SRE GROUP LTD.

SRE GROUP LIMITED

上置集團有限公司

(Stock Code: 1207)

ANNUAL REPORT 2017



Contents

Corporate Information

Board of Directors

Peng Xinkuang	*(Chairman)*
Liu Feng	*(Chief Executive Officer)*
Chen Donghui	
Chen Chao	
Shi Janson Bing	
Zhu Qiang	
Qin Wenying	
Zhuo Fumin*	
Chan, Charles Sheung Wai*	
Ma Lishan*	
Han Gensheng*	

* *Independent Non-executive Directors*

Authorized Representatives

Peng Xinkuang
Liu Feng

Company Secretary

Pang Ka Fai Angus

Legal Adviser

Norton Rose Fulbright Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Principal Bankers

Hong Kong:	The Agricultural Bank of China
	CITIC Bank International Limited
PRC:	The Industrial and Commercial Bank of China
	The Agricultural Bank of China
	China Construction Bank
	Shanghai Pudong Development Bank
	Xiamen International Bank
	China Minsheng Bank
	China Merchants Bank

Corporate Information

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business in Hong Kong

Suite 1001, 10th Floor
One Pacific Place
88 Queensway
Hong Kong

Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08, Bermuda

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Code

1207

Internet Web Site

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Introduction of the Group

SRE Group Limited (the "Company") and its subsidiaries (the "Group") is an integrated real estate developer focusing on real estate investment and development business in first and second-tier cities in the PRC, in particular core areas in Shanghai, which is geographically the base for the Group's property development business. The Group is committed to actively expanding the project by virtue of integration development of "Finance + Industry + Real Estate" under the models of the Financial City and the "Primary and secondary co-development in industrial-urban integration". The Group will also expand its investment businesses, accelerate the investment-withdrawal and profit-making process by adopting the "financing, investment, management and exit" approach, and operate in a "light and heavy assets in parallel" model. The Group also focuses on investment opportunities in the high-growth regions along the "One Belt, One Road", striving to become a fully integrated trans-sector finance and real estate group.

The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 10 December 1999.

Financial Summary

Summary of Results

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Revenue	**1,620**	3,403	1,419	1,141	2,668
Gross profit/(loss)	**384**	612	(1,093)	243	763
Profit/(loss) before income tax	**878**	684	(2,168)	450	399
Income tax (expense)/credit	**(158)**	(341)	185	(336)	(235)
Profit/(loss) for the year	**720**	343	(1,983)	114	164
Non-controlling interests	**(30)**	(111)	83	(198)	(4)
Profit/(loss) attributable to owners of the Company	**691**	232	(1,900)	(84)	160
Proposed dividends	**–**	–	–	–	48
Earnings/(loss) per share					
– Basic (RMB)	**0.03**	0.01	(0.28)	(0.01)	0.03
– Diluted (RMB)	**0.03**	0.01	(0.28)	(0.01)	0.03

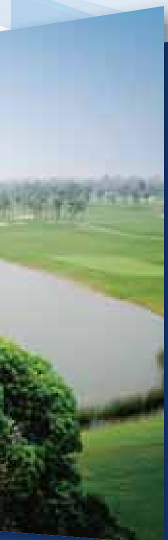
	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Total assets	**22,385**	22,711	29,155	29,447	25,190
Total liabilities	**14,571**	15,659	22,420	21,871	17,679
Net assets	**7,814**	7,052	6,735	7,576	7,511
Cash and bank balances (including restricted cash)	**1,453**	1,513	2,555	1,664	2,312
Shareholders' funds	**7,380**	6,674	6,403	7,129	7,257

	Year ended 31 December				
	2017	2016	2015	2014	2013
Return on equity (%)	**9%**	3%	(31%)	(1%)	2%
Current ratio (times)	**1.28x**	1.17x	1.24x	2.10x	2.34x
Total liabilities to net assets ratio (times)	**1.86x**	2.22x	3.33x	2.89x	2.35x
Net debt to shareholders' funds ratio (times)*	**1.78x**	2.12x	3.10x	2.83x	2.12x

* Net debt to shareholders' funds ratio = (Total liabilities – Cash and bank balances)/Shareholders' funds

Note: The data for years 2013 to 2016 set out above are extracted from the audited consolidated financial statements of the Group for the relevant years after adjusting retrospectively for the effects of change in presentational currency from Hong Kong dollar to Renminbi adopted in year 2016, while for year 2016, adjustments are also made to reflect the results of discontinued operation in those years on a line by line basis instead of as a single line item. The adjustments made on the results of discontinued operation is not a standard presentation method under Hong Kong Financial Reporting Standards.

Shanghai Project



Chengdu
Project

Changsha Project

Overseas
Project



Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I would like to present the annual report of SRE Group Limited for the year ended 31 December 2017 to you.

Business Review

In 2017, with the revived growth of the economy and under the insistency of guidance by the policies of "housing is for accommodation", policies were implemented based on each individual city in the regions, and measures for controlling housing prices and preventing bubbles together with de-stocking were in place. Policies for hotspot cities were frequently increased. Together with the linking and adjustment of the surrounding third and fourth-tier cities, there was a continuous upgrade of the traditional policies of purchase restrictions and lending restrictions. Accordingly, although the investment amount of real estate development had an unexpected growth, there was a slowdown in the growth of the sales volume. The Group strengthened its sales efforts for its projects under construction and made efforts to improve operation for self-owned properties including Malaren Hospital and Oasis Central Ring Centre. The Group timely optimized its development strategy by making an early move to capitalize some income of its assets when they were sold at a high price to secure its income and cash flow. At the same time, the Group continuously improved its project development and project management capability and succeeded to exit from the investment in Australia project with gains, successfully implementing the financial real estate model.

In 2017 the Group's major projects available for sale were Shanghai Albany Oasis Garden, Shanghai Huating Project, Chengdu Albany Oasis Garden, Shenyang Albany Oasis Garden, Jiaxing Project and the Atelier. In 2017, the Group together with its joint ventures and associates had contracted sales amounting to approximately RMB2.762 billion, with a total gross floor area of approximately 125,984 m^2.

Project	Monetary Amount of Sales Contracts Signed (RMB'000)	Contractual Gross Area (m^2)
Shanghai Albany Oasis Garden	1,242,700	11,262
Chengdu Albany Oasis Garden	581,389	75,305
The Atelier	318,064	1,723
Jiaxing Project	168,597	17,621
Shanghai Huating Project	141,558	1,234
Shenyang Albany Oasis Garden	122,916	9,388
Shanghai Lake Malaren Silicon Valley	62,999	1,575
Other projects	123,883	7,876
Total	2,762,106	125,984

Chairman's Statement

In 2017, the Group recorded a net turnover of approximately RMB1.620 billion (2016: RMB3.364 billion). Gross profit for 2017 amounted to approximately RMB384 million (2016: RMB597 million). In 2017, the Group has reduced its reliance on the traditional operation model of real estate development, while expanding its investment businesses and accelerating the exit from investments to realize gains, which resulted in a decrease in net turnover and gross profit from traditional operation model mentioned above and a significant increase in investment gains in 2017 as compared with that of 2016.

Revenue	**2017 (RMB'000)**	2016 (RMB'000)
Revenue from sale of properties	**1,394,541**	3,253,664
Revenue from property leasing	**153,370**	77,220
Revenue from property management	**14,888**	97,390
Revenue from construction of infrastructure for an intelligent network	**8,890**	27,947
Other revenue	**62,949**	29,281
Less: Tax and surcharges	**(14,165)**	(121,731)
Total revenue	**1,620,473**	3,363,771

Development Projects

Our development projects mainly included Shanghai Rich Gate I, Shenyang Albany Oasis Garden, Chengdu Albany Oasis Garden, Changsha Fudi Albany Project, Dalian Project and the Atelier.

Progress of Relocation

Shanghai Rich Gate I (Qinhai Oasis Garden)

As at the end of December 2016, 1,008 certificates of households (including certificates of sole proprietors) and a total of 39 certificates of enterprises covering an area of 15,616 m^2 were to be relocated for Shanghai Rich Gate I. The second round of consultation commenced in 2017, under which house choosing were arranged for households from 18 March 2017 to 30 March 2017, and the kick-off meeting for determination of expropriation and compensation was held on 27 October 2017. As at the end of December 2017, contracts were signed for 873 certificates of households (including certificates of sole proprietors) in aggregate, representing a signing rate of 86.61%; 599 certificates of households (including certificates of sole proprietors) were relocated, representing a relocating rate of 59.42%; contracts were re-signed for 537 certificates of households (including certificates of sole proprietors) in aggregate, representing a re-signing rate of 53.27%; contracts were signed for 30 certificates of enterprises, representing a signing rate of 76.92%; and 14 certificates of enterprises were relocated and settled, accounting for 35.90% of the total of 39 certificates.

Shenyang Albany Oasis Garden

As at the end of December 2017, Shenyang Albany Oasis Garden had signed relocation contracts with 1,400 households and 24 enterprises (including schools), with negotiations for 54 households and 1 enterprise still in progress. The relocation was about 96% completed for households and 96% completed for enterprises and schools respectively.

Changsha Fudi Albany Project

As of 31 December 2017, there were 99 legal households in the land area of Changsha Fudi Albany Project, out of which 89 were signed in aggregate, representing a signing rate of 89.89%.

Progress of Construction

Chengdu Albany Oasis Garden

As at the end of December 2017, for Phase II of Chengdu Albany Oasis Garden, the topping out of the main structures of Blocks No. 5 and 6 were completed; the construction of the main structure of Block 4 was constructed to 23rd floor; the construction of the main structures of Block 3 was constructed to 21st floor; over 50% of the construction of masonry structure was completed; and the construction of ancillary vegetable market was completed.

Shenyang Albany Oasis Garden

The total gross floor area of Phase II of Shenyang Albany Garden is 264,246 m^2, and it is divided into Section A and Section B. As at end of December 2017, the work of Section A and Section B of Phase II were completed and delivered to the property owners.

Land Bank

As at 31 December 2017, the Group owned a land bank with a total gross floor area of approximately 2.1 million m^2 in Shanghai, Shenyang, Chengdu, Changsha, Dalian, London, San Francisco, etc. The Company stays abreast of industry development dynamics, explores its own resources and advantage and is committed to discovering assets which are underestimated or with growth potential.

Commercial Property Operation

During 2017, the Group continued to enhance the management and operation of its commercial properties to cope with the changing market conditions and opportunities, expeditiously adjusted the operation strategies, utilized its brand advantages and management capabilities, and strived to improve operation efficiency with the benefits of the experiences earned.

Oasis Central Ring Centre

As a landmark of the Shanghai Central Ring business district, the Oasis Central Ring Centre, with its high quality Grade 5A office buildings well equipped with all sorts of ancillary facilities, has attracted an increasing number of enterprises to move in.

During 2017, Oasis Central Ring Centre had made tremendous efforts in attracting tenants. Currently, commercial and office spaces of around 38,000 m^2, and an underground parking garage of around 57,000 m^2 are for lease. As at 31 December 2017, the occupancy rate of Oasis Central Ring Centre reached 98% with a total rental income of RMB47.13 million.

Shenyang Rich Gate Shopping Mall

Shenyang Rich Gate Shopping Mall is committed to building into a one-stop integrated center with business, leisure and life elements, accommodating for shopping, leisure & entertainment, culture & education, business networking and food & beverage needs and requirements. As at 31 December 2017, a total contracted area of 71,881 m^2 were leased, accounting for 68% of the total rentable area, with rental income of RMB11.69 million and operating revenue totaled RMB32.21 million.

41 Tower Hill Project in UK

The project is located at the east side of the City of London. It is a freehold property with a site area of approximately 7,000 m^2, and comprises an existing office building and an adjoining car park. Currently, the office building has a floor area of 15,509 m^2 (166,940 square feet); gross floor area of 21,189 m^2 (228,075 square feet). The office building is leased to Société Générale for a term of about 3 years expiring in March 2020. It may be re-planned to increase renting area during the term, or be renovated and upgraded after the tenant moving out.

Chairman's Statement

12 Moorgate Project in UK

The project is located in the core district of the City of London (EC2), which is a global financial and insurance center. It is a freehold property completed in 1998 with 6 floors and one basement. The property has a rentable area of 3,151 m^2 (33,941 square feet) for office use. Its existing tenant is Schroders PLC, a renowned global wealth management company, with a lease term expiring in June 2023.

Development of Investment Projects

Shanty Town Renovation Project in Zhangjiakou

Zhangjiakou Shanty Town Renovation Project, located in Qiaoxi District, Zhangjiakou, Hebei Province, covers an area of approximately 143,333 m^2 and involves a relocation area of 86,000 m^2 and residents of 930 households. The contract for the project was entered into in December 2017 with a total investment amount of approximately RMB1,118 million.

Schofield Project in Sydney

The Schofield Project is a primary land development project covering an area of 2.08 hectares, in which the Company is 70% interested. The Company has entered into a contract in relation to the project in August 2017.

75 Howard Project in San Francisco

75 Howard Project is located at the urban core area of San Francisco of the US and is a high end residential project with retail commercial facilities of approximately 500 m^2 and a frontline seaview. The Company has entered into a contract in relation to the project in February 2017. The project covers an area of 1,913 m^2 and is planned to consist of 20 storeys above the ground and 2 underground levels.

Napa County Project in San Francisco

Napa County Project is located at the southern part of Napa County of the US which is planned to be developed into a medium-end hotel. The Company has entered into a contract in relation to the project in April 2017. The project covers an area of approximately 286,666 m^2.

Exit from Investment after Making a Profit

St Leonards Project in Sydney

In 2017, the Company has successfully exited from investment in St Leonards Project which is the first overseas investment project of the Group after reorganisation with an investment cycle of 428 days. The project generated an after-tax annualized net rate of return on investment of 17.72% and the financial real estate model was implemented throughout the project.

Yunnan Mingzhen Hospital Project

The Company entered into a contract in relation to Yunnan Mingzhen Hospital Project in March 2016 and successfully exited from investment in the project in 2017, giving rise to a capital return of RMB62.40 million and a rate of return on investment of approximately 14.4%.

Major Transactions

1. On 17 February 2017, SREUS SF LLC (a wholly-owned subsidiary of the Company), as the buyer, and RDF 75 Howard LP, as the seller, entered into a sale and purchase agreement, in relation to acquisition of the 80% beneficial ownership interest in the land and building located at 75 Howard Street in San Francisco, State of California, the United States of America, together with the entitlements to develop a mixed-use residential, retail and parking project thereat as approved by the San Francisco Planning Commission at a total consideration of USD88,000,000. Further details are set out in the announcement of the Company dated 20 February 2017.

2. Zhongtong Wanfang Construction and Development (Zhangjiakou) Co., Ltd. (an indirect non-wholly owned subsidiary of the Company), as the trustee, and the People's Government of Qiaoxi District, Zhangjiakou City, Hebei Province, the PRC, as the client, entered into an entrustment agreement on 4 December 2017 in relation to the trustee's implementation of the land redevelopment procedures for the land parcel with a site area of approximately 143,333 m^2 in Beiwapenyao, Qiaoxi District, Zhangjiakou City, Hebei Province, the PRC with capital commitment of RMB270 million. Further details are set out in the announcement of the Company dated 4 December 2017.

The Group's Awards

1. The Oasis Central Ring Centre in Shanghai won the first prize of Contribution to Regional Development of Putuo District in 2017 and Blocks 3 and 10 won the title of "2017 Building Contributing Tax of RMB100 Million in Putuo District".

2. Block B9 of Phase II of Shenyang Albany Oasis Garden was named a Project of Quality Structure in Liaoning Province, and Block B7, the basement construction, Block 3 of Phase II and works for Carrefour were named Projects of Quality Structure in Shenyang City.

3. The Shanghai Albany Oasis Garden was awarded the Golden Prize of the ninth "Residential Property of Excellence in Shanghai".

4. The Masters Course of the Shanghai Lake Malaren Golf Club ranked the ninth in the selection of "China Top 100 Golf Courses" by "GolfDigest" in China and the North Forest Course ranked the seventh in the selection of "China Top Ten New Golf Courses" by "GolfDigest in China".

5. The Shanghai Lake Malaren Convention Centre was rated as the "2017 Best City Convention Hotel".

6. The Shanghai Lake Malaren Golf Resort Hotel won the "2017 Best Resort Landscape Hotel" and was rated as an "Advanced Unit" by the Tourism Development Association of Baoshan District.

Business Outlook

In 2017, policies on the property market kept abreast of the general principle of "houses are built to be inhabited, not for speculation". Moreover, local governments regarded urban agglomeration as the key targets for market regulation, switching its strategies from traditional demand-side adjustments to supply-side increases. Purchase limits, mortgage restrictions, sale limits and restrictions on land auctions resulted in the optimisation of supply-side structure, which gradually demonstrated the effectiveness of regulatory policies. In addition, vigorous efforts were exerted to facilitate the development of residential leasing market and joint ownership housing provisional scheme in an attempt to control housing price level, while improving the multi-level housing supply system, establishing a real estate system of housing purchase and renting as well as urging the establishment and perfection of a long-term mechanism. It was proposed at the meeting of Political Bureau of the Central Committee of the CPC to speed up the reform of housing system and construction of a long-term mechanism. In 2018, the implementation of the long-term mechanism will be further quickened. In the meantime, the short-term regulation will be more aligned with the long-term mechanism. While maintaining the stable real estate market, the multi-level housing supply system will be improved, which will also generate a more profound influence on the future real estate market, promote the change of concept on housing and reinforce the residential property of housing, laying a more solid foundation for the real estate market.

Chairman's Statement

In 2017, with the increasing concentration of the real estate industry, new changes occurred in the enterprise development pattern. Facing opportunities and challenges in the market, on the one hand, the Group will vigorously tap the operation value of stock assets and satisfy residents' upgraded demands relying on product innovation to enhance the added value of development service. The sustained and steady development of enterprises was maintained by virtue of reform and innovation in terms of business model and service mode; on the other hand, the Group will capitalize on the incremental market space and get aware of the development progress and law of key and potential cities to conduct investment and acquisition of real estate in due course to improve the Group's overall asset size and profitability. At the same time, proactive efforts will be made on the financial city model, industrial town model, timesharing and other new businesses.

Overall, in 2017, the domestic financing environment gradually tightened and the total financing amount of real estate enterprises declined sharply as compared to last year, against the overall rise of financing costs. From the perspective of enterprises, large real estate enterprises have prominent advantages and relatively strong financing capacity, while the pressure over the existence of medium and small enterprises increases gradually, in particular those with a weak financing capacity and a large amount of debts. Looking into 2018, based on the current policy environment, the financing environment will maintain tight in a short term and the proportion of overseas financing size will further increase. Therefore, the Group will explore new ideas in respect of financing to further expand the source of funds. On the one hand, the existing asset value will be revitalized and assets will be converted into cash flow through asset securitization, REITs, CMBS and other means to provide financial support for the Group's development. On the other hand, the Group will explore financing by way of overseas issuance of bonds, establishment of real estate foundations, etc.

Acknowledgement

I would like to take this opportunity to express my gratitude to the colleagues in the Board and the management team, and convey my respect to all front-line staff members. We will face various challenges in the new year, but we firmly believe that under the guidance of the strategies and with the unremitting efforts of all staff, the SRE Group will surely enjoy a brighter future.

Peng Xinkuang
Chairman

28 March 2018

Management Discussion and Analysis

Financial Review

Revenue and profit attributable to shareholders

In 2017, the Group recorded net revenue of approximately RMB1,620 million (2016: RMB3,364 million), which represents a decrease by approximately 52% compared with that of 2016. Profit attributable to shareholders of the parent company in 2017 was approximately RMB691 million while profit attributable to shareholders of the parent company in 2016 was approximately RMB232 million. The increase was mainly attributable to gains from disposal of the Group's certain investments at a premium (including the disposal of certain investments as mentioned in the interim positive profit alert dated 14 August 2017) during the steady progress towards the Group's financial real estate strategy. In 2017, the Group has reduced its reliance on the traditional business model of real estate development, while expanding its investment businesses and accelerating the exit from investments to realize gains, which resulted in a decrease in gross profit from traditional business model mentioned above and a significant increase in gains from disposal of investments as compared with that of 2016.

