R-Residential, C-Commercial

N/A: Not applicable