Dividend

The Board has resolved not to recommend the payment of a final dividend in respect of the year ended 31 December 2017 (2016: Nil).

Financial Resources and Liquidity

As at 31 December 2017, cash and bank balances amounted to approximately RMB1,453 million (2016: RMB1,513 million). Working capital (net current assets) of the Group as at 31 December 2017 amounted to approximately RMB1,976 million (2016: RMB1,963 million), representing an increase of 1% as compared with the preceding year, and the current ratio was approximately 1.28x (2016: 1.17x).

As at 31 December 2017, the Group's total liabilities to total equity decreased to 1.86x (2016: 2.22x). As at 31 December 2017, the Group's gearing ratio was approximately 48% (2016: 43%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balance of approximately RMB1,453 million) over total capital (total equity and net borrowings), and excludes assets classified as held for sale and liabilities directly associated with assets classified as held for sale.

Employees

As at 31 December 2017, the Group had 517 (2016: 625) employees in Hong Kong and the People's Republic of China. Total staff costs of the Group, excluding Directors' remuneration, for the year 2017 amounted to approximately RMB211 million (2016: RMB145 million). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of each individual employee.

Management Discussion and Analysis

Charges on Assets and Contingent Liabilities

As at 31 December 2017, total bank and other borrowings of approximately RMB3,740 million (2016: RMB1,928 million) were secured by pledge of the Group's assets including leasehold land, investment properties, property, plant and equipment, properties held or under development for sale, or by pledge of equity interests in certain subsidiaries or bank deposits.

The Group provided guarantees in respect of the mortgage facilities granted by certain banks to the purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates when the relevant mortgage loans are granted by the banks and end when the purchasers pledge related property ownership certificates as security to the banks offering the mortgage loans. The Group entered into guarantee contracts of principal amounts totaling approximately RMB844 million and these contracts were still effective as at the close of business on 31 December 2017.

The Group did not incur any material losses during the year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The Directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty as the principal of each of the mortgage loan is normally below 70% of sales price of the respective property at date of the sales agreement, and therefore no provision has been made in connection with the guarantees.

Information on Business Review

The Group is committed to supporting the environmental sustainability. Being an integrated real estate developer, the Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group. These include regulations on air and noise pollution and discharge of waste and water into the environment. The Group recognizes that our employees, customers and business partners are the keys to our sustainable development. The Group is committed to establishing a close and caring relationship with our employees, providing high quality services to our customers and enhancing cooperation with our business partners.

Details of properties under development for sale:

Project	Location	Land Use	GFA (sqm)	Expected Year of Completion	Completion Rate of Construction	Holding Proportion of SRE
Shenyang Albany Garden	South Heping Road, Heping District, Shenyang City, Liaoning Province, the PRC	Commercial Phase IIIA	35,913	2018	95%	98.71%
		Residential Phase IIIB/C	206,851	2020	0%	98.71%
		Commercial Phase IIIB/C	9,458	2020	0%	98.71%
		Underground Phase IIIB/C	58,298	2020	0%	98.71%
		Facility Phase IIIB/C	6,386	2020	0%	98.71%
Chengdu Albany Garden	555 Ganghua Road, Hongguang Town, Pi County, Chengdu City, Sichuan Province, the PRC	Residential Phase II Section 2	94,887	2019	80%	100%
Rich Gate I (Qinhai Oasis Garden)	Daxing Road, Huangpu District, Shanghai, the PRC	Residential	75,757	2019	0%	51%
		Office	41,820	2019	0%	51%
		Service Apartment	12,000	2019	0%	51%
		Underground	83,000	2019	0%	51%
Jiaxing Project	No.1, Linghu Road, Nanhu District, Jiaxing City, Zhejiang Province, the PRC	Residential and Commercial – 1# Phase II	72,500	2019	0%	98.75%

Management Discussion and Analysis

Project	Location	Land Use	GFA (sqm)	Expected Year of Completion	Completion Rate of Construction	Holding Proportion of SRE
Changsha Albany Fudi	Pengjia Lane,	Residential Phase I	126,306	2019	0%	66.5%
	Laodaohe Street,	Commercial Phase I	3,920	2019	0%	66.5%
	Kaifu District,	Underground Phase I	34,980	2019	0%	66.5%
	Changsha City,	Facility Phase I	37,200	2019	0%	66.5%
	Hunan Province,	Residential Phase II	183,336	2020	0%	66.5%
	the PRC	Underground Phase II	37,496	2020	0%	66.5%
		Facility Phase II	4,500	2020	0%	66.5%
Dalian Oasis City Garden	West of West Outer	Residential Phase I	154,001	2019	0%	50.36%
	Ring Street and South	Commercial Phase I	20,234	2019	0%	50.36%
	of North Ring Road,	Underground Phase I	78,039	2019	0%	50.36%
	Xincheng District,	Office Phase II	18,000	2020	0%	50.36%
	Wafang Dian City,	Commercial Phase II	65,136	2020	0%	50.36%
	Dalian City,	Underground Phase II	47,950	2020	0%	50.36%
	Liaoning Province,	Residential Phase III	271,623	2021	0%	50.36%
	the PRC	Underground Phase III	102,830	2021	0%	50.36%
Shanghai Albany Oasis Garden	No. 699,	Residential Phase IV	40,000	2021	0%	40%
	Zhongxing Road,	Commercials	40,000	2021	0%	40%
	Zhabei District,	Hotel, Office	100,500	2021	0%	40%
	Shanghai, the PRC					
SRE Pudong Coastal Project (previously named as "Pudong Project")	Yongfa Road, Pudong New District, Shanghai, the PRC	Residential	58,178	Not yet decided	0%	98.75%
The Atelier	45-53 Sinclair Road, London, United Kingdom	Residential	6,397	2019	30%	92.91%
75 Howard Project in San Francisco	75 Howard Street, San Francisco, the USA	Residential	31,075	2020	0%	80%
Napa County Project in San Francisco	Devlin Road, Napa, San Francisco, the USA	Hotel	37,922	Not yet decided	0%	78.53%

Details of completed investment properties:

Project	Location	Land Use	GFA (sqm)	Holding Proportion of SRE
Shenyang Richgate	No.118, Harbin Road, Shenhe District, Shenyang City, Liaoning Province, the PRC	Commercial	245,252	100%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shanghai, the PRC	Retail & Office	32,602	95.79%
Oasis Central Ring Center	Lane 1678, Jinshajiang Road, Putuo District, Shanghai, the PRC	Retail	6,499	95.79%
Oasis Central Ring Center	No. 1628, Jinshajiang Road, Putuo District, Shanghai, the PRC	Car Park	57,045	95.79%
Unit 2605, 2606, 26(3A), 2803, 2806 and 28(3A) of Universal Mansion	No. 172 Yuyuan Road, Jing'An District, Shanghai, the PRC	Office	732	98%
Transportation Hub of Lake Malaren	No. 1088, Luofen Road, Baoshan District, Shanghai, the PRC	Commercial	29,398	72.63%
Retail Street of Lake Malaren	Lane 989, Luofen Road and Lane 555, Luofen Road, Baoshan District, Shanghai, the PRC	Commercial	72,948	72.63%
41 Tower Hill	41 Tower Hill, London, EC3N 4SG	Office/Car Park	21,189	100%
12 Moorgate	12 Moorgate London EC2R 6DA	Office	3,151	100%

Environmental, Social and Governance Report

Explanation

About this Report

SRE Group Limited (the "Company") was established in 1993 and was listed on the Stock Exchange (Stock Code: HK.1207) in 1999. It is currently a subsidiary under China Minsheng Jiaye Investment Co., Ltd. The Company and its subsidiaries (the "Group") are principally engaged in real estate development and property leasing. The main operation and development orientations are mid-to-high end residential properties and commercial properties, including office buildings, hotels and shopping malls. The projects of the Group are located in Shanghai, Shenyang and Changsha, etc. After more than twenty years of development, the Group has developed Oasis Garden, Rich Gate, Albany and other high-end property brands, and has been awarded "China Top 100 Real Estate Enterprises" for many times.

Reporting Scope

The report covered the period from 1 January 2017 to 31 December 2017. This report explains the concept of the Group on sustainable development and social responsibility based on the two major categories of environment and society. It covers real estate development and property leasing, which are the principal businesses of the Group, as well as the commercial properties namely Crowne Plaza Lake Malaren Shanghai Hotel (referred to as the "Crowne Plaza"), Lake Malaren Golf Course in Shanghai (referred to as the "Golf Course") and Lake Malaren Obstetrical and Gynecological Hospital (referred to as the "Obstetrical and Gynecological Hospital"). The key performance index of environment disclosed during the reporting period has comprised Crowne Plaza, Golf Course and Obstetrical and Gynecological Hospital.

Reporting Standards

The Group prepared the 2017 Environmental, Social and Governance Report (the "ESG Report") according to the requirements of the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

ESG Governance

The board of directors of the Company supports the commitments made by the Company in performing enterprise social responsibilities and assumes all responsibilities to the environmental, social and governance strategies of the Group and the reporting of them. The Board is responsible for the appraisal and determination of the environmental, social and governance risks on the Group and the establishment of an appropriate and effective system on the management and internal monitoring of environmental, social and governance risks. The management of the Group shall provide a confirmation on whether relevant systems are effective.

In order to fully conduct the management of environmental, social and governance matters, the Group established an ESG working group, which is led by the risk management department of the Group and involves the asset operation department, the quality management department, the comprehensive and administrative department, the cost and contract department, the financial department as well as other departments. The responsible persons of all departments directly participate in it and designated persons are responsible for conducting the ESG management and reporting. The ESG working group regularly reports to the management of the Company and makes appropriate improvement suggestions.

The Group made active efforts to establish the communication mechanism among stakeholders, through which the stakeholders in different scopes and levels are able to express their opinions and suggestions on the effects of sustainability and future development strategy of the Group.

1. High Quality Services

The Group strictly abides by the Urban Property Management Law of the People's Republic of China, the Regulation on the Development and Operation of Urban Property, the Ordinance on the Quality of Construction Project and other relevant laws and regulations of the state on the industry. It always adheres to the strategy on the best product and meets the demands of the market and clients with the best projects. It provides clients with professional and personalized services.

1.1 Strict standards on Operation

In order to raise the requirements on the quality management of the projects under construction and unify the quality standards, the Group formulated and implemented a series of systems and regulations to regulate the construction management. The Group formulated the Guideline on the Inspection on Project Quality in Key Processes, requiring all project companies creating archives for projects. The archives shall include the documents formed on the exploration, design, construction and supervision of the whole process from the commencement of construction to the completion for acceptance as well as words, drawings, charts and sound images worthy of being archived and safeguarded. Besides, the Group formulated various systems, such as the Key Processes in Quality Control of Construction Projects, the Measures on the Appraisal of Project Management, the Measures on the Management of Archives of Project Construction, the Ordinance on the Management of Plans on Projects and the Guideline on the Operation of Field Visa Management, to enhance the quality management for all construction projects.

The Group issued the Measures on Projects Completion and Houses Delivery, providing that upon the completion of projects, the design company, the general contractor of the construction, all sub-contractors of the construction and the supervision agency to dispatch employees to establish a "group on completion acceptance". It conducts self-inspections based on actual conditions and submits the projects to the government authorities for quality inspection to conduct acceptance on completion. The group on completion acceptance will monitor the supervision agency in conducting pre-acceptance on the projects. Meanwhile, the property company, the marketing department and the project department will form a "group on delivery acceptance" to inspect all basic conditions of the project before the delivery of the house. It also requires all projects to follow the regulations on completion and acceptance of local construction authorities.

The Group set strict criteria on the delivery of houses. The guide on the acceptance of houses sets regulations on the criteria on the delivery of houses on a total of 99 sub-items under 43 items, including the public space, the entrance space, the decoration and components, doors and windows, the kitchen space, the items in the living room, the sanitation and the readings of meters. The handover and acceptance of house shall be conducted based on the criteria on the delivery of houses to guarantee the quality of houses.

1.2 Intimate customer guarantees

The Group strictly abides by the Law on the Protection of the Rights and Interests of Consumers of the People's Republic of China and other relevant laws and regulations and establishes the System on the Management of Clients' Information, the Guideline on the Management of the Cancellation of Orders and the Returning of Houses and other relevant systems to protect the legitimate interests and information security of clients.

The Group requires the office of all operation divisions to define a confidential level for each reported customer's information. All divisions shall follow the confidential levels and perform the responsibilities to clients' information when referring to such information from different divisions and it shall pass relevant reviews. It requires all operation divisions not to keep the clients' information in paper in any forms. Under particular circumstances, it shall print only after being approved by the responsible person of the operation division. For electronic information about clients, it shall set corresponding authorities. When others are found divulging or may divulge clients' information, the employees shall be obliged to prevent and the management shall be obliged to take remedial measures immediately to prevent or reduce losses.

Environmental, Social and Governance Report

The Group conducts annual surveys to understand the satisfaction of clients and their opinions on the Group, so as to better serve the clients.

In 2017, the Golf Course won the titles of "Top Ten Golf Clubs" and "Top Ten Lawns of Golf Clubs" by the China Golf Association for its excellent lawn quality and maintenance techniques as well as its caring and personalized services.

In order to better serve its customers, Crowne Plaza has completely replaced its staff uniforms, upgraded service standards and created a brand new service image.

Case: Customer satisfaction survey system

The Obstetrical and Gynecological Hospital has set up a special customer satisfaction survey system and special posts to better ensure that customers' complaints can be resolved immediately. Subsequently, a commissioner will be designated to follows up and conduct in-depth investigation on the person in charge. This has greatly increased the efficiency of the feedback mechanism and effectively reduced complaints.

Case: Lightening warning system of the Golf Course

To prevent lightning incidents at the Golf Course and implement the principle of "safety enjoys top priority", it requires all employees of the Company to understand the specific operation processes of the lightning warning. The two lightening warning equipment on the Golf Course divides the lightning forecast into three levels with alarms. Additional lighting rods have also been built up in the southern and northern courses. The Group has also established operation process for warnings at all levels at the course.

1.3 Safe construction environment

The Group strictly abides by the Production Safety Law of the People's Republic of China and other relevant laws and regulations as well as the requirements related to safety management. It consistently improves the safety management system and the safety management performance. The Group requires each construction site to formulate safety management objectives, set and appraise production safety, establish the safety production responsibility system, formulate safety technology processes, equip itself with full-time and qualified safety officer and take safety precautions into consideration in the arrangement and design of construction. Meanwhile, the Group also requires the construction site staff to carry on three-level safety education, requires the management to perform annual safety training, pre-shift safety disclosure record, regularly inspect work license for special operation and establish industrial accident management archives according to the provisions.

In accordance with the requirements of the Standard on Construction Safety Inspection (JGJ59-99) and the Technical Code for Fire Safety at Construction Site (GB50720-2011), the Group formulated the Guidelines on Safe and Civilized Construction Inspection, which requires project companies to perform site safety and civilized contraction inspection led and organized by the responsible person of the project and attended by the general contractor and the responsible person of the supervision company on site at least once every month. The inspection covers every corner of the construction site, including civilized construction, construction elevators, tower cranes, construction equipment, scaffolds, pit supporting and formwork, water and electricity installation and fire safety. It lists 78 danger sources including insensitive leakage tripping as well as the list of corresponding danger sources. The inspection results are shown in the form of scores. For sites with unsatisfactory scores, the supervision company is required to issue a notice on construction suspension and the construction can be resumed only after the construction company completes rectifications and passes the inspection.

1.4 Rigorous brand management

The Group abides by the Advertisement Law of the People's Republic of China and other relevant laws and regulations, and formulated the Circular on Strengthening Relevant Work on Brand Management, providing the establishment of the news submission system and advancing management innovation, project progress, marketing management, cost contract, risk control management, asset operation, strategic operation, financial management, system establishment and the fostering of talents. The Group requires all operation divisions to conduct standard and unified promotions in external publicities, the contents of drafts and materials in particular. All promotion materials can be released to the public after passing internal reviews and approvals.

Meanwhile, to strengthen the protection of commercial secrets of the Group, raise the confidential awareness of employees and protect the benefits and commercial secrets of the Company, the Group formulated the Measures on Confidentiality of SRE Group according to the Anti-Unfair Competition Law of the People's Republic of China and other relevant laws and regulations, which requires employees to sign the confidential agreement to understand the confidential contents, the rights and obligations, the period of the agreement and the responsibilities on breaching the contract when signing the employment contract with the Company.

2. Caring for Employees

Based on the firm human resources infrastructure and teams management, the Group follows the guidance of system improvement and cultural construction, systematically balance the common development wishes of the Company and the staff and guide the staff actively integrating personal pursuits into the long-term development of the enterprise to build a simple, transparent, sunshine and active working atmosphere. The Group improves the satisfaction and sense of belonging of the staff through continuous improvement of the performance appraisal and remuneration and welfare systems and the improvement of the working environment as well as diversified staff activities.

2.1 Employment

According to the requirements of the Labour Law of the People's Republic of China, the Employment Contract Law of the People's Republic of China and other laws and regulations, the Group formulated the Measures on Attendance and Holidays of SRE Group Limited, the Measures on Recruitment of SRE Group Limited, the Measures on Performance Assessment of Staff of SRE Group, the Measures on Positions and Levels of SRE Group as well as other systems.

Environmental, Social and Governance Report

➢ ***Remuneration management***

The Group formulated the Remuneration System of SRE Group to build a standard remuneration system. The remuneration of the Group composes the total cash remuneration and the medium-and long-term incentives. The total cash remuneration is composed of fixed remuneration and variable remuneration while the medium-and long-term incentives mainly include follow-up investments, virtual equity bonus and equities. The Group follows the principles of "two equalities" and "three matchings". The "two equalities" refer to internal equality and external equality. The "three matchings" refer to that the individual remuneration matches the relative value of the position, the individual remuneration matches the ability, performance and potential and the total remuneration matches the benefits of the Group.

➢ ***Recruitment, promotion and dismissal***

The Group formulated the Measures on the Recruitment of SRE Group Limited. The recruitment shall be open, fair and impartial. The members of the recruitment group shall be objective and impartial and shall not have discriminations or prejudices against the interviewees. Following the principles of advance planning, wide hunting and strict enrollment, matching the staff with the position as well as fairness and transparency, it implements a recruitment process with the orientation of human resources. The recruitment channels are wide and can attract talents with high potential. The position screening is fair and unified and only appropriate talents will be given the position. The Group sets the "Hunt for Talent Prize" to encourage the staff to recommend peers or third-party talents with partnership experiences. The group also established a talent pool. The materials about the approval on the recruitment are classified based on the year, profession, department and other indexes and filed for management. The resumes of those not recruited are adopted into the talent pool in different categories based on the profession, educational degree and other indexes.

Based on the current conditions of operation and management and key demands for strategic development, the Group sets the position order as management and professional technology order, for which the management category includes: senior management, middle and senior management, middle management, and grass-root management and professionals category includes: head, senior professional managers, professional managers, and professional supervisor. They provide employees with dual-track career development paths for management and professional and technical personnel.

The Group formulated a complete Dismissal Process of Employees of SRE Group, which standardizes the dismissal processes and guarantees that the interests of the employees and the Company will not be infringed.

➢ ***Working hours and holidays***

The Group implements the working system with forty hours each week. It also implements the system on statutory holidays and leaves. When the staff has to work overtime for working demands, such staff shall apply to the responsible person of the department and fills in the Approval for Working Overtime for Staff. It will come into effect after being signed and approved by the responsible person of the department. The staff of the Group enjoys statutory holidays. The specific provisions will be adjusted according to relevant laws and policies of the state or the place where the Company is located. The holidays include statutory holidays, marital leaves, maternity leaves, breastfeeding leaves, sick leaves, medical treatment leaves, funeral leaves, work-related injuries leaves and annual paid leaves.

➢ ***Equality and diversification***

The Group adheres to equal employment and formulated the Measures on Performance Assessment of Staff of SRE Group, which provides that the performance assessment follows the principle of equality and openness. It means that the performance appraiser shall be impartial and adopts same assessment criteria on the appraisee of the same category to conduct an overall, objective and impartial appraisal and assessment.

➢ ***Other treatment and welfare***

Besides statutory holidays, annual paid leaves and other social insurances and the housing provident fund, the Group also provides the staff with annual check-ups, heatstroke prevention subsidies, meals subsidies, transportation subsidies, communication subsidies, birthday welfare and other welfare for the staff. The Group actively organizes the employees to carry out various athletic competitions for their mental and physical health and encourages the employees to actively participate in physical fitness activities.

Case: Enriching the leisure life of employees

In order to enhance the employees' physical fitness, enrich their cultural life after work, enhance their cohesiveness, and stimulate the spirit of tenacity and hard work, and build up the cultural values of SRE, the Group organized special programs such as the badminton club, basketball club and fitness for all in 2017.

2.2 Health and Safety

The Group abides by Law on the Prevention and Control of Occupational Diseases of the People's Republic of China and other laws and regulations on health and safety, provides safe, healthy and environmentally friendly working environment for the employees and provide the relevant education and training for employees and raise the healthy, safe and environmentally friendly awareness of the employees.

In the Employee Manual, the Group requires the employees to implement rules and regulations on safe production carefully, perform their own safety duties in a practical way, follow management and cooperate in completing safety inspection. They shall have the obligation to prohibit others' unsafe behaviors and report hidden dangers. The employees shall have the right to refuse commands against rules on safety production.

Annual Physical Examination of Employees

The Group identifies possible risks on the health and safety of the employees under the office environment, such as fire hazard, accidental injury and elevator faults. It takes targeted solutions, strengthens the training and education on employees and offers regular physical examination for employees. The Group formulated the emergency procedures for personal injuries and Rescue Plan in Fire Emergency, takes scientific first aid measures for wounded personnel to protect the physical health of employees. To test the feasibility of the rescue plan, the Group carried out training for each rescue team so that it could be ready in a timely manner in an emergency and ensure the safety of personnel and significant materials during the rescue process.

Environmental, Social and Governance Report

The Crowne Plaza has, based on the actual circumstances, formulated the Evacuation Card of Fire Action. During the annual fire drills, appropriate rectification measures will be taken in response to any identified problem. Through the fire drills, the Group made efforts to raise employees' awareness in fire safety and maintained and kept in good conditions of the equipment. The Obstetrical and Gynecological Hospital provided regular training and education on safety for employees, including self-cleaning, education on emergency plan and education on fire-fighting knowledge, to further enhance the safety awareness of employees in the hospital.

Case: Fire drill

In November 2017, in order to raise the fire-fighting awareness for all employees and enhance their ability to respond to emergencies and self-protection, the headquarters and hotel of the Group organized a fire prevention drill with the theme of "Removing Potential Safety Hazards and Creating a Safe Community".

2.3 Development and Training

The Group creates an equal and fair working environment for employees. For the fostering and selection of talents, the Group consistently improves the overall quality of the team through consistent training on employees and inspiring the potential of employees. The Group consistently improves the construction of talent teams to maintain the leading advantages in labor performance and the comprehensive benefits of human resources and fully guarantee and promote the achievement of the strategic goals of the Company.

In order to facilitate new employees' understanding of the working process of their positions and help them work in role rapidly and undertake working tasks, the Group formulated the Measures on the Training of New Employees to standardize the training of new employees. The Group introduces all the relevant policies to new employees, demonstrates the corporate culture and long-term plans, increases employees' confidence in work, helps them understand the development path and sets the targets for occupational development through training. Meanwhile, the Group lays stress on the overall development of its employees by actively organizing staff training for quality development.

Case: Team development activity for employees

On 11, 12 September 2017, a total of 51 staff of the Golf Course and the Crowne Plaza participated in the team development activity at Jiulongshan Resort to foster a united and collaborative spirit in the development project.

In 2017, the Group organized internal and external training for various occupational skills. In conjunction with the Group's business, it conducted several practical training on variable fields, including overseas investments in cooperation with third parties, investment along the "One Belt, One Road", real estate measurement, cross-border merger and acquisition, and financing, taxation and finance in overseas business. The Obstetrical and Gynecological Hospital also regularly offers training on sanitation for all staff. In addition, in light of the company's operations, the Group conducted in-depth training on business etiquette and human resource allocation to enhance the quality of our talents in all aspects.

2.4 Labor Standards

The Group strictly abides by the Employment Contract Law of the People's Republic of China, the Labor Law of the People's Republic of China, the Regulation on Prevention of Child Labor and other relevant laws and regulations and resolutely eliminates child labors and forced labors. In order to further strengthen relevant work, the Group appoints third-party companies to conduct background surveys on every employee and prepare reports for filing to prevent academic and age fraud and further eliminate the employment of child labors. In addition, the Group established the 40-hour working time and the application for working overtime to prevent breaching labor standards. It also made further provisions in the Measures on Attendance and Holidays of SRE Group Limited to safeguard the interests of employees in a practical way.

3. Serving the Society

The Group requires itself to shoulder social responsibilities to be assumed as a listed company and requires all employees to fulfill the commitment to clients, closely connecting capital aggregation of the Company with social value accumulation, prosperity of the Company with prosperity of the state. It emphasizes the improvement of its value in the society as a whole and returns the society through actively participating in public welfare undertakings to make positive contributions to the progress of the country and the harmony of the society.

3.1 Compliant Operation

The Group abides by the Group Law of the People's Republic of China, the Tendering and Biding Law of the People's Republic of China, the Regulation on the Management of Construction, Tendering and Biding of Project Construction, the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Prohibiting Commercial Briberies, the Anti-Money Laundering Law of the People's Republic of China and other laws and regulations and actively calls for and requires leaders at all levels and employees consciously keeping the person conduct of law-abiding, integrity, honesty, self-disciplined and dedication. It established a complete anticorruption mechanism through ideological education, institutional prevention and behavior restriction.

In order to maintain the normal production and operation order, promote all work in an orderly way and improve the inspection and reporting work, the Group formulated the System on the Management of Inspection and Reporting of SRE Group, providing that all staff of the Group and companies and persons with business relationship with the Group can use the special email the Group for inspection and reporting, to report all problems affecting the normal operation of the Group. The Group monitors the behaviors of the Group and its subsidiaries and companies it invested in violation of laws and regulations of the state and relevant management systems of the Company as well as behaviors jeopardizing the normal benefits of the Company, those such key processes as bidding and tendering, procurement of materials, financial capitals management, significant investment management, selection and appointment of employees, project visas management, commercial operation management, relocation management and marketing management in particular.

Environmental, Social and Governance Report

The Group requires all staff to sign the Integrity Agreement to improve the professional quality and professional ethics of the staff and prevent operation and ethical risks. Meanwhile, to implement relevant laws and regulations on anti-commercial briberies, safeguard fair competition and the legitimate interests of parties involved and prevent inequitable conducts, the Group includes the Performance Guarantee and the Integrity Agreement into the bidding documents and requires Party A and Party B to jointly abide by integrity commitments.

In 2017, the Group issued certain papers on the system including "2017 Group Integrity Letter" and "Notice on Strengthening Corporate Integrity Management". Furthermore, in accordance with the requirements of "Strengthening Anti-corruption Management during the Holidays", the Group further strengthened the development of anti-corruption and strictly observed the anti-corruption code and prevented anti-corruption risks.

Case: "Two Learn One to Do" Party branch activity

On June 16 2017, the Party members of the Group came to Jiaxing, the birthplace of the Party, and paid their respects to the South Lake Red Boat, visited the revolutionary memorial hall, to learn the history of the birth of the Communist Party at early stage.

3.2 Partnership

The Group continuously provides products and services with high cost performance and quality in the market. It consistently adheres to the concept of product responsibility for sustainability and conducts full cooperation with suppliers. Through the meticulous management and control of the full value chains in property development, it creates value for clients through client services in the design, construction, promotion and even the whole process.

The Group formulated the Details on the Operation of Invited Bidding of SRE Group, which standardizes the process of invited bidding and specifies the division of rights and responsibilities in invited bidding to improve the quality of the contracts signed, guarantee the development and construction of projects and effectively control the cost for the signing of contracts. It also formulated the Measures on Bidding and Procurement of SRE Group, which prepared series of sample and standard processes of the invitation for bids, including the records on the countersigning of tender drawings, the records of site survey and answering of questions, the answering and reply to questions, the records of bidding opening and evaluation, the records on clarification of inquiries, the technical mark sheet and the bidding evaluation report on technical bidding. The Group formulated the Details on the Operation of Easy Bidding, which regulated the process of competitive negotiations, and designed general sheets and bidding evaluation criteria for the qualification evaluation of suppliers based on the categories of construction, supply and installment (such as steel structure and aluminum doors and windows), equipment supply, agent for equipment supply, supervision, design and other categories.

In 2017, to regulate the procurement organizations and responsibilities of the Lake Malaren Assets Package (including the Crowne Plaza, the Golf Course, and the Obstetrical and Gynecological Hospital) and clarify the responsibilities of the procurement personnel, the Group has formulated the "Procurement Management and Supervision System of the Lake Malaren Assets Package", pursuant to which, new renovation projects of fixed assets, low-value consumables, materials for items, raw materials, etc. will be managed in a centralized manner, and a self-owned supplier base is intended to establish, with a view to further strengthening the management and restriction of the environmental and social risks the suppliers are faced with. The Group includes the agreement on safety responsibilities, the performance guarantee and the integrity agreement into the bidding documents and sets environment, health and safety (EHS) requirements on contractors for construction. It gradually deepens and implements the safe and environmental concept of sustainable development to all processes of the business.

3.3 Community Investment

The Group formulates Measures on Charitable & Public Welfare Activities of SRE Group to standardize the charitable and public welfare activities. Based on the relations between business activities of the Company and community interests determined by regular appraisal and in combination its business characteristics, the Group provides various public welfare activities with brand characteristics in diversified forms to promote social development and progress in many ways and fulfill due social responsibilities of an enterprise citizen.

4. Environmental Protection

Full view of the Hotel

The Group strictly follows the Environmental Protection Law of the People's Republic of China and the Energy Saving Law of the People's Republic of China and other relevant laws and regulations during the course of operation and strictly controls emissions. The Group is determined to implement the responsibilities to the environment in all details in routine operation.

With its decades of experiences in design and construction, project planning and design, the Group always follows the principles of being responsible for natural environment and adjusting measures to local conditions with meticulous design. It also integrates land-saving, energy-saving, water-saving, material-saving, interior environmental technologies, green construction and operation management with the positioning of projects to strive to reduce the effects of the operation activities on the environment.

4.1 Emissions

The Group sets requirements on emissions on the general contractor of construction in the Measures on the Assessment of Project Management to prevent environmental pollution from the source. The Group also adopted requirements on the control of dusts, noises and water pollution on the field in the Guideline on Safe and Civilized Construction and Inspection. In addition, the Crowne Plaza has formulated the Procedures on the Management of Waste Water and Gas Emission and Noise Control for Hotels to strengthen the environmental management in the operation of the hotel.

The emission of waste gas by the Group is mainly from fuel combustion in the construction of buildings and the operation of properties, the emission of dusts from the construction and the emission of kitchen fumes. The Group strictly abides by the Air Pollution Prevention Law of the People's Republic of China and other relevant laws and regulations and adopts various measures to prevent and control the emission of waste gas. For example, the Golf Club installed fumes purification equipment based on the operation size. Fumes are emitted through the special smoke channel at high altitudes. The discharge outlet is set at over 20 meters from sensitive buildings such as residential buildings and the maximum emission concentration of fumes and the minimum removal efficiency of fumes purification equipment meet the requirements of the Standard on the Emission of Fumes for the Catering Industry (GB18483-2001). (The fume-monitoring devices is installed only to ensure that the level of emissions was in compliance with the standards and we did not measure the amount of emissions accurately. Therefore, in order to ensure rigorous and accurate data reporting, the amount of emissions for the reporting period is not disclosed.)

Environmental, Social and Governance Report

The discharge of waste water by the Group is mainly from industrial waste water and domestic waste water from the construction and the operation of properties. The Group strictly abides by the Water Pollution Prevention Law of the People's Republic of China and adopts corresponding control and prevention measures on waste water. The Crowne Plaza goes through the monitoring on all indicators on the emission of waste water from hotels conducted by legally qualified authorities approved by the government once every year to ensure that the emission of waste water meets laws and regulations as well as other requirements. The Golf Course and the Crowne Plaza adopt separate systems for the discharging of rainwater and waste water. The waste water with oil from kitchens will be handled by oil separators or oil-water separators to meet the Standard on the Quality of Water to be Discharged into Urban Sewers before emission. The Obstetrics and Gynecology Hospital conducts special monitoring on various indicators of waste water discharge to prevent excessive discharge of waste water.

Details of the waste water discharged by the Group during the reporting period are set out in the table below:

Indicator	Amount of Emissions/Discharges	Unit
Waste water	97,271.30	Tonne
COD	25.73	Tonne
N-NH_3	11.62	Tonne
Residual chlorine	0.08	Tonne

The emission of greenhouse gases by the Group is mainly the direct emission of greenhouse gases caused by the consumption of fuels (such as natural gas) (scope 1) and the indirect emission of greenhouse gases caused by the consumption of electricity in the construction and operation (scope 2). The Group adopted various active measures to promote green production and strengthen energy saving and emission reduction to reduce the emission of greenhouse gases by the Group.

Details of the greenhouse gas emissions of the Group during the reporting period are set out in the table below.

Indicator	Amount of Emissions/Discharges	Unit
Scope 1: Direct greenhouse gas emissions	938.31	tCO_2e
Scope 2: Indirect greenhouse gas emissions from energy	5,945.40	tCO_2e
Total greenhouse gas emissions	6,883.71	tCO_2e
Density of greenhouse gas emissions	65.02	tCO_2e/Production with value of RMB1 million

The discharge of solid wastes by the Group mainly includes earthwork and construction waste from the construction and domestic wastes, kitchen wastes, the packages of certain pesticide and fertilizers and other hazardous wastes in the operation of properties. The Group includes waste collection into the Measures on the Assessment of Project Management as an indicator for the management of safe and civilized construction and requires construction companies collecting and picking up construction waste in time. The Group disposes of domestic wastes according to the provisions of the Solid Waste Pollution Prevention Law and deals with kitchen wastes according to relevant provisions of the Measures on the Disposal of Kitchen Wastes in Shanghai. The Group requires collecting solid wastes in different categories and entrusts qualified agencies designated by municipal authorities on environment to deal with them. For hazardous solid wastes, the Group identifies them based on the Category of Hazardous Wastes. For waste packages to fertilizers and pesticides, it seeks qualified agencies to recycle and dispose of them. For hazardous wastes from the construction process, the Company requires the contractor to dispose of them strictly according to the requirements of laws and regulations of the state on the industry.

As medical wastes and medical waste liquid are hazardous wastes, the Obstetrical and Gynecological Hospital has formulated a strict system for treatment of medical wastes, and has developed a series of "systems for the management of medical wastes". Strict requirements have been put in place in respect of each step of the process (including registration, collection, handing over, transferring, storing, and handing over to qualified third parties for processing). In addition, the hospital has also established the Responsibilities of the Responsible Person of the Department for Medical Wastes, Requirement on Rewards and Punishments for Management of Medical Wastes in the Hospital, as well as the Prescribed Plan for the Occurrence of Loss of Medical Wastes in the Hospital, thus developing a comprehensive system for the management of medical waste.

Details of the hazardous wastes and non-hazardous wastes discharged by the Group during the reporting period are set out in the table below.

Indicator	Amount of Emissions/Discharges	Unit
Medical wastes	7.39	Tonne
Waste and discarded pesticide bottles	0.60	Tonne
Total hazardous wastes	**7.99**	**Tonne**
Discharge density of hazardous wastes	**0.08**	**Tonne/Production with value of RMB1 million**
Domestic wastes	628.80	Tonne
Kitchen oil and grease	6.17	Tonne
Kitchen wastes	95.04	Tonne
Total non-hazardous wastes	**730.01**	**Tonne**
Discharge density of non-hazardous wastes	**6.90**	**Tonne/Production with value of RMB1 million**

Environmental, Social and Governance Report

4.2 Use of Resources

The Group strictly abides by the Energy Saving Law of the People's Republic of China and other relevant laws and regulations and implements the responsibilities to the environment in all details in routine operation to enhance the saving awareness of employees and popularize the awareness on green operation in a practical way. It requires all staff participating in water-saving, electricity-saving and energy-saving work to ensure that everyone is responsible for saving and makes their own contributions.

The main energy consumption of the Group is electricity consumption in the construction and operation while the water consumption is mainly the domestic water in the construction and operation. In order to implement the scientific outlook on development and strengthen energy-saving management in a practical way and promote the establishment of green industrial chains, the Group actively monitors the energy and water saving in the construction process of the general contractor and project companies and adopted it in the Measures on the Assessment of Project Management.

Resources-saving in office:

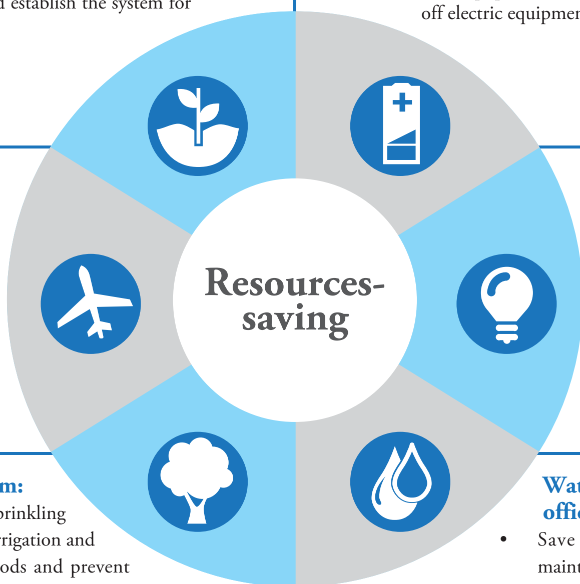
- Standardize the procurement of office products, strictly approve and control the quantity of office products issued, encourage recycled use, collect waste paper and establish the system for regular collection.

Electricity-saving management system in office:

- Save electricity consumption on office equipment and set the energy-saving model when they are not in use. Newly purchased electric equipment must meet the stipulated energy labels and turn off electric equipment during non-working hours.

Resources-saving management:

- Save communication fees and appropriately choose fixed telephone, mobile phone, ordinary mails and other communication means based on working demands;
- Properly arrange work and reduce the use of vehicles to reduce oil and road tolls.



Electricity-saving management system on lighting:

- Save electricity consumption on lighting and use energy-saving lights in and out of the hotel. Make full use of natural light during daytime and reduce the number of lights during night. Prevent the use of eternal lights.

Water-saving management system:

- Save water for greening: promote sprinkling irrigation, micro irrigation, trickle irrigation and other water-saving irrigation methods and prevent surge flow irrigation with tap water;
- Conduct regular observation and quantitative analysis: regularly record the readings of water meters and take effective measure in time if abnormal conditions are found.

Water-saving management system in office:

- Save water in bathrooms: strengthen routine maintenance and management of water equipment and prevent water running for long time;
- Strengthen the repairing and transformation of facilities: conduct regular inspection and repairing on water supply facilities, carefully conduct inspection on pipe network and repair in time when problems are found and prevent dripping and leakage.

Details of the direct and indirect energy consumption and water consumption of the Group during the reporting period are set out in the table below.

Energy	Indicator	Value	Unit
Direct energy	Gasoline	387.92	MWh
	Diesel	222.03	MWh
	Natural gas	3,905.04	MWh
Total direct energy consumption		**4,514.99**	**MWh**
Density of direct energy consumption		**42.65**	**MWh/Production with value of RMB1 million**
Indirect energy	Electricity	8,451.18	MWh
Total indirect energy consumption		**8,451.18**	**MWh**
Indirect energy density		**79.83**	**MWh/Production with value of RMB1 million**
Total energy consumption		**12,966.16**	**MWh**
Energy density		**122.47**	**MWh/Production with value of RMB1 million**
Water consumption		**565,889**	Tonne
Density of water consumption		**5,345**	Tonne/Production with value of RMB1 million

The Group also strengthens the monitoring on internal energy consumption during its own operation.

- The Crowne Plaza formulated the System on Energy-saving, Electricity-Saving and Water-Saving in the Hotel and made corresponding management provisions on the saving of electricity, water and resources.

- The Golf Course has formulated the "Energy Management System" to regulate the use of green water, and promoted sprinkling irrigation, micro irrigation, trickle irrigation and other water-saving irrigation methods.

- The Obstetrical and Gynecological Hospital has formulated the "Water-saving Management System for the Hospital", "Electricity-saving Safety Management System for the Hospital" and "Environmental Sanitation Management System for the Hospital", which require all departments to advocate water conservation and rational use of water resources.

Environmental, Social and Governance Report

4.3 Environment and Natural Resources

The Golf Course of the Group use pesticides and fertilizers in its routine operation. To protect the biodiversity surrounding the area and prevent the effects on the environment and natural resources, the golf courses strive to minimize issues on environmental protection and has formulated a series of management measures, including:

- Environment-friendly pesticides shall be adopted;
- Strictly control the issuing and collection of pesticides and fertilizers;
- Store the bottles and bags for pesticides in different categories and deliver them to professional agencies for handling;
- Regularly collect water and soil samples from the course and deliver them to professional inspection departments for testing and handle problems in time after being found, and apply the same as scientific reference for rational fertilizing in the coming year;

- Strengthen the publicity and promotion of environmental protection and raise the environmental protection awareness of the staff.

The Group adheres to the concept of sustainable development on the design of buildings and formulated the Ordinance on the Design of Projects. In the design of plans, it encourages technology progress and innovation in plans and encourages the exploration of new technologies and new materials and the application of new design concepts to build a green, ecological and healthy living environment. In addition, the Group is vigorously advancing the modernization of the construction industry characterized by "standard design, industrialized production, prefabricated construction, repairing with finished products and informatization management" and steadily promote the assembly ratio of single buildings and the ratio of finished residential buildings. It will raise the criteria on the rating of green buildings and promote the transformation of development model and the structural adjustment of the construction industry to improve the quality and benefit of development.

Directors and Senior Management

Directors

Executive Directors

Mr. Peng Xinkuang, aged 42, was appointed as an Executive Director and the Chief Executive Officer of the Group on 4 December 2015. He was also a member of the Investment Committee of the Company. Mr. Peng had been re-designated as the Chairman of the Board, the chairman of the Investment Committee of the Company and appointed as the chairman of the Nomination Committee of the Company, and ceased to be the Chief Executive Officer of the Group on 24 October 2017. Mr. Peng is currently a director and vice president of China Minsheng Jiaye Investment Co., Ltd.. Mr. Peng has extensive experience in the real estate development fields, including primary land development, region comprehensive development, new urbanization construction etc. Mr. Peng obtained an executive master of business administration degree at Central South University, and is now pursuing a doctor's degree in finance business administration from Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University. Mr. Peng had held various positions in the past, including the positions as the chairman of Meixi Lake Investment (Changsha) Co., Ltd. (梅溪湖投資(長沙)有限公司), an executive director and the general manager of Changsha Meixi Lake Industrial Co., Ltd. (長沙梅溪湖實業有限公司) and the chairman of Changsha Pilot Public Utilities Company (長沙先導公共設施公司). Also, Mr. Peng has also been the person-in-charge of the planning and construction department of government. He is also a director or general manager of other members of the Group.

Mr. Liu Feng, aged 49, was appointed as an Executive Director and the Chief Executive Officer of the Group and a member of the Investment Committee of the Company on 24 October 2017. Mr. Liu graduated from Fudan University with a bachelor's degree in laws in 1992 and a master's degree in laws from Fudan University in 1997. In 2003, he earned a master's degree in laws from the University of Connecticut. Mr. Liu has extensive experience in real estate investment and development. He has participated in the development and management of projects such as Hilton Sanya Yalong Bay Resort & Spa and The Ritz-Carlton Sanya Yalong Bay projects, Yazhouwan project, Yunnan Lijiang project, Shanghai North Bund project etc. Mr. Liu joined China Jin Mao Group Co., Ltd. (now known as Jinmao (China) Hotel Investments and Management Limited, a company listed on the Stock Exchange, stock code: 06139) in July 2000, and had held a number of positions including secretary to the president office, deputy general manager of the investment management department, general manager of the operational management department, chief operation officer, vice-president. During such period, Mr. Liu also served as the owner's representative of Hilton Sanya Yalong Bay Resort & Spa, The Ritz-Carlton Sanya Yalong Bay, JW Marriott Hotel Shenzhen and The Westin Beijing Chaoyang, etc. Mr. Liu has been the general manager of Sanya Yazhouwan Economic Development Co., Ltd. of China Jinmao Holdings Group Limited (a company listed on the Stock Exchange, stock code: 0817) since May 2012. He has acted as the committee member of Communist Party of China and vice-president and senior vice-president of China Jinmao Holdings Group Limited since August 2013.

Mr. Chen Donghui, aged 44, was appointed as an Executive Director on 6 June 2016. Mr. Chen holds a doctorate degree from the accounting faculty of Renmin University of China. Mr. Chen is currently the general manager of China Minsheng Jiaye Investment Co., Ltd.. Mr. Chen had served as a supervisor and a vice supervisor of the strategic research office of the R&D center of The People's Insurance Company of China Limited, a deputy general manager and then the general manager of the finance and accounting department of PICC Property and Casualty Company Limited and the deputy general manager of its Jiangsu branch, the general manager of the strategic financing department of China Export & Credit Insurance Corporation, and an executive director of financial sector of China Minsheng Investment Corp., Ltd.. Mr. Chen had served as the chief financial officer of China Minsheng Drawin Technology Group Limited, a company listed on the Stock Exchange (stock code: 726) during the period from September 2015 to May 2016 and Mr. Chen was appointed as a non-executive director of China Minsheng Drawin Technology Group Limited since 28 June 2016. Mr. Chen has been appointed as an executive director of Yida China Holdings Limited, a company listed on the Stock Exchange (stock code: 3639) since 31 December 2016.

Mr. Chen Chao, aged 38, was appointed as an Executive Director on 4 December 2015. Mr. Chen is the chief investment officer of China Minsheng Jiaye Investment Co., Ltd.. Mr. Chen obtained a bachelor's degree in international business management from Fudan University in 2002. Mr. Chen holds the qualification of certified public accountant in the People's Republic of China. Before joining China Minsheng Jiaye Investment Co., Ltd., Mr. Chen had engaged in auditing and financial advisory work and had held various positions, including the positions as a co-director of the financial advisory department of Ernst & Young (China) and an auditing manager of KPMG (China). Mr. Chen was appointed as a non-executive director of Yida China Holdings Limited, a company listed on the Stock Exchange (stock code: 3639) since 31 December 2016.

Directors and Senior Management

Mr. Shi Janson Bing, aged 34, was appointed as an Executive Director and the Vice-Chairman of the Company on 17 July 2015, and ceased to be the Vice-Chairman of the Company but remaining as an Executive Director on 4 December 2015. Mr. Shi graduated from the University of Southern California and obtained a bachelor's degree in accounting. Mr. Shi has over 10 years of experience working in the field of property development and in corporate management and operations. He was appointed as an executive director of China New Town Development Company Limited ("CNTD"), a company listed on the Stock Exchange (stock code: 1278) and the Singapore Stock Exchange (delisted on 17 February 2017) (stock code: D4N.si) in December 2007. He resigned from all his positions in CNTD in March 2014 and was appointed again as an executive director of CNTD on 12 August 2016. He is the son of Mr. Shi Jian, a substantial shareholder of the Company. He is also a director of other member(s) of the Group.

Mr. Zhu Qiang, aged 38, was appointed as an Executive Director on 4 December 2015. He is also a member of the Investment Committee of the Company. Mr. Zhu is the chief investment officer of China Minsheng Jiaye Investment Co., Ltd. Mr. Zhu obtained a bachelor's degree in management engineering in 2002 and a master degree in technology economics and management in 2005 from Tongji University. Mr. Zhu has over 10 years of experience in real estate investment and development and had held various positions, including the positions as a deputy general manager of Franshion Real Estate Changsha Co., Ltd. (方興地產長沙有限公司), the general manager of Changsha Meixi Lake Jinyue Properties Co., Ltd. (長沙梅溪湖金悦置業有限公司), a senior investment manager of the investment and development department of Franshion Properties (China) Limited (now known as China Jinmao Holdings Group Limited), a company listed on the Stock Exchange (stock code: 817), an investment director of the investment management department of Jinmao Group (中國金茂集團) and an industry analyst of the administration department of Yunfeng Group (雲峰集團). He is also a director of other member(s) of the Group.

Ms. Qin Wenying, aged 54, was appointed as an Executive Director on 6 June 2016. Ms. Qin graduated from Fudan University with a Bachelor's degree in Philosophy in July 1986 and obtained an advanced master of business administration degree from Fudan University in April 2004. She has been qualified as a senior human resources professional authenticated by the Ministry of Human Resources and Social Security and as a senior political scientist authenticated by the State-owned Assets Supervision and Administration Commission. Ms. Qin has over 20-year experience in establishment of human resources and corporate culture and operation management and supervision management in property development and hotel management and property management industry. Ms. Qin had held various positions in the past. In 1998, she joined Sinochem Group; from 1998 to 2010, she worked as the deputy head of the chief executive office, general manager of human resources department, vice chairman of labour union and supervisor of China Jin Mao (Group) Limited (currently known as Jinmao (China) Hotel Investments and Management Limited (stock code: 6139)); in May 2010, she was the chairman of labour union, the director of the department of Party-civilian relationship and the officer of the disciplinary and inspection department of Franshion Properties (China) Limited (currently known as China Jinmao Holdings Group Limited) (stock code: 817); in August 2014, she was the deputy general manager of the Shanghai office of China Jinmao; in August 2015, she was appointed as the secretary of the disciplinary committee of Sinochem International Corporation listed on the Shanghai Stock Exchange (stock code: 600500).

Independent Non-executive Directors

Mr. Zhuo Fumin, aged 66, was appointed as an Independent Non-executive Director on 30 November 2010. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983 and obtained a master degree in economics from Fudan University in 1997. Mr. Zhuo served senior positions such as the assistant officer and the head of the administrative office of the Shanghai Economic System Reform Committee. Subsequently, Mr. Zhuo held various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the chief executive officer and the vice chairman of Shanghai Industrial Holdings Limited, a company listed on the Stock Exchange (stock code: 363) and the chairman and an executive director of SIIC Medical Science and Technology (Group) Limited. Mr. Zhuo devoted to private equity investment since 2002, and was the chairman and the chief executive officer of Vertex China Investment Co., Ltd., a wholly owned subsidiary of Vertex Management Group which is a global venture capital fund management company. Mr. Zhuo co-founded SIG Capital Limited. Since 2008, Mr. Zhuo has been a partner of GGV Capital. Mr. Zhuo was previously a director of Grandhope Biotech Co. Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300238) and an independent director of Focus Media Holding Limited, a company listed on NASDAQ (former stock code: FMCN, currently privatized). Currently, Mr. Zhuo is an independent director of Daqo New Energy Corp., a company listed on the New York Stock Exchange (stock code: DQ) and a non-executive director of Besunyen Holdings Company Limited, a company listed on the Stock Exchange (stock code: 926). He also serves as an independent non-executive director of Shenyin Wanguo (H.K.) Limited (now known as Shenwan Hongyuan (H.K.) Limited), a company listed on the

Directors and Senior Management

Stock Exchange (stock code: 218) and an independent director of China Enterprise Company Limited, a company listed on the Shanghai Stock Exchange (stock code: 600675). Mr. Zhuo was appointed as an independent director of Arcplus Group Plc, a company listed on the Shanghai Stock Exchange (stock code: 600629) since September 2015, an independent director of Focus Media Information Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 2027) since January 2016 and an independent non-executive director of Sinopharm Group Co. Ltd., a company listed on the Stock Exchange (stock code: 1099) since March 2016. Mr. Zhuo was appointed as an independent director of Shanghai Shine-link International Logistics Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 603648) since September 2016.

Mr. Chan, Charles Sheung Wai, aged 64, was appointed as an Independent Non-executive Director on 10 July 2012. He is also the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Chan obtained a bachelor of commerce degree at the University of Manitoba, Canada in 1977. He is a member of the Chartered Accountants of Canada as well as a member of the Hong Kong Institute of Certified Public Accountants. He started his career as an audit staff at the Canadian office of Arthur Andersen in 1977 and was admitted to partnership in 1988. He subsequently joined the China/Hong Kong office of Arthur Andersen as an audit partner in 1994. For the period from July 2002 to June 2012, he was a partner of the China/Hong Kong Office of PricewaterhouseCoopers. Mr. Chan served as a member of the Listing Committee of the Stock Exchange during the period from 1998 to 2001 and also served as a member of the Selection Committee for the first Legislative Council of the Hong Kong Special Administrative Region in 1998. From 1996 to 1999, he was a council member of the Hong Kong Society of Certified Public Accountants (the "Society"). He had also served as a member of the accounting standards committee of the Society, a member of the auditing standards committee of the Society and the chairman of the China technical committee of the Society. Mr. Chan is currently an independent non-executive director of Changyou.com Limited, a company listed on NASDAQ (stock code: CYOU). Mr. Chan formally acted as an independent non-executive director of CITIC Securities Company Limited, a company listed on the Stock Exchange (stock code: 6030) and the Shanghai Stock Exchange (stock code: 600030) since 9 May 2016. Mr. Chan resigned as an independent non-executive director of SPI Energy Co., Ltd., a company listed on NASDAQ (stock code: SPI) on 29 April 2016.

Mr. Ma Lishan, aged 66, was appointed as an Independent Non-executive Director on 31 March 2016. He is also the chairman of the Remuneration Committee and a member of the Nomination Committee and the Investment Committee of the Company. He has extensive experience in corporate operation and management. Mr. Ma graduated from Beijing Foreign Studies University in the People's Republic of China in 1975. Mr. Ma served in various managerial positions such as chairman, executive director and general manager in certain large-scale grain, edible oil, food processing corporations and Great Wall Wine under China Oil & Foodstuff Corporation. From January 1996, Mr. Ma served as an executive director of China Foods Limited* (中國食品有限公司), a company listed on the Stock Exchange (stock code: 506). From May 1997 to June 2003, Mr. Ma served as executive director and managing director of China Foods Limited. In 2000, Mr. Ma served as the vice president of China Oil & Foodstuff Corporation. From June 2008 to January 2009, Mr. Ma was an executive director of Sino Resources Group Limited (now known as Elife Holdings Limited), a company listed on the Stock Exchange (stock code: 223). From March 2008 to present, he is an independent non-executive director of Silver Base Group Holdings Limited, a company listed on the Stock Exchange (stock code: 886). From August 2009 to present, he is an independent non-executive director of Sunac China Holdings Limited, a company listed on the Stock Exchange (stock code: 1918). From September 2010 to August 2012, he was also the executive director, managing director and chairman of Hao Tian Resources Group Limited (now known as Hao Tian Development Group Limited), a company listed on the Stock Exchange (stock code: 474). He was the senior consultant in Hao Tian Development Group Limited from August 2012 to August 2016. Mr. Ma was appointed as an independent non-executive director of China Minsheng Drawin Technology Group Limited, a company listed on the Stock Exchange (stock code: 726) since 28 June 2016 and an independent non-executive director of Huarong International Financial Holdings Limited, a company listed on the Stock Exchange (stock code: 993) since 19 August 2016.

Directors and Senior Management

Mr. Han Gensheng, aged 63, was appointed as an Independent Non-executive Director on 12 October 2016. He is also a member of the Audit Committee of the Company. He has extensive experience in corporate management. Mr. Han graduated from Shanghai Maritime University and obtained a bachelor's degree in Ocean Transport in 1978. Mr. Han has worked in various positions since August 1978, including the director of the logistics and warehousing division of China National Chemicals Import & Export Corporation* (中國化工進出口總公司), the general manager of Sinochem International Storage & Transportation Co., Ltd.* (中化國際儲運有限公司), the vice president of America West Pacific Refinery Co., the general manager of West Rockies Inc., the general manager of petroleum division II of China National Chemicals Import & Export Corporation* (中國化工進出口總公司), the vice president and a party member of Sinochem Group, the general manager of Sinochem International Oil Co., Ltd.* (中化國際石油有限公司), the general manager of Sinochem Petroleum Exploration and Production Co. Ltd.* (中化石油勘探開發有限公司), the general manager of Sinochem Corporation and the general manager of Sinochem Europe Holdings PLC.* (中化歐洲集團公司). Mr. Han was appointed as an independent non-executive director of Yida China Holdings Limited, a company listed on the Stock Exchange (stock code: 3639) since 31 December 2016.

Senior Management

Mr. Lv Yun, aged 42, was appointed the vice president of the Group in 2016. Mr. Lv obtained a bachelor degree in business administration from Tongji University in 2000 and a master degree in finance from Shanghai University of Finance and Economics in 2012. Mr. Lv has over 11 years of experience in the aspect of investment and development in real estate, and had worked in various positions, including the deputy general manager of Changsha Company of China Jinmao Holdings Group Limited, a company listed on the Stock Exchange (stock code: 817) and the general manager of sales planning department of Jinmao Investments (Changsha) Co., Ltd* (金茂投資(長沙)有限公司). He had also worked in companies such as Forte Group Sales Planning* (復地集團營銷策劃), Cushman & Wakefield* (戴德梁行) and Eslite Real Estate* (誠品房地產).

Mr. Ma Dayu, aged 56, joined the Group in June 1999, is currently the vice president of the Group. Mr. Ma graduated in architecture at the Shanghai Tongji University in 1983. He obtained the Certificate of Senior Engineer in Real Estate in 1998 and was awarded a MBA degree by the Princeton University in USA in 2005. Mr. Ma had once worked in Shanghai Metallurgical Design Institute* (上海冶金設計研究院), responsible for architectural design, and had once been the Secretary of its Commission of the Communist Youth League. He had also been a manager of the engineering department of Shanghai Jinqiao Export Processing Zone Development Co., Ltd.* (上海金橋出口加工區開發公司) and a vice-general manager of Shanghai Dongzhan Real Estate Development Co., Ltd.* (上海東展房地產發展有限公司). After joining the Group, Mr. Ma held the positions of senior management officers for various subsidiaries of the Company, and he was appointed the executive director of the Company from 5 February 2015 to 2 December 2015.

Mr. Pang Ka Fai Angus, aged 48, was appointed as the Company Secretary of the Company on 14 June 2016. He has 26 years of experience in financial management, corporate finance and corporate secretarial work. Mr. Pang holds a master's degree of corporate governance from the Hong Kong Polytechnic University, a bachelor degree of business administration in accounting, and is a fellow member of the Hong Kong Institute of Chartered Secretaries, and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Pang is also a member of Regulatory Committee of The Hong Kong Independent Non-Executive Director Association.

Mr. Zong Shihua, aged 36, who has obtained master degree, and is a senior accountant and an auditor, is currently the chief financial officer of the Group. Mr. Zong obtained a bachelor degree in economics from Nantong University in 2003, a master degree in accounting from Shanghai Jiao Tong University in 2013, and a master degree in business administration from Fudan University in 2014. He worked as an auditor in Jiangsu Gaoshen CPA* (江蘇皋審會計師事務所) in 2003. He was a financial manager of Shanghai Zhong Rong International Business Center Co., Ltd.* (上海中融國際商城有限公司) and Shanghai Zhong Rong Property Management Co., Ltd.* (上海中融物業管理有限公司) from 2004 to 2007. He worked as the vice financial director (hosting) and chief taxation officer of Zhong Rong Group* (中融控股集團) in 2007. Mr. Zong joined China Minsheng Investment Corp., Ltd.* (中國民生投資股份有限公司) in 2015 and worked as the financial general manager of China Minsheng Bund Real Estate Development Co., Ltd.* (中民外灘房地產開發有限公司). In December 2015, he joined the Group as the general manager of the financial asset department and was appointed the chief financial officer on 1 May 2016. Mr. Zong has over 14 years of work experience in the areas of development and investment of real estate, property leasing and the development of accounting practice.

Report of the Directors

The directors of the Company (the "Directors") have pleasure in submitting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

Principal Activities

The Group are mainly engaged in real estate development and investment in Mainland China, on projects located in gateway cities of developed markets. The principal activities of its principal subsidiaries, joint ventures and associates are respectively set out in notes 49, 22 and 21 to the consolidated financial statements.

Segmental Information

Details of the Group's revenue and profit or loss by principal activity and geographical area for the year ended 31 December 2017 are set out in note 4 to the consolidated financial statements.

Results

Details of the Group's results for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income. No interim dividend was declared by the board of the Directors (the "Board"). The Board does not recommend the payment of final dividend for the year ended 31 December 2017 (2016: Nil).

Bank Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 32 to the consolidated financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are respectively set out in the consolidated statement of changes in equity and in note 50 to the consolidated financial statements.

Distributable Reserves

As computed in accordance with the Companies Act 1981 of Bermuda, the Company does not have retained profits for distribution to shareholders as at 31 December 2017 (2016: Nil). The share premium account with balance of approximately RMB5,046 million (2016: RMB5,046 million) may be distributed when certain conditions are met.

Share Capital

There was no movement in share capital during the year. Details of the share capital of the Company are set out in note 30 to the consolidated financial statements.

Financial Summary

A financial summary of the Group is set out on page 5 of this annual report.

Business Review

The information on business review of the Group for the year ended 31 December 2017 is provided in the Chairman's Statement and Management Discussion and Analysis of this annual report.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Report of the Directors

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

Fixed Assets and Investment Properties

Details of the movement in fixed assets and investment properties of the Group are respectively set out in notes 17 and 18 to the consolidated financial statements.

Related Party Transactions

Details of the related party transactions (which also include connected transactions) of the Group for the year ended 31 December 2017 are set out in note 45 to the consolidated financial statements. Except for the connected transaction mentioned below, the related party transactions as set out in note 45 to the consolidated financial statements do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Connected Transaction

On 31 March 2017, Shanghai Golden Luodian Development Co., Ltd. (**上海金羅店開發有限公司**) (the "Seller") entered into sale and purchase agreements with China Minsheng Investment Corp. Ltd., the controlling shareholder of the Company, pursuant to which the Seller agreed to sell and China Minsheng Investment Corp. Ltd. agreed to purchase three commercial apartments at a total cash consideration of RMB62,998,800 (the "Disposal").

As at 31 March 2017, China Minsheng Investment Corp. Ltd., through its subsidiaries, held approximately 60.78% of the total issued share capital of the Company and therefore was a connected person of the Company. Accordingly, the Disposal constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal were more than 0.1% but less than 5%, the Disposal was subject to the reporting and announcement requirements but was exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Further details of the Disposal were disclosed in the announcement of the Company dated 3 April 2017.

Directors

The directors who held office during the year and as of the date when the annual report was published are:

Executive Directors

Mr. Peng Xinkuang
Mr. Liu Feng *(appointed on 24 October 2017)*
Mr. Chen Donghui
Mr. Chen Chao
Mr. Shi Janson Bing
Mr. Zhu Qiang
Ms. Qin Wenying
Mr. He Binwu *(resigned on 24 October 2017)*

Independent Non-executive Directors

Mr. Zhuo Fumin
Mr. Chan, Charles Sheung Wai
Mr. Ma Lishan
Mr. Han Gensheng

The Company had received confirmation from each of the Independent Non-executive Directors of their independence pursuant to Rule 3.13 of the Listing Rules and considered all Independent Non-executive Directors to be independent.

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Bye-laws of the Company, Mr. Liu Feng, Mr. Zhu Qiang, Mr. Zhuo Fumin, Mr. Chan, Charles Sheung Wai and Mr. Ma Lishan will retire at the forthcoming annual general meeting of the Company, and being eligible, will offer themselves for re-election.

Biographical details for the Directors are set out on pages 41 to 44 of this annual report.

Change in Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, change in the information of the Directors since the disclosure made in the Interim Report 2017 and up to the date of this annual report of the Company is set out below:

Name of Director(s)	**Detail(s) of Change**
Mr. Peng Xinkuang	Change in annual director's remuneration from HK$2,680,000 to HK$2,800,000 with effect from 24 October 2017 in light of the re-designation.

Directors' Emoluments

The fixed annual remuneration of the Executive Directors is determined by the Remuneration Committee of the Company. Each Executive Director is also entitled to an annual management bonus under the relevant service contract, the amount of which is to be determined by the Board from time to time, provided that the aggregate management bonus payable to all Executive Directors for a financial year shall not be more than 10% of the Company's net profit after taxation and non-controlling interests as shown in the audited consolidated financial statements of the Company for the relevant year.

Details of Directors' emoluments are set out in note 11 to the consolidated financial statements.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with any member of the Group which is not determinable within one year without the payment of compensation other than statutory compensation.

Directors' Interest in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest (direct or indirect), subsisted at the end of the financial year or at any time during the year ended 31 December 2017.

Directors' Rights to acquire Shares or Debentures

Save as disclosed in the section of Share Option Scheme of this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Report of the Directors

Directors' and Chief Executives' Interests in Shares, Underlying Shares and Debentures

As at 31 December 2017, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Long position in shares of the Company (the "Shares") and underlying Shares

Name of Director	Personal interests	Family interests	Corporate interests	Total	Approximate percentage of shareholding
Peng Xinkuang	160,000,000 *(Note 1)*	–	–	160,000,000	0.78%
Zhu Qiang	120,000,000 *(Note 1)*	–	–	120,000,000	0.58%
Qin Wenying	120,000,000 *(Note 1)*	–	–	120,000,000	0.58%
Chen Donghui	80,000,000 *(Note 1)*	–	–	80,000,000	0.39%
Chen Chao	80,000,000 *(Note 1)*	–	–	80,000,000	0.39%
Shi Janson Bing	50,000,000 *(Note 1)*	–	–	50,000,000	0.24%
Zhuo Fumin	–	160,000 *(Note 2)*	–	160,000	0.0008%

Notes:

(1) This refers to the underlying Shares covered by share options granted, such options being unlisted physically settled equity derivatives.

(2) These Shares were held by Madam He Pei Pei, the spouse of Mr. Zhuo Fumin.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executives of the Company, nor any of their close associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2017, so far as is known to any Director or chief executive of the Company, the following persons, other than a Director or chief executive of the Company, had interests of the Company or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under the section 336 of the SFO:

Long positions in the Shares

Name of Shareholder	Capacity	Number of issued ordinary Shares held	Approximate percentage of shareholding
China Minsheng Investment Corp., Ltd.	Interest in controlled corporation	12,503,884,000 *(Note 1 & 3)*	60.80%
China Minsheng Jiaye Investment Co., Ltd.	Interest in controlled corporation	12,503,884,000 *(Note 1 & 3)*	60.80%
Jiaxin Investment (Shanghai) Co., Ltd.	Interest in controlled corporation	12,503,884,000 *(Note 1 & 3)*	60.80%

Name of Shareholder	Capacity	Number of issued ordinary Shares held	Approximate percentage of shareholding
Jiasheng (Holding) Investment Limited	Interest in controlled corporation	12,503,884,000 *(Note 1 & 3)*	60.80%
Jiashun (Holding) Investment Limited	Beneficial owner	12,503,884,000 *(Note 1)*	60.80%
Shi Jian	Beneficial owner and interest in controlled corporation	2,902,666,119 *(Note 2, 3, 4 & 5)*	14.11%
Si Xiao Dong	Beneficial owner and interest in controlled corporation	2,889,661,452 *(Note 2, 3, 4 & 5)*	14.05%
SRE Investment Holding Limited	Beneficial owner and Interest in controlled corporation	2,889,659,128 *(Note 2, 3, 4 & 5)*	14.05%
Regal Glory Limited	Interest in controlled corporation	2,022,761,390 *(Note 5)*	9.84%
Starite International Limited	Interest in controlled corporation	2,022,761,390 *(Note 5)*	9.84%
Sun Lu Dong	Nominee for another person (other than a bare trustee)	2,022,761,390 *(Note 5)*	9.84%
Pau Shing Kwan	Nominee for another person (other than a bare trustee)	2,022,761,390 *(Note 5)*	9.84%
Xia Shu	Interest in controlled corporation	2,889,659,128 *(Note 4 & 5)*	14.05%
Jiabo Investment Limited	Interest in controlled corporation	2,889,659,128 *(Note 4 & 5)*	14.05%
Jia Yun Investment Limited	Interest in controlled corporation and person having a security interest in shares	2,889,659,128 *(Note 4 & 5)*	14.05%
Jiazhi Investment Limited	Interest in controlled corporation	2,022,761,390 *(Note 5)*	9.84%
Zhi Tong Investment Limited Partnership	Beneficial owner	2,022,761,390 *(Note 5)*	9.84%

Notes:

(1) China Minsheng Investment Corp., Ltd. holds a 62.60% direct interest in China Minsheng Jiaye Investment Co., Ltd., which holds a 100% direct interest in Jiaxin Investment (Shanghai) Co., Ltd., which in turn holds a 100% interest in Jiasheng (Holding) Investment Limited. Jiashun (Holding) Investment Limited is a wholly-owned subsidiary of Jiasheng (Holding) Investment Limited. Therefore, China Minsheng Investment Corp., Ltd., China Minsheng Jiaye Investment Co., Ltd., Jiaxin Investment (Shanghai) Co., Ltd. and Jiasheng (Holding) Investment Limited are all deemed to be interested in all the Shares held by Jiashun (Holding) Investment Limited for the purposes of the SFO.

(2) These Shares comprise 13,006,991 Shares held by Mr. Shi Jian, 2,324 Shares held by Madam Si Xiao Dong and 2,889,659,128 Shares interested in by SRE Investment Holding Limited. As each of Mr. Shi Jian and Madam Si Xiao Dong owns more than 30% of SRE Investment Holding Limited, they are deemed to be interested in all the Shares interested in by SRE Investment Holding Limited for the purposes of the SFO.

(3) 2,889,659,128 Shares then held by SRE Investment Holding Limited (in which Mr. Shi Jian and Madam Si Xiao Dong were deemed to be interested) were charged to Jiasheng (Holding) Investment Limited (in which China Minsheng Investment Corp., Ltd., China Minsheng Jiaye Investment Co., Ltd. and Jiaxin Investment (Shanghai) Co., Ltd. were deemed to be interested). The charge was released on 28 December 2017.

(4) 866,897,738 Shares held by SRE Investment Holding Limited (in which Mr. Shi Jian and Madam Si Xiao Dong are deemed to be interested) are charged to Jia Yun Investment Limited (in which Mr. Xia Shu and Jiabo Investment Limited are deemed to be interested).

(5) Pursuant to a sale and purchase agreement dated 28 December 2017 entered into by, among others, SRE Investment Holding Limited and Zhi Tong Investment Limited Partnership, SRE Investment Holding Limited agreed to sell to Zhi Tong Investment Limited Partnership 2,022,761,390 Shares. Jiazhi Investment Limited is a general partner of Zhi Tong Investment Limited Partnership, and is held as to 60% by Jia Yun Investment Limited and 40% by Starite International Limited. Jia Yun Investment Limited is also a limited partner of Zhi Tong Investment Limited Partnership. Jia Yun Investment Limited is wholly-owned by Jiabo Investment Limited, which is in turn wholly-owned by Mr. Xia Shu. On the other hand, Starite International Limited is wholly-owned by Mr. Pau Shing Kwan (as nominee for and on behalf of Regal Glory Limited); and Regal Glory Limited is in turn wholly-owned by Mr. Sun Lu Dong (as nominee for and on behalf of SRE Investment Holding Limited. Therefore, Mr. Xia Shu, Jiabo Investment Limited, Jia Yun Investment Limited, Mr. Shi Jian, Madam Si Xiao Dong, SRE Investment Holding Limited, Mr. Sun Lu Dong, Regal Glory Limited, Mr. Pau Shing Kwan, Starite International Limited and Jiazhi Investment Limited are all deemed to be interested in the 2,022,761,390 Shares held by Zhi Tong Investment Limited Partnership for the purposes of the SFO.

Report of the Directors

Save as disclosed above, as at 31 December 2017, none of the Directors nor the chief executives of the Company was aware of any other person (other than a Director or chief executive of the Company) or corporation who had an interest or short position in the Shares or underlying Shares which were required to be recorded in the register kept by the Company under section 336 of the SFO.

Share Option Scheme

On 3 June 2016, the Board proposed to adopt a new share option scheme (the "Scheme"), which was approved and adopted by the shareholders of the Company on 6 July 2016.

On 14 July 2016 (the "Date of Grant"), options to subscribe (the "Share Options") for a total of 1,073,717,976 new Shares were offered to certain Directors and employees of the Group (the "Grantees"). The Share Options granted to each Grantee are valid for a period of five years commencing from the Date of Grant and shall be vested in three tranches in accordance with the following vesting dates: (i) 40% of the Share Options granted to each Grantee shall be vested and exercisable from 30 August 2016 to 13 July 2021; (ii) an additional 30% (i.e. up to 70% in total) shall be vested and exercisable from 30 August 2017 to 13 July 2021; and (iii) the remaining 30% (i.e. up to 100% in total) shall be vested and exercisable from 30 August 2018 to 13 July 2021.

The exercise price of the Share Options is HK$0.2132 per Share, which represents the highest of (i) the closing price of the Shares of HK$0.212 per Share as stated in the daily quotation sheet issued by the Stock Exchange on the Date of Grant; (ii) the average closing prices of the Shares of HK$0.2132 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of the Share, which is HK$0.10.

The Share Options were granted to the following Directors:

Executive Directors	**Number of Share Options Granted**
He Binwu *(resigned on 24 October 2017)*	160,000,000
Peng Xinkuang	160,000,000
Zhu Qiang	120,000,000
Qin Wenying	120,000,000
Chen Donghui	80,000,000
Chen Chao	80,000,000
Shi Janson Bing	50,000,000

The grant of the Share Options to each of the above Directors has been approved by the Independent Non-executive Directors in accordance with Rule 17.04(1) of the Listing Rules. Save as disclosed above, none of the Grantees is a Director, chief executive or substantial shareholder of the Company, or an associate of any of them.

The fair value of options granted during the period determined on the date on which the options were granted using the Binomial valuation model was divided into three trenches according to vesting period, being HK$7.80 cents per option for options vested on 30 August 2016, HK$7.99 cents per option for options vested on 30 August 2017 and HK$8.21 cents per option for options to be vested on 30 August 2018. The significant inputs into the model were closing share price of HK$0.2120 at the grant date, exercise price shown above, volatility of 46%, dividend yield of nil, an expected option life of 5, 4 and 3 years respectively and an annual risk-free interest rate of 0.69%. The volatility measured at the standard deviation of continuously compounded share returns is based on the average rate of comparable companies. The Binomial valuation model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

No Share Options were granted, exercised, or cancelled during 2017. 160,000,000 Share Options were lapsed during 2017.

The following is a summary of the principal terms of the Scheme:

1. Purpose of the Scheme:

   The purpose of the Scheme is to reward the contributions made by any Directors or employees of the Group (the "Eligible Employees"), to provide incentive for the Eligible Employees to work towards enhancing the value of the Company and the Shares for the benefit of the Company and the shareholders of the Company as a whole.

2. Participants of the Scheme:

   The Board may at its discretion grant options to the Eligible Employees.

3. Grant of option under the Scheme

   An offer of the grant of an option shall be made to an Eligible Employee by letter in such form as the Board may from time to time determine, requiring the Eligible Employee to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Scheme. The offer shall remain open for acceptance for a period of 14 days from the date of grant. Subject to the terms of the offer letter, there shall be no minimum holding period for the vesting or exercise of the options.

   An option shall be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant of the option shall have been received by the Company on or before the last day for acceptance as set out in the offer letter. The remittance is not in any circumstances refundable. Once accepted, the option is granted as from the date of grant.

4. Total number of Shares available for issue under the Scheme and percentage of issued share capital as at 31 December 2017:

   As at 31 December 2017, the total number of Shares which may be issued under the Scheme must not exceed 2,056,471,372 Shares, representing approximately 10% of the issued share capital of the Company.

5. Maximum entitlement of each participant under the Scheme:

   Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of Shares issued and to be issued to that grantee on exercise of his options (including both exercised and outstanding options) during any 12 month period exceeding 1% of the total Shares then in issue.

6. The period within which the options must be exercised under the Scheme:

   The period during which an option may be exercised in accordance with the terms of the Scheme ("Option Period") shall be a period of time to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the Date of Grant.

7. The basis of determining the exercise price:

   The subscription price per Share payable on the exercise of an option is to be determined by the Board but in any event shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Date of Grant; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of the Share on the Date of Grant.

8. The remaining life of the Scheme:

   Subject to early termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years commencing from the date on which the Scheme is deemed to take effect in accordance with its terms, after which time no further options will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. In particular, all options granted before the end of such period shall continue to be valid and exercisable after the end of such period in accordance with the terms of the Scheme.

Competing Interests

None of the Directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Major Customers and Suppliers

The Group's customers from whom the revenue of continuing operations derived are widely dispersed. No customer nor a single group of customers under common control of continuing operations contributed 10% or more of the Group's revenue for the years ended 31 December 2017 and 2016. During 2017, less than 30% of the Group's revenue was attributable to the Group's five largest customers combined.

During 2017, less than 30% of the Group's purchases was attributable to the Group's five largest suppliers combined.

Report of the Directors

Public Float

According to the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has complied with the public float requirement under the Listing Rules.

Audit Committee

The audited annual consolidated financial statements for the year ended 31 December 2017 has been reviewed by the Audit Committee of the Company.

Pension Scheme

Details of the Group's pension schemes are set out in the section of employee benefits of Note 2.4 to the consolidated financial statements.

Auditor

The consolidated financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers, Certified Public Accountants. A resolution for their re-appointment as the auditor of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting of the Company.

On 25 May 2016, the term of office of the former auditor of the Company, Ernst & Young, has expired and PricewaterhouseCoopers was appointed as the auditor of the Company on the same day.

Save as disclosed above, there has been no change in the auditor of the Company during the past three years.

Permitted Indemnity Provision

The Bye-laws of the Company provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their offices, provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 5 June 2018 to Friday, 8 June 2018 (both days inclusive), for the purpose of determining the entitlement of the shareholders of the Company to attend and vote at the forthcoming annual general meeting of the Company. No transfer of shares during the said period will be registered. In order to qualify to attend and vote at the meeting, all completed transfer forms, accompanied by the relevant share certificates, have to be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration, not later than 4:30 p.m. on Monday, 4 June 2018.

On behalf of the Board

Peng Xinkuang
Chairman

Hong Kong, 28 March 2018

Corporate Governance Report

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interests of all of its stakeholders. The Board and senior management are committed to maintain a high standard of corporate governance which provides a framework and a solid foundation for achieving a high standard of accountability and transparency.

Corporate Governance Practices

The Board had reviewed its corporate governance practices throughout the year ended 31 December 2017, and confirmed that the Company has complied with all principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Listing Rules except for the following deviations:

Code Provision A.2.7

Code provision of A.2.7 requires the Chairman of the Board to hold meetings at least annually with the non-executive directors (including independent non-executive directors) without the executive directors present. As the Chairman of the Board is also an Executive Director, the Company has deviated from this code provision as it is not applicable.

Code Provision A.6.7

Pursuant to code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings. Mr. Zhuo Fumin and Mr. Han Gensheng, Independent Non-executive Directors, did not attend the annual general meeting of the Company for the year 2017 due to other business engagements.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all Directors and all of them have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

Board of Directors

Throughout the year ended 31 December 2017, the Company has complied with the Board's practices and procedures as set out in the Listing Rules.

Board Composition

As at 31 December 2017, the Board consists of eleven Directors, including seven Executive Directors, namely, Mr. Peng Xinkuang, Mr. Liu Feng, Mr. Chen Donghui, Mr. Chen Chao, Mr. Shi Janson Bing, Mr. Zhu Qiang and Ms. Qin Wenying; and four Independent Non-executive Directors, namely, Mr. Zhuo Fumin, Mr. Chan, Charles Sheung Wai, Mr. Ma Lishan and Mr. Han Gensheng.

Save as disclosed in the above section "Directors and Senior Management", there is no financial, business, family or other material/relevant relationship amongst the Directors.

Role of the Board

The Board, which is accountable to shareholders for the long-term performance of the Company, is responsible for directing the strategic objectives of the Company and overseeing the management of the business. The Directors are charged with the task of promoting the success of the Company and making decisions in the best interest of the Company.

The Board formulates, approves and monitors Group-wide strategies and policies, evaluates the performance of the Company, and supervises the management of the Company. The management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer of the Group.

Chairman and Chief Executive Officer

The Chairman of the Company is responsible for formulating, developing and reassessing the Group's strategies and policies and for all Board matters. The Chief Executive Officer of the Group is responsible for the execution of the Group's business strategies and plans. The positions of the Chairman of the Company and the Chief Executive Officer of the Group are held by separate individuals so as to maintain an effective segregation of duties.

Corporate Governance Report

Independent Non-executive Directors

As at 31 December 2017, the Board has 11 members with 4 of them being Independent Non-executive Directors. This satisfies both the requirements of having at least 3 Independent Non-executive Directors under Rule 3.10(1) of the Listing Rules, as well as of having Independent Non-executive Directors representing at least one-third of the Board under Rule 3.10A of the Listing Rules. The Independent Non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The functions of Independent Non-executive Directors include:

- expressing an independent view and judgement at Board meetings;
- taking the lead to identify potential conflicts of interests if any;
- serving on Board committees if invited; and
- scrutinizing the Company's performance and monitoring performance reporting.

The Independent Non-executive Directors have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They gave the Board and the Board committees the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation.

Corporate Governance Function

The Board is collectively responsible for performing the corporate governance duties including:

(a) to develop, review and implement the Company's policies and practices on corporate governance;
(b) to review and monitor the training and continuous professional development of the Directors and senior management of the Company;
(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
(d) to develop, review and monitor the code of conduct applicable to employees and the Directors; and
(e) to review the Company's compliance with the CG Code and its disclosure in the Corporate Governance Report.

Meetings

The Board meets at least four times a year at approximately quarterly intervals. During 2017, the Board held ten meetings to review the financial performance, annual and interim results, material investments, operating report and other significant matters of the Group. The Bye-laws of the Company provides for the convening of the Board or Board committee meetings by way of telephonic or similar communications.

The attendance records of the Directors at the Board meetings, the Board committee meetings and the annual general meeting of the Company for the financial year ended 31 December 2017 are set out below:

		Attendance/Number of Meetings (during Director's tenure)					
		Board	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**Investment Committee**	**Annual General**
Executive Directors							
Peng Xinkuang	*(Note 1)*	9/10		1/1		3/3	1/1
Liu Feng	*(Note 2)*	2/2				1/1	0/0
Chen Donghui		7/10					0/1
Chen Chao		7/10					0/1
Shi Janson Bing		8/10					1/1
Zhu Qiang		10/10				3/3	1/1
Qin Wenying		7/10					1/1
He Binwu	*(Note 3)*	4/7		2/2		2/2	1/1
Independent Non-executive Directors							
Zhuo Fumin		6/10	5/5	3/3	3/4		0/1
Chan, Charles Sheung Wai		5/10	5/5		3/4		1/1
Ma Lishan		7/10		3/3	4/4	3/3	1/1
Han Gensheng		7/10	5/5				0/1

Notes:

1. Mr. Peng Xinkuang was re-designated as the Chairman of the Board, the chairman of the Investment Committee of the Company and appointed as the chairman of the Nomination Committee of the Company, and ceased to be the Chief Executive Officer of the Group on 24 October 2017.
2. Mr. Liu Feng was appointed as an Executive Director and the Chief Executive Officer of the Group, a member of the Investment Committee of the Company on 24 October 2017.
3. Mr. He Binwu resigned as an Executive Director, the Chairman of the Board, the chairman of the Nomination Committee and the Investment Committee of the Company on 24 October 2017.

Board papers are circulated and the Company Secretary attends all regular board meetings to advise on corporate governance and statutory compliance when necessary. In addition, the Company maintains a procedure for the Directors to seek independent professional advice in appropriate circumstances.

Board Committees

The Board has established 4 committees, namely Audit Committee, Nomination Committee, Remuneration Committee and Investment Committee. These committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management. The respective terms of reference are available on the websites of the Company and the Stock Exchange. The Company has provided sufficient resources to the Board committees to perform their duties.

Audit Committee

The Company has established the Audit Committee of the Company. During the financial year ended 31 December 2017, the Audit Committee of the Company comprises three members as follows:

Independent Non-executive Directors
Mr. Chan, Charles Sheung Wai – Chairman
Mr. Zhuo Fumin – Member
Mr. Han Gensheng – Member

The major duties of the Audit Committee of the Company include:

- to consider and recommend the appointment, re-appointment and removal of external auditor;
- to approve the remuneration and terms of engagement of external auditor, any questions of resignation or dismissal of that auditor;
- to review and monitor external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services and to make recommendation of any measures for improvements to be taken;
- to review the interim and annual financial statements and the interim and annual reports before submission to the Board;
- to review the Group's financial controls, risk management and internal control and ensure that the management has discharged its duty to have effective risk management and internal control systems;
- to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response;
- to review and consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget;
- to consider any significant or unusual items that are, or may need to be, reflected in reports and accounts and must give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Corporate Governance Report

- to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group and to review and monitor the effectiveness of the internal audit function;

- to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response and to ensure that the Board will provide a timely response to the issues raised; and

- to review the Group's financial and accounting policies and practices.

The Audit Committee of the Company has explicit authority to investigate into any matter under the scope of its duties and the authority to obtain independent professional advice. It is given full access to reasonable resources and assistance from the management to discharge its duties properly.

In 2017, the Audit Committee of the Company held five meetings to, among other things, review the interim and annual results of the Group and review other significant matters. The Audit Committee of the Company had reviewed the Group's significant internal control and financial matters, and discussed with the management of the Company and the external auditors. The Audit Committee of the Company had also reviewed the audit plans and findings of the external auditors, the independence of the external auditors, the Group's accounting principles and practices, the Listing Rules and statutory compliance, financial reporting, internal control and risk management. The attendance record of each committee member is shown on page 54 in the section of Meetings of this report.

The Audit Committee of the Company had met the external auditors five times during the financial year ended 31 December 2017. There was no disagreement between the Board and the Audit Committee of the Company regarding the selection and appointment of external auditors. The Audit Committee of the Company is satisfied that the external auditors are able to meet the audit obligations of the Company.

The external auditors of the Company were invited to attend the meeting without the presence of the management to discuss with the Audit Committee of the Company issues arising from the audit and financial reporting matters.

Nomination Committee

The Company has established the Nomination Committee of the Company. During the financial year ended 31 December 2017, the Nomination Committee of the Company comprises three members as follows:

Executive Director
Mr. Peng Xinkuang – Chairman *(appointed on 24 October 2017)*
Mr. He Binwu – Chairman *(resigned on 24 October 2017)*

Independent Non-executive Directors
Mr. Zhuo Fumin – Member
Mr. Ma Lishan – Member

The major duties of the Nomination Committee of the Company include:

- to review the structure, size, composition and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

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

- to assess the independence of the Independent Non-executive Directors;

- to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the Chairman of the Company and the Chief Executive Officer of the Group, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future;

- to determine the policy for nomination of the Directors; and

- to review the board diversity policy on a regular basis and recommend revisions, if any, to the Board for consideration and approval.

In 2017, the Nomination Committee of the Company held three meetings. The Nomination Committee of the Company had reviewed the structure, size, composition and diversity of the Board, considered the appointments of the Directors in the Company and changed the members of the Nomination Committee of the Company.

The Company had also assessed the independence of all the Independent Non-executive Directors and considers that all of them are independent under Rule 3.13 of the Listing Rules, having taken into account (i) their annual confirmation on independence as required under the Listing Rules, (ii) the absence of involvement in the daily management of the Company and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgment.

The Board adopted the board diversity policy setting out the approach to achieve diversity on the Board. In assessing the Board composition, the Nomination Committee of the Company would take into account various aspects set out in the policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. In identifying and selecting suitable candidates for directorships, the Nomination Committee of the Company would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve board diversity, where appropriate, before making recommendation to the Board. The current Board is considered well-balanced and of a diverse mix appropriate for the business of the Group. The Nomination Committee of the Company would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. The Nomination Committee of the Company would also review the board diversity policy, as appropriate, to ensure its effectiveness and recommend any proposed revisions to the Board for approval.

The nomination procedures for the Directors can be accessed from the website of the Company. The attendance record of each committee member is shown on page 54 in the section of Meetings of this report.

Appointment, Re-election and Removal of Directors

Pursuant to the letters of appointment, all Independent Non-executive Directors are appointed for a term of two years subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

The procedures and processes of appointment, re-election and removal of the Directors are laid down in the Bye-laws of the Company. Recommendations for appointments and re-appointments of the Directors and appointments of the members of various Board committees are made by the Nomination Committee of the Company to the Board for consideration and appointment. Any Director appointed by the Board shall hold office only until, and shall retire on, the next following annual general meeting of the Company. The Bye-laws of the Company provides that at each annual general meeting of the Company, one-third of the Directors for the time being (or, if the number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. If the Directors obliged to retire who then wish to retire and not offer themselves for re-election account for less than one-third, those who have been longest in office since their last re-election or appointment shall retire to make up for the shortfall. Each Director should retire at least once every three years. A retiring Director is eligible for re-election by the shareholders at the annual general meeting of the Company.

Mr. Zhu Qiang, Mr. Zhuo Fumin, Mr. Chan, Charles Sheung Wai and Mr. Ma Lishan will be retiring by rotation pursuant to the bye-law 87 of Bye-laws of the Company at the forthcoming annual general meeting of the Company, and Mr. Liu Feng will be retiring pursuant to the bye-law 86(2) of Bye-laws of the Company at the forthcoming annual general meeting of the Company. The retiring Directors are eligible for re-election at the forthcoming annual general meeting of the Company.

Remuneration Committee

The Company has established the Remuneration Committee of the Company. During the financial year ended 31 December 2017, the Remuneration Committee of the Company comprises three members as follows:

Independent Non-executive Directors
Mr. Ma Lishan – Chairman
Mr. Chan, Charles Sheung Wai – Member
Mr. Zhuo Fumin – Member

The major duties of the Remuneration Committee of the Company include:

- to make recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management of the Company;
- to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

- to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management;
- to make recommendations to the Board on the remuneration of Non-executive Directors;
- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- to review and approve compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- to review and approve compensation arrangements relating to dismissal or removal of the Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- to ensure that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee of the Company should consult the Chairman of the Company and/or the Chief Executive Officer of the Group about their remuneration proposals for other Executive Directors and have access to independent professional advice if necessary.

In 2017, the Remuneration Committee of the Company held four meetings. The Remuneration Committee of the Company had reviewed the Company's remuneration policies and the remuneration packages of the Directors, reviewed and recommended the remuneration of the new and re-designated Directors, and reviewed other significant matters. No Director should involve in deciding his own remuneration. The attendance record of each committee member is shown on page 54 in the section of Meetings of this report.

Details of the Directors' and senior management's remuneration are set out in note 11 and 45(b)(v) to the consolidated financial statements. In addition, pursuant to the Code Provision B.1.5 of the CG Code, the annual remuneration of other members of the senior management (other than the Directors) by bands for the year ended 31 December 2017 is set out below:

	Number of employees
RMB0 to RMB1,000,000	1
RMB1,000,001 to RMB3,000,000	3
RMB3,000,001 to RMB7,000,000	1

Investment Committee

The Company has established the Investment Committee of the Company. During the financial year ended 31 December 2017, the Investment Committee of the Company comprises four members as follows:

Independent Non-executive Directors
Mr. Ma Lishan – Member

Executive Directors
Mr. Peng Xinkuang – Chairman *(re-designated on 24 October 2017)*
Mr. Liu Feng – Member *(appointed on 24 October 2017)*
Mr. Zhu Qiang – Member
Mr. He Binwu – Chairman *(resigned on 24 October 2017)*

The major duties of the Investment Committee of the Company include:

- to review the management's recommended investment opportunities, objectives, strategies, policies and guidelines that direct the investment of the portfolio;
- to review the management's recommended portfolio financial goals and requirements, including asset allocation, risk tolerance, investment time horizon and capital adequacy;
- to review and evaluate the performance of the investment portfolio regularly to assure adherence to policy guidelines and monitor progress toward achieving investment objectives; and

- to review the shares purchase, redemption or other share acquisition activities to be conducted by the Company.

In 2017, the Investment Committee of the Company held three meetings. The Investment Committee of the Company had reviewed the Company's investments. The attendance record of each committee member is shown on page 54 in the section of Meetings of this report.

Directors' Training and Commitment

Upon appointment, each Director receives appropriate induction training and coaching to develop individual skills as required. The Directors are also provided with updates on the relevant new laws, regulations and changing commercial risks in the Group's operating environment through regular presentations and meetings. They also have the opportunity to visit the Group's operational facilities and meet with management to gain a better understanding of business operations and governance practices.

The Directors have confirmed that they have complied with the Code Provision A.6.5 of the CG Code on directors' training. During the financial year ended 31 December 2017, the Directors have participated in continuous professional development by attending seminars, in-house briefing or reading materials on the following topics to develop and refresh their knowledge and skills and provided their records of training to the Company.

		Topics	
Name of Directors		**Legal, Regulatory and Corporate Governance**	**Directors' Roles, Functions and Duties**
Executive Directors			
Peng Xinkuang		✓	✓
Liu Feng	*(appointed on 24 October 2017)*	✓	✓
Chen Donghui		✓	✓
Chen Chao		✓	✓
Shi Janson Bing		✓	✓
Zhu Qiang		✓	✓
Qin Wenying		✓	✓
He Binwu	*(resigned on 24 October 2017)*	✓	✓
Independent Non-executive Directors			
Zhuo Fumin		✓	✓
Chan, Charles Sheung Wai		✓	✓
Ma Lishan		✓	✓
Han Gensheng		✓	✓

Confirmation has been received from the Directors that they have provided sufficient time and attention to the affairs of the Group. Besides, the Directors have been disclosing to the Company their interests as the director and other office in other public companies and organisations in a timely manner and update the Company on any subsequent changes.

Directors' and Officers' Liabilities

The Company has arranged appropriate liability insurance to indemnify its Directors and officers for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the financial year ended 31 December 2017, no legal action was made against any of the Directors and officers in relation to duties performed for the Company.

Company Secretary

The company secretary of the Company is an employee of the Company, and is responsible for facilitating the procedures of the Board and advising the Board on corporate governance matters. During the year under review, the company secretary of the Company has taken not less than 15 hours of relevant professional training.

Corporate Governance Report

Directors' Responsibilities for the Financial Statements

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

Risk Management and Internal Control

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority designed to help the business to achieve its objectives, to safeguard assets against unauthorised use or disposition, to ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and to ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

During the year ended 31 December 2017, the Board examined the effectiveness of the risk management and internal control system of the Group through the Audit Committee of the Company on an annual basis, including financial, operational compliance and risk management aspects, and considered that the risk management and internal control system is effective and adequate and the Group has complied with the code provisions on risk management and internal control of the CG Code.

Auditor's Remuneration

During the year, the auditor of the Company, PricewaterhouseCoopers, Certified Public Accountants charged RMB4,900 thousand for annual audit services and RMB250 thousand for non-audit services.

Investor Relations

The Company uses a number of formal communications channels to account to its shareholders and investors for the performance of the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or special general meetings of the Company providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the website of the Company; (iv) the Company's website offering a communication platform between the Company and its shareholders and investors; and (v) the Company's share registrars in Hong Kong serving the shareholders of the Company regarding all share registration matters.

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to shareholders of the Company in a timely manner and on a regular basis through the publication of interim and annual reports and/or dispatching circulars, notices, announcements and other corporate communications.

Investors may write to the Company at the principal place of business or via email to general@sregroup.com.hk for any enquiries.

During the year ended 31 December 2017, there is no change in the constitutional documents of the Company. The Memorandum of Association and Bye-laws of the Company are available on the website of the Company.

Shareholders' Right to convene and put forward Proposals at Special General Meetings

Pursuant to the Bye-laws of the Company, members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company at the principal place of business at the address which set out in Corporate Information of this annual report, to require a special general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner.

Independent Auditor's Report

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To The Shareholders of SRE Group Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of SRE Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 196, which comprise:

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

Our opinion

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

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

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

- Fair value of investment properties
- Recoverability of receivables
- Classification of new associate and joint ventures acquired during the year

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Key Audit Matters (continued)

Key Audit Matter 1

Fair Value of Investment Properties	How our audit addressed the Key Audit Matter
Refer to Note 3 (Significant accounting estimates and judgements) and Note 18 (Investment properties) of the consolidated financial statements. The Group's investment properties were measured at fair value and carried at approximately RMB5,375 million as at 31 December 2017 with a net revaluation gain of approximately RMB55 million for the year then ended. The fair values of investment properties were determined by the Group based on the valuations performed by an independent professional valuer (the "Valuer") engaged by the Group. We focused on this area due to the valuation results of the investment properties are significant to the financial statements and the valuation of the investment properties was highly dependent on a range of assumptions, such as future rental rates, revisionary rates, estimated vacancy rates, yield rates and refurbishment rates.	We evaluated the Valuer's competence, capabilities and objectivity by considering its qualification, relevant experience and relationship with the Group. We obtained and read the valuation report issued by the Valuer for each of the investment properties, and assessed the appropriateness of valuation method applied by the Valuer. For all the valuation reports, we matched the data including rental income, rentable areas and lease terms, to the underlying property records held by the Group. We checked the data used in the valuations to the rent rolls and the rent rates as stated in the relevant lease contracts, if applicable, as well as the location, the size and the age of the properties with property certificates. We paid site visit to each of the investment properties and observed physical conditions of the properties. We also discussed with management to understand the basis of their consideration applied in the property valuations in light of physical conditions of the properties. We corroborated the key assumptions used in the valuations of all the investment properties, including future rental rates, revisionary rates, estimated vacancy rates, yield rates and refurbishment rates by gathering and analysing the data of comparable properties in the market and the characteristics of the Group's properties. We involved our internal valuation specialists to assist us in assessing the methodologies used by the Valuer and compared the valuations of investment properties, on a sample basis, to our independently formed market expectations. We also tested the mathematical accuracy used in the valuations for all the investment properties by recalculating the valuation values. Based on the above procedures performed, we found the data used and the key assumptions adopted in management's valuation assessments, were supportable by the evidence we gathered.

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Key Audit Matters (continued)

Key Audit Matter 2

Recoverability of Receivables	How our audit addressed the Key Audit Matter
Refer to Note 3 (Significant accounting estimates and judgements), Note 25 (Other receivables) and Note 26 (Trade receivables and notes receivable) of the consolidated financial statements. As at 31 December 2017, the Group had a balance of other receivables of approximately RMB1,948 million and a balance of trade receivables of approximately RMB52 million (before provision), with a provision for impairment of approximately RMB232 million and approximately RMB28 million, respectively. The impairment was provided for those receivables which are subject to high collectability risk due to financial difficulty of the debtors, default in payments, relevant legal disputes and other indicators for a decrease in the estimated future cash flows. The Group estimated impairment losses at year end based on the available information, including the financial position of the debtors, litigation progress and value of pledged assets, etc. We focused on this area because the amount of impairment is significant to the consolidated financial statements and the significant judgements and estimates involved in assessing recoverability of the receivables.	We assessed and tested the design and operating effectiveness of key management controls over impairment assessment. For other receivables with material balance, we obtained and read the agreements and the supplemental agreements if applicable. For receivables with disputes, we checked the litigation progress, latest court decisions, and legal counsel's opinion whereas necessary. We also checked the settlement history of the receivables as well as subsequent settlement after year end date on sample basis. We further evaluated management's assessment on impairment provisions on receivables with material balance by: • interviewed and collaborated with the Group's risk management department responsible for the collection of the receivables in disputes or for monitoring the status of the receivables to assess the rationale of making the accounting estimates; • assessed the financial position of the debtors, where information is available; and • assessed other alternative and available sources of settlement, including the value of the pledged assets or the financial status of the financial guarantors. We found the management's assessment on impairment provision of receivables was supportable by evidence obtained.

Independent Auditor's Report

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Key Audit Matters (continued)

Key Audit Matter 3

Classification of New Associate and Joint Ventures Acquired During the Year	How our audit addressed the Key Audit Matter
Refer to Note 3 (Significant accounting estimates and judgements), and Note 21 (Investments in associates) and Note 22 (Investments in joint ventures) of the consolidated financial statements. During the year, the Group acquired one associate with carrying value of approximately RMB6 million and two material joint ventures with carrying value of approximately RMB2,098 million and RMB604 million respectively as at 31 December 2017. Those associate and joint ventures were acquired either through equity purchase or partial disposal of equity interests which resulted from a loss of control in existing subsidiaries. We focused on this area because of the complexity in acquisition arrangements as well as the management's judgement for appropriate classification and accounting treatment relating to those new associate and joint ventures. Inappropriate classification, either on acquisition and/or disposal may have a material impact on the consolidated financial statements.	In assessing management's judgement on the classification of material new investments on associate and joint ventures of the Group, individually or in aggregate, during the year ended 31 December 2017, we performed audit procedures as follows: • We examined the legal documents associated with those material investments and inquired management to understand the key terms, including rights of the investors, dispute resolution provisions, termination provisions, governance structures, and profit-sharing arrangements, and then assessed these against accounting standards based on our own expertise and experience of applying them in similar situations; • We confirmed the completeness of the contracts and agreements associated with those material investments, individually or aggregate, as well as any subsequent supplementary or amendments, by seeking confirmation from the counterparties; • For the counterparty which is a listed company, we also cross checked counterparty's accounting treatment in its public announcement, if available; and • We considered the adequacy of the Group's disclosures in respect of the classification and carrying values of associate and joint ventures. Based on our audit procedures performed, we consider the classification of new associate and joint ventures acquired by the Group during the year is supported by the evidence we obtained.

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Other Information

The directors of the Company are responsible for the other information set out in the Company's 2017 Annual Report. The other information comprises the information included in the chairman's statement and management discussion and analysis (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the corporate information, introduction of the Group, financial summary, directors and senior management, report of the directors, corporate governance report and environmental, social and governance report which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. Other than certain inconsistencies which were subsequently corrected, we have nothing to report in this regard.

When we read the corporate information, introduction of the Group, financial summary, directors and senior management, report of the directors, corporate governance report and environmental, social and governance report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

- 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.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mang Kwong Fung, Frederick.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	2017	2016
Continuing operations			
Revenue	5	**1,620,473**	3,363,771
Cost of sales	7	**(1,236,234)**	(2,766,689)
Gross profit		**384,239**	597,082
Gains from acquisition and disposal of subsidiaries and a joint venture – net	22, 40, 43	**1,585,922**	11,903
Other gains/(losses) – net	6	**26,743**	(127,232)
Selling and marketing expenses	7	**(54,811)**	(73,053)
Administrative expenses	7	**(679,489)**	(334,505)
Operating profit		**1,262,604**	74,195
Finance income	9	**57,153**	27,892
Finance costs	10	**(504,051)**	(414,781)
Finance costs – net		**(446,898)**	(386,889)
Share of results of associates	21	**74,332**	465,549
Share of results of joint ventures	22	**(12,049)**	(1,464)
Profit before income tax		**877,989**	151,391
Income tax expense	12	**(157,685)**	(287,595)
Profit/(loss) for the year from continuing operations		**720,304**	(136,204)
Discontinued operation			
Gain from disposal of discontinued operation	42	**–**	495,569
Loss from discontinued operation for the year	42	**–**	(16,337)
Profit for the year from discontinued operation		**–**	479,232
Profit for the year		**720,304**	343,028
Other comprehensive income/(losses), net of tax			
Item that may be reclassified to profit or loss in subsequent periods:			
Changes in the fair value of available-for-sale investments		**1,523**	–
Exchange differences on translation of foreign operations		**352**	(3,629)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**722,179**	339,399

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	2017	2016
Profit attributable to:			
Owners of the Company		**690,543**	231,760
Non-controlling interests		**29,761**	111,268
		720,304	343,028
Profit/(loss) attributable to owners of the Company from:			
Continuing operations		**690,543**	(254,660)
Discontinued operation		**–**	486,420
		690,543	231,760
Total comprehensive income attributable to:			
Owners of the Company		**692,418**	228,131
Non-controlling interests		**29,761**	111,268
		722,179	339,399
Total comprehensive income attributable to owners of the Company from:			
Continuing operations		**692,418**	(258,289)
Discontinued operation		**–**	486,420
		692,418	228,131
Earnings/(loss) per share from continuing operations and discontinued operation attributable to owners of the Company	14		
– Basic			
From continuing operations		**RMB0.03**	RMB(0.01)
From discontinued operation		**–**	RMB0.02
		RMB0.03	RMB0.01
– Diluted			
From continuing operations		**RMB0.03**	RMB(0.01)
From discontinued operation		**–**	RMB0.02
		RMB0.03	RMB0.01

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	31 December 2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	17	737,265	762,600
Investment properties	18	5,375,199	5,270,895
Prepaid land lease payments	19	204,403	208,759
Goodwill	20	16,271	16,271
Investments in associates	21	1,043,140	962,655
Investments in joint ventures	22	4,018,705	1,281,119
Deferred tax assets	33	242,837	242,837
Non-current prepayments	24	–	–
Available-for-sale investments	16	407,790	380,806
Loans and receivables	28	579,994	–
Other non-current assets	29	810,800	71,519
		13,436,404	9,197,461
Current assets			
Prepaid land lease payments	19	1,905,849	2,632,148
Properties held or under development for sale	23	2,257,686	3,197,085
Inventories		849	620
Prepayments and other current assets	24	322,365	373,513
Other receivables	25	1,716,383	1,678,141
Trade receivables	26	24,438	24,863
Prepaid income tax	12	96,419	96,623
Available-for-sale investments	16	–	262,000
Loans and receivables	28	1,172,011	165,000
Cash and cash equivalents	27	1,207,119	1,509,924
Restricted cash	27	245,796	2,933
		8,948,915	9,942,850
Assets classified as held for sale	41	–	3,570,569
		8,948,915	13,513,419
Total assets		22,385,319	22,710,880

Consolidated Statement of Financial Position

As at 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

		31 December	
	Notes	2017	2016
EQUITY AND LIABILITIES			
Equity			
Issued share capital and share premium	30	6,747,788	6,747,788
Other reserves	31	240,440	212,830
Retained profits/(accumulated losses)		391,979	(286,239)
Equity attributable to owners of the Company		7,380,207	6,674,379
Non-controlling interests		433,761	377,682
Total equity		7,813,968	7,052,061
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings	32	6,151,564	2,847,984
Deferred tax liabilities	33	1,447,258	1,260,879
		7,598,822	4,108,863
Current liabilities			
Interest-bearing bank and other borrowings	32	2,447,238	3,917,484
Advances received from the pre-sale of properties under development	34	1,015,262	1,141,086
Trade payables	35	703,382	792,301
Other payables and accruals	36	1,893,378	4,409,776
Current income tax liabilities		913,269	1,116,805
		6,972,529	11,377,452
Liabilities directly associated with the assets classified as held for sale	41	–	172,504
		6,972,529	11,549,956
Total liabilities		14,571,351	15,658,819
Total equity and liabilities		22,385,319	22,710,880

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 68 to 196 were approved by the Board of Directors on 28 March 2018 and were signed by the following Directors on its behalf:

Peng Xinkuang
Chairman

Liu Feng
Chief Executive Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Attributable to owners of the Company					
	Issued share capital and share premium (Note 30)	Other reserves (Note 31)	Retained profits/ (accumulated losses)	Total	Non-controlling interests	Total equity
At 1 January 2017	6,747,788	212,830	(286,239)	6,674,379	377,682	7,052,061
Comprehensive income						
Profit for the year	–	–	690,543	690,543	29,761	720,304
Other comprehensive losses	–	1,875	–	1,875	–	1,875
Total comprehensive income for the year	–	1,875	690,543	692,418	29,761	722,179
Transactions with owners						
Appropriation from retained earnings	–	12,325	(12,325)	–	–	–
Disposal of subsidiaries (Notes 42 and 43)	–	–	–	–	5,586	5,586
Capital contributions from non-controlling shareholders	–	–	–	–	20,700	20,700
Share-based payments (Note 15)	–	13,442	–	13,442	–	13,442
Change in ownership interests in a subsidiary without change of control	–	(32)	–	(32)	32	–
Total transactions with owners	–	25,735	(12,325)	13,410	26,318	39,728
At 31 December 2017	6,747,788	240,440	391,979	7,380,207	433,761	7,813,968

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Attributable to owners of the Company					
	Issued share capital and share premium (Note 30)	Other reserves (Note 31)	Accumulated losses	Total	Non-controlling interests	Total equity
At 1 January 2016	6,747,788	148,076	(492,969)	6,402,895	332,742	6,735,637
Comprehensive income						
Profit for the year	–	–	231,760	231,760	111,268	343,028
Other comprehensive losses	–	(3,629)	–	(3,629)	–	(3,629)
Total comprehensive income for the year	–	(3,629)	231,760	228,131	111,268	339,399
Transactions with owners						
Appropriation from retained earnings	–	25,030	(25,030)	–	–	–
Acquisition of subsidiaries (Notes 40 and 49)	–	–	–	–	54,410	54,410
Disposal of subsidiaries (Notes 42 and 43)	–	–	–	–	(121,738)	(121,738)
Capital contributions from non-controlling shareholders	–	–	–	–	1,000	1,000
Share-based payments (Note 15)	–	43,353	–	43,353	–	43,353
Total transactions with owners	–	68,383	(25,030)	43,353	(66,328)	(22,975)
At 31 December 2016	6,747,788	212,830	(286,239)	6,674,379	377,682	7,052,061

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used in)/ from operations	37	**(1,411,256)**	530,500
Interest paid		**(232,758)**	(501,199)
Income tax paid		**(176,934)**	(85,738)
Net cash outflow from operating activities		**(1,820,948)**	(56,437)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(2,973)**	(1,532)
Proceeds from disposal of property, plant and equipment		**508**	4,462
Proceeds from disposal of subsidiaries and a joint venture, net of cash disposed		**119,185**	320,272
– Discontinued operation (Note 42)		**–**	557,191
– Others (Note 43)		**119,185**	(236,919)
Payments for direct acquisition and costs incurred of investment properties		**(899)**	(1,053,959)
Proceeds from disposal of available-for-sale investments		**497,200**	11,500
Acquisition of subsidiaries, net of cash acquired	40	**–**	(1,276,720)
Addition of available-for-sale investments		**(261,999)**	(642,806)
Investments in joint ventures		**(783,194)**	(1,079,798)
Reduction of capital from a joint venture		**20,000**	–
Advance to a joint venture		**(654,507)**	(377,628)
Return of advances made to an associate		**480,000**	356,560
Advance received in relation to disposal of subsidiaries		**–**	2,305,000
Collection of due from subsidiaries associated with disposal of these subsidiaries		**410,917**	1,094,234
Settlement of receivables in connection with acquisition of Konmen Investment Limited		**66,106**	–
Return of loan made to a third party		**165,000**	–
Dividends received from an associate		**847**	631
Interest received		**2,064**	3,022
Proceeds from other investment activities		**81,782**	–
Payments for other investing activities		**(660,800)**	(93,938)
Net cash outflow from investing activities		**(520,763)**	(430,700)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
(Increase)/decrease in restricted cash		**(216,022)**	1,120,109
Proceeds from short-term borrowings		**2,968,000**	3,850,230
Repayments of short-term borrowings		**(5,107,209)**	(3,015,068)
Proceeds from long-term borrowings		**6,384,979**	2,566,173
Repayments of long-term borrowings		**(1,905,499)**	(4,902,665)
Advance to a non-controlling interest of a subsidiary		**(90,000)**	(204,330)
Capital injection from non-controlling interests		**20,700**	–
Advance from a related party		**–**	600,000
Net cash inflow from financing activities		**2,054,949**	14,449
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(286,762)**	(472,688)
Cash and cash equivalents at beginning of year		**1,519,810**	1,983,167
Effect of foreign exchange rate changes, net		**(25,929)**	9,331
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,207,119**	1,519,810
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	27	**1,207,119**	1,509,924
Cash and cash equivalents attributable to assets classified to held for sale	41	**–**	9,886
Cash and cash equivalents as stated in the statement of cash flows		**1,207,119**	1,519,810

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

1. CORPORATE AND GROUP INFORMATION

SRE Group Limited (the "Company") was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Bermuda Companies Act 1981. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the other companies comprising the Group on 12 November 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30 November 1999. The shares of the Company began to list on the Stock Exchange on 10 December 1999. The principal place of business of the Company in Hong Kong was changed from Suite 1307, 13th Floor, AIA Central, 1 Connaught Road Central, Hong Kong to Suite 1001, 10th Floor, One Pacific Place, 88 Queensway, Hong Kong with effect on 1 September 2017.

Currently, the Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in real estate development and investment in Mainland China, on projects located in gateway cities of developed markets.

As at 31 December 2017, the Company's parent company is China Minsheng Jiaye Investment Co., Ltd. ("China Minsheng Jiaye"), which holds 60.80% (2016: 60.78%) of the Company's shares.

The consolidated financial statements are presented in thousands of Renminbi ("RMB"), unless otherwise stated.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance Cap.622. They have been prepared under the historical cost convention, except for investment properties and available-for-sale investments which have been measured at fair value.

The preparation of consolidated financial statements in conformity with HKFRs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

Operating cycle

The operating cycle of the Group is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Due to the nature of the Group's business, the Group's normal operating cycle is longer than 12 months. The Group's current assets include assets (such as properties held or under development for sale and prepaid land lease payments for property development for sale and prepaid taxes) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the end of the reporting period.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New amendments of HKFRSs adopted by the Group in 2017

The following new amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2017 and are relevant to the Group's operations:

Amendments to HKAS 7 "Statement of Cash Flows" introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financial activities.

Amendments to HKAS 12 "Income Taxes" clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to HKFRS 12 "Disclosure of Interests in Other Entities" clarify that the disclosure requirements of HKFRS 12 are applicable to interests in entities classified as held for sale except for summarized financial information.

Except for the amendments to HKAS 7 requiring disclosure of changes in liabilities arising from financing activities (Note 37(b)), the adoption of the above new amendments of HKFRSs did not give rise to any other significant impact on the Group's results of operations and financial position for the year ended 31 December 2017.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

Certain new standards, amendments and interpretations of HKFRSs have been published but are not yet effective for the annual period beginning on 1 January 2017. Those that are relevant to the Group's operations are as follows:

HKFRS 9	*Financial Instruments (effective for annual periods beginning on or after 1 January 2018)*
HKFRS 15	*Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payments Transactions(effective for annual periods beginning on or after 1 January 2018)*
Amendment to HKAS 28	*Investments in associates and joint ventures (effective for annual periods beginning on or after 1 January 2018)*
Amendments to HKAS 40	*Transfers of investment property (effective for annual periods beginning on or after 1 January 2018)*
HK (IFRIC) 22	*Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018)*
HKFRS 16	*Leases (effective for annual periods beginning on or after 1 January 2019)*
HK (IFRIC) 23	*Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019)*
Amendments to HKFRS 10 and HKAS 28	*Sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods to be announced)*

The Group has not early adopted any new accounting and financial reporting standards, amendments or interpretations to existing standards of HKFRSs which have been issued but are not yet effective for the year ended 31 December 2017.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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

The Group has already commenced an assessment on the impact of these new standards, amendments and interpretations, certain of which are relevant to the Group's operation and does not anticipate that the adoption when they become effective will result in any material impact on the Group's results of operations and financial position, except for the new financial reporting standard HKFRS 15 "*Revenue from Contracts with Customers*" (effective for annual periods beginning on or after 1 January 2018) and HKFRS 9 "*Financial Instruments*" (effective for annual periods beginning on or after 1 January 2018) which will have some impact on the Group's financial statements.

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

(1) HKFRS 15 "Revenue from Contracts with Customers" (mandatory for financial years commencing on or after 1 January 2018) replaces the previous revenue standards: HKAS 18 "Revenue" and HKAS 11 "Construction Contracts", and the related interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) recognise revenue when performance obligation is satisfied. It moves away from a revenue recognition model based on an approach of transfer of risk and rewards to an approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied.

The Group is currently assessing the effects of applying the new standard on the Group's consolidated financial statements and has identified the following areas that are likely to be affected:

- Presentation of contract assets and liabilities

  Reclassification shall be made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15.

- Accounting for revenue from sales of properties

  Currently, revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales contracts and collectability of related receivables is reasonably assured. Under HKFRS 15, for those properties that have no alternative use to the Group due to contractual reasons and when the Group has an enforceable right to payment from the customers for performance completed to date, the Group would recognise revenue when the performance obligations are satisfied over time in accordance with the input method for measuring progress. In addition, the transaction price and amount of revenue from sales of properties will be adjusted when significant financing component relating to advance receipts exists in that contract.

- Accounting for costs incurred to obtain a contract

  Following the adoption of HKFRS 15, stamp duty, sales commissions and other costs directly attributable to obtaining a contract, if recoverable, will be capitalised as contract assets.

The directors are in the process of assessing the impact of HKFRS 15 and preliminarily consider that it may have some impact on the Group's consolidated financial position and results of operation upon adoption of the new standard on 1 January 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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

(2) HKFRS 9 (2014) "*Financial Instruments*" (mandatory for financial years commencing on or after 1 January 2018) replaces the whole of HKAS 39. HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

While the Group has yet to undertake a detailed assessment, the Group expects that there will not have significant impact on the majority of the available-for-sale investments. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

While the Group has not yet completed the detailed assessment, the ECL model introduced by HKFRS 9 will generally result in earlier recognition of losses compared to the current incurred loss model of HKAS 39.

(3) HKFRS 16 "*Leases*" (mandatory for financial years commencing on or after 1 January 2019). The standard will affect primarily the accounting for the Group's operating leases. HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the balance sheet. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempted from the reporting obligation. The new standard will therefore results in an increase in right of use assets and an increase in financial liabilities in the consolidated balance sheet. In the consolidated income statement, as a result, the operating expenses under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expenses will increase.

The directors consider that the adoption of the new standard will have some impact on the consolidated financial position of the Group as the related right-of-use assets and lease liabilities will be recognised upon adoption of the new standard on 1 January 2019. There will also have some impact on the consolidated income statement of the Group as the impact of amortisation of the right-of-use assets and unwinding the discount of the related payable will be different from the operating lease charges that would have been recognised under the current standard.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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

Amendments to HKFRS 2 "Classification and Measurement of Share-based Payment Transactions" clarify the measurement basis for cash-settled share-based payments and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception to the principles in HKFRS 2 that requires an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

Amendment to HKAS 28 is part of the annual improvements to HKFRSs 2014-2016 cycle. HKAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). This election should be made separately for each associate or joint venture at initial recognition.

Amendments to HKAS 40 clarifies that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence. The Board confirmed that a change in intention, in isolation, is not enough to support a transfer.

HK (IFRIC) 22 clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

HK (IFRIC) 23 clarifies how the recognition and measurement requirements of HKAS 12 Income taxes, are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that approach will be accepted by the tax authority. HK (IFRIC) 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The amendments to HKFRS 10 and HKAS 28 address an inconsistency between HKFRS 10 and HKAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

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

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally between 20% and 50% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of the investee.

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

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

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Hotel buildings	Shorter of 40 years and the remaining terms of the leases, which range from 30 to 40 years
Other buildings	20 years
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets
Furniture, fittings, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

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

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

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

Investment properties

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with HKAS 16. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss and other comprehensive income.

Goodwill

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

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

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

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss and other comprehensive income, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

Operating leases

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

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

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as other gains in the statement of profit or loss and other comprehensive income. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income in other losses.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

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

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

Derecognition of financial assets

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

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

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, interest-bearing bank loans and other borrowings. Financial liabilities are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss and other comprehensive income. The net fair value gain or loss recognised in the statement of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Other financial liabilities measured at amortised cost – loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the relevant company or the counterparty.

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by HKAS 39 is recognised in the statement of profit or loss and other comprehensive income as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Current versus non-current classification

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

(a) Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

(b) Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

(c) Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Properties held or under development for sale

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value.

The costs of properties held or under development for sale comprise specifically identified cost, including acquisition costs, development expenditures, capitalised borrowing costs and other related expenditure directly attributable to the development of such properties. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

Inventories

Inventories mainly comprise food, beverages, operating supplies and low value consumables used in hotel, and are stated at the lower of cost or net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

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

Provisions

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

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

Income tax

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

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

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Revenue recognition

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

Sale of development properties

Revenue from the sale of properties is recognised upon completion of a sale agreement, which refers to the time when properties are completed and delivered to the buyers. Deposits and instalments received on properties sold prior to completion of the respective sale agreements are included as advances received from the pre-sale of properties under development.

Property leasing under operating leases

Operating lease income from investment properties is recognised on the straight-line basis over the lease term, which is the non-cancellable period for which the lessee has contracted to lease the properties together with any further terms for which the lessee has the option to continue to lease the properties, with or without further payments, when it is reasonably certain that the lessee will exercise the option at the inception of the lease.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Construction of infrastructure for an intelligent network

Revenue from the construction of infrastructure for an intelligent network is recognised as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method (out-put method) to determine the appropriate amount of revenue and costs to be recognised in a given period. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred and it is probable that such costs incurred will be recovered.

Property management revenue

Property management revenue is recognised in the accounting period in which the services are rendered.

Hotel operations

Revenue from hotel operations represents the income from hotel accommodation, conference hall services and the sale of related food and beverages, which is recognised when the services are rendered or goods are sold.

Interest income

Interest income is recognised on an accrual basis using the effective interest method.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established.

Employee benefits

Employee retirement scheme

The employees of the Group's entities which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute 14% to 22% (2016: 14% to 22%) of the standard salary announced by the government to the central pension scheme. The contributions are charged to the statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme. In addition, the Group participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's basic salaries are made by the employer and the Hong Kong employees, respectively. The provision and contributions have been included in the statement of profit or loss and other comprehensive income upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Group operates an equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a weighted average capitalisation rate has been applied to the expenditure on the individual assets.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Where the grant relates to an asset, the fair value is deducted from the relevant asset before arriving at the carrying amount of the asset and released to the statement of profit or loss and other comprehensive income by way of a reduced cost of assets' charge. Grants received in connection with the Group's role in planning and constructing the ancillary public facilities are deducted from the development cost of the ancillary public facilities and would be recognised indirectly in the form of an increased profit margin over the course of recognising revenue in connection with the ancillary public facilities services.

Dividends

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

For a distribution of non-cash assets to shareholders, the Group measures the liability to distribute non-cash assets as a dividend to its shareholders at the net carrying amount of the assets to be distributed when the non-cash asset is ultimately controlled by the same parties both before and after the distribution.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

Foreign currencies

(a) Functional and presentation currencies

Items included in the financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's and its major subsidiaries' functional currency is Renminbi ("RMB"), as the major revenues are derived from operations in Mainland China. Since the year ended 31 December 2016, the Group has changed its presentation currency from HK$ to RMB for the preparation of its financial statements.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

(b) Transactions and balances

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of the Group are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period;

(ii) income and expenses of the Group are translated into the presentation currency at the average exchange rates for the period (unless such average rates are not the reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated into the presentation currency at the exchange rates ruling at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

(c) Group companies (continued)

For the purpose of the consolidated statement of cash flows, the cash flows of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of which arise throughout the year are translated into the presentation currency at the weighted average exchange rates for the year.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, if any, and all monetary items that provide an effective hedge for such investments, if any, are recognised in other comprehensive income. When a foreign operation is disposed of, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amount of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group. Contingent liabilities (except for contingent liabilities recognised in a business combination) and assets are not recognised on the statement of financial position of the Group and the Company.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments – Group as lessor

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

Classification of subsidiary, joint venture and associate

In the normal course of business, the Group develops properties together with other developers or institutions, through entering into co-operation agreements with these parties. The rights and obligations of the Group and the other parties are stipulated by respective co-operation agreements, article of associations of the project companies, etc. Because of the complexity of the arrangements, significant judgement is needed in determining whether the project company is subsidiary, joint venture or associate of the Group.

The Group makes judgement based on the substance of the arrangements and the definition of subsidiary, joint venture and associate as disclosed in Notes 2.4.

Estimation uncertainty

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

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period during the years ended 31 December 2017 and 31 December 2016 using the term and reversion method on the basis of capitalisation of net rental income derived from the existing tenancies with due allowance for reversionary income potential of the property interest. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

For details of change in fair values of investment properties and further details including the key assumptions used for fair value measurement and a sensitivity analysis in 2017, please see Note 18.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of available-for-sale investments

The fair value of available-for-sale financial assets that are not traded in an active market is determined by using valuation techniques or net asset value. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Impairment of receivables

Impairment of receivables is made based on assessment of the recoverability of receivables. The identification of impairment of receivables requires management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimation, such difference will have impact on the carrying value of the receivables and impairment of receivables/ reversal of impairment in the period in which such estimate has been changed.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was approximately RMB16 million (2016: approximately RMB16 million). For details of goodwill, please see Note 20.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment test exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Purchase price allocation related to business combination

The purchase price was allocated to the identifiable assets and liabilities acquired based on management's estimates of fair value. The valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from existing rental fee or current prices in an active market for similar properties, together with the location, the size and the age of the properties, and uses assumptions that are mainly based on market conditions existing on acquisition date.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets and liabilities and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of these provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the domicile of the respective group entity.

Deferred tax assets are recognised for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed. For details of deferred tax assets and liabilities and income tax, please see Note 33 and Note 12.

4. OPERATING SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board. The Board monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. The Board has determined the operating segments based on the Group's products and services. The performance of each segment is evaluated based on its operating profit or loss before income tax and the methodology used for its calculation is same as that for the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

In April 2016, the Group decided to make a strategic shift in its business focus and disposed all its 56% equity interest in Shanghai Skyway Hotel Co., Ltd. ("Skyway") which owned and operated the major hotel of the Group. Thereafter the Board considered that the remaining hotel operation after the disposal was no longer material to constitute a separate reportable segment and in the future, hotel operation will no longer be a business objective of the Group. The comparatives for 2015 have been restated by separately disclosing Skyway under discontinued operation. The new reportable operating segments since the year ended 31 December 2016 are as follows:

- The property development segment develops and sells residential and commercial properties;
- The property leasing segment leases offices and commercial properties owned by the Group which are classified as investment properties;

The other operations comprises, principally, the corporate activities that are not allocated to segments and miscellaneous insignificant operations including the remaining small scale hotel operation and provision of property management services.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows:

	2017			
	Continuing operations			
	Property development	Property leasing	Other operations	Total
Segment revenue				
Sales to external customers	1,382,707	151,644	86,122	1,620,473
Intersegment sales	–	–	31,780	31,780
	1,382,707	151,644	117,902	1,652,253
Reconciliation:				
Elimination of intersegment sales				(31,780)
Revenue				1,620,473
Segment profit	188,911	169,424	904,269	1,262,604
Finance income				57,153
Finance costs				(504,051)
Finance costs – net				(446,898)
Share of results of associates				74,332
Share of results of joint ventures				(12,049)
Profit before income tax				877,989
Segment assets and liabilities				
Segment assets	6,902,527	5,007,228	5,413,719	17,323,474
Investments in associates				1,043,140
Investments in joint ventures				4,018,705
Total assets				22,385,319
Segment liabilities	6,315,608	2,281,759	5,973,984	14,571,351
Total liabilities	6,315,608	2,281,759	5,973,984	14,571,351

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows (continued):

	2017			
	Continuing operations			
	Property development	Property leasing	Other operations	Total
Other segment information:				
Depreciation and amortisation	1,689	70	29,851	31,610
Capital expenditure*	132	987	2,753	3,872
Net fair value gain on investment properties	–	(55,165)	–	(55,165)
Impairment of investment in a joint venture	–	–	27,882	27,882
Write-down of properties held or under development for sale	1,663	–	–	1,663
Reversal of impairment of prepaid land lease payments	(156,850)	–	–	(156,850)
Provision for impairment of trade receivables	1,038	–	359	1,397
Provision for impairment of loans and receivables	120,006	–	–	120,006
Provision for impairment of other receivables	175,912	–	–	175,912

* Capital expenditure consists of additions of property, plant and equipment (RMB2,973 thousand) and adjustment of investment properties (RMB899 thousand).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows (continued):

	2016					
	Continuing operations				Discontinued operation	
	Property development	Property leasing	Other operations	Subtotal	Skyway	Total
Segment revenue						
Sales to external customers	3,001,624	80,847	281,300	3,363,771	38,760	3,402,531
Intersegment sales	–	–	32,116	32,116	–	32,116
	3,001,624	80,847	313,416	3,395,887	38,760	3,434,647
Reconciliation:						
Elimination of intersegment sales				(32,116)	–	(32,116)
Revenue				3,363,771	38,760	3,402,531
Segment (loss)/profit	(46,608)	33,606	87,197	74,195	550,246	624,441
Finance income				27,892	–	
Finance costs				(414,781)	(17,904)	
Finance costs – net				(386,889)	(17,904)	
Share of results of associates				465,549	–	
Share of results of joint ventures				(1,464)	–	
Profit before income tax				151,391	532,342	
Segment assets and liabilities						
Segment assets	11,133,274	5,498,330	3,835,502	20,467,106	–	20,467,106
Investments in associates						962,655
Investments in joint ventures						1,281,119
Total assets						22,710,880
Segment liabilities	3,771,484	4,184,257	7,703,078	15,658,819	–	15,658,819
Total liabilities	3,771,484	4,184,257	7,703,078	15,658,819	–	15,658,819

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows (continued):

	2016					
	Continuing operations				Discontinued operation	
	Property development	Property leasing	Other operations	Subtotal	Skyway	Total
Other segment information:						
Depreciation and amortisation	2,000	106	1,618	3,724	8,769	
Capital expenditure*	56	1,635	730	2,421	–	
Net fair value loss on investment properties	–	17,361	–	17,361	–	
Impairment of goodwill	98,354	–	–	98,354	–	
Reversal of impairment of properties held or under development for sale	(188,284)	–	–	(188,284)	–	
Reversal of impairment of prepaid land lease payments	(67,454)	–	–	(67,454)	–	
Provision for impairment of trade receivables	–	–	18,803	18,803	–	
Provision for impairment of loans and receivables	26,200	–	–	26,200	–	
Provision for impairment of other receivables	506	–	42,843	43,349	–	

* Capital expenditure consists of additions of property, plant and equipment (RMB869 thousand) and adjustment of investment properties (RMB1,552 thousand).

Geographical information

(a) For the year ended 31 December 2017, 96.0% (2016: 99.5%) of the sales to external customers of the Group are generated from Mainland China.

(b) Non-current assets

As of 31 December 2017, more than 92% (2016: more than 88%) of the Group's non-current assets (based on the locations of the assets and excludes financial instruments and deferred tax assets) were located in Mainland China.

Information about major customers

The Group's customers from whom the revenue is derived are widely dispersed. No customer or a single group of customers which are known to be under common control contributed 10% or more of the Group's revenue for the years ended 31 December 2017 and 2016.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

5. REVENUE

An analysis of revenue is as follows:

	2017	2016
Revenue from sale of properties	**1,394,541**	3,253,664
Revenue from property leasing (Note 18)	**153,370**	77,220
Revenue from property management	**14,888**	97,390
Revenue from construction of infrastructure for an intelligent network	**8,890**	27,947
Other revenue	**62,949**	29,281
	1,634,638	3,485,502
Less: Tax and surcharges (a)	**(14,165)**	(121,731)
Total revenue	**1,620,473**	3,363,771

(a) Tax and surcharges

Prior to 1 May 2016, business tax was calculated at 5% of the revenue from the sale of properties, hotel operations, the provision of property management services and property leasing and at 3% of the net income received from the construction of infrastructure for an intelligent network after deducting amounts payable to subcontractors.

Effective from 1 May 2016, the Group's revenue is subject to value-added tax ("VAT") which is deducted directly from the proceeds. The applicable VAT rate for the Group's revenue is as follows:

- Sale and lease of properties is subject to VAT at 11%. Qualified old projects, which are those with construction commenced on or before 30 April 2016, can adopt a simplified VAT method at a rate of 5% with no deduction of input VAT.

- Revenue from property management services is subject to VAT at 6%.

- Revenue from construction of infrastructure for an intelligent network is subject to VAT at 11%.

Government surcharges, comprising city maintenance and construction tax, education surtax and river way management fee, are calculated at certain percentages of business tax and VAT.

6. OTHER GAINS/(LOSSES) – NET

An analysis of other gains/(losses) – net is as follows:

	2017	2016
Net fair value gain/(loss) on investment properties (Note 18)	**55,165**	(17,361)
Net (loss)/gain on disposal of property, plant and equipment	**(332)**	3,960
Impairment of investment in a joint venture (Note 22)	**(27,882)**	–
Impairment of goodwill (Note 20)	**–**	(98,354)
Others	**(208)**	(15,477)
	26,743	(127,232)

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

7. EXPENSES BY NATURE

An analysis of expenses by nature is as follows:

	2017	2016
Cost of inventories sold (excluding depreciation, (reversal of impairment)/write-down of properties held or under development for sale and prepaid land lease payments)	**1,351,410**	3,022,122
Depreciation of items of property, plant and equipment (Note 17)	**27,254**	3,687
Employee benefit expenses (including directors' and chief executive officer's emoluments, excluding those capitalized in property under development):		
– Wages and salaries	**193,485**	88,847
– Other social welfares	**19,084**	16,143
– Share-based payments (Note 15)	**13,442**	43,353
	226,011	148,343
Write-down/(reversal of impairment) of properties held or under development for sale (Note 23)	**1,663**	(188,284)
Reversal of impairment of prepaid land lease payments (Note 19)	**(156,850)**	(67,454)
Professional service fees	**80,852**	34,146
Agent and sale commission for sale of properties	**29,262**	32,486
Operating lease payments in respect of buildings	**7,228**	4,515
Auditors' remuneration (*)		
– Annual audit services	**4,900**	4,500
– Non-audit services	**250**	–
Advertising costs	**7,889**	19,650
Miscellaneous tax	**28,163**	23,561
Transportation fee	**11,475**	7,452
Office expenses	**10,819**	10,895
Water and electricity costs	**5,115**	4,475
Provision for impairment of other receivables (Note 25)	**175,912**	43,349
Provision for impairment of trade receivables (Note 26)	**1,397**	18,803
Provision for impairment of loans and receivables (Note 28)	**120,006**	26,200
Others	**37,778**	25,801
	1,970,534	3,174,247

* Auditors' remuneration for 2017 included non-audit service fees of RMB250 thousand in respect of services for circulars issued in 2017.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

8. EMPLOYEE BENEFIT EXPENSES

	2017	2016
Wages and salaries	193,485	88,847
Share-based payments (Note 15)	13,442	43,353
Pension costs – defined contribution plans	19,084	16,143
Total employee benefit expenses	226,011	148,343

(a) Pensions – defined contribution plans

All Chinese employees of the Group participate in defined contribution employee social security plans, including pension, medical, housing and other welfare benefits, organised and administered by the governmental authorities. The Group has no other substantial commitments to employees.

(b) Five highest paid employees

The five highest paid employees of the Group during the year included two directors (2016: three directors), details of whose remuneration are set out in Note 11. Details of the remuneration for the year of the remaining three (2016: two) highest paid employees who are neither a director nor chief executive officer of the Company are as follows:

	2017	2016
Salaries, housing allowances, other allowances and benefits in kind	8,712	9,951

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

	2017	2016
RMB3,000,001 – RMB7,000,000	1	2
RMB2,000,001 – RMB3,000,000	1	–
RMB1,000,001 – RMB2,000,000	1	–
	3	2

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

9. FINANCE INCOME

An analysis of finance income is as follows:

	2017	2016
Interest from financial assets held for cash management purposes	57,153	27,892

10. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
Interest on bank borrowings and other borrowings	553,757	594,722
Less: Interest capitalised	(41,153)	(223,338)
Interest expense	512,604	371,384
Net foreign exchange loss	(8,553)	43,397
Finance costs	504,051	414,781

During the year ended 31 December 2017, the weighted average interest capitalisation rate was 4.12% (2016: 6.90%).

11. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out as follows:

	2017	2016
Fees	1,244	902
Other emoluments:		
Salaries	10,505	11,386
Share-based payments	13,386	31,089
	25,135	43,377

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

11. BENEFITS AND INTERESTS OF DIRECTORS (continued)

Executive directors, non-executive directors and independent non-executive directors:

	2017			
Name of directors and the chief executive officer	**Salaries**	**Fees**	**Share option scheme**	**Total**
Chairman				
– Mr. Peng Xinkuang (appointed in 2017)*	3,359	–	3,511	6,870
– Mr. He Binwu (resigned in 2017) *	1,298	–	–	1,298
Executive directors				
– Mr. Shi Janson Bing	1,384	–	1,097	2,481
– Mr. Chen Chao	52	–	1,756	1,808
– Mr. Zhu Qiang	980	–	2,633	3,613
– Mr. Chen Donghui (appointed in 2016)	52	–	1,756	1,808
– Ms. Qin Wenying (appointed in 2016)	1,951	–	2,633	4,584
Independent non-executive directors				
– Mr. Chan, Charles Sheung Wai	–	311	–	311
– Mr. Zhuo Fumin	–	311	–	311
– Mr. Ma Lishan (appointed in 2016)	–	311	–	311
– Mr. Han Gensheng (appointed in 2016)	–	311	–	311
Chief executive				
– Mr. Liu Feng (appointed in 2017)	1,429	–	–	1,429
Total	10,505	1,244	13,386	25,135

* In October 2017, Mr Peng Xinkuang, the chief executive officer of the Group, has been re-designated as the chairman of the Board.

* In October 2017, Mr. He Binwu resigned and his 160 million shares granted under the share option scheme was lapsed. The net reversal on expense was approximately RMB6.5 million.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

11. BENEFITS AND INTERESTS OF DIRECTORS (continued)

	2016			
Name of directors and the chief executive officer	Salaries	Fees	Share option scheme	Total
Chairman				
– Mr. He Binwu	3,103	–	6,460	9,563
Executive directors				
– Mr. Wang Zi Xiong (resigned in 2016)	1,037	–	–	1,037
– Mr. Shi Jian (removed from December 2015)	–	–	–	–
– Mr. Shi Janson Bing	1,431	–	2,019	3,450
– Mr. Chen Chao	54	–	3,230	3,284
– Mr. Zhao Xiaodong (appointed in 2015 and resigned in 2016)	22	–	–	22
– Mr. Zhu Qiang	1,187	–	4,845	6,032
– Mr. Chen Donghui (appointed in 2016)	31	–	3,230	3,261
– Ms. Qin Wenying (appointed in 2016)	1,298	–	4,845	6,143
Independent non-executive directors				
– Mr. Chan, Charles Sheung Wai	–	300	–	300
– Mr. Zhuo Fumin	–	322	–	322
– Mr. Yang Chao (retired in 2016)	–	–	–	–
– Mr. Guoping (resigned in 2016)	224	–	–	224
– Mr.Ma Lishan (appointed in 2016)	–	211	–	211
– Mr.Han Gensheng (appointed in 2016)	–	69	–	69
Chief executive				
– Mr. Peng Xinkuang	2,999	–	6,460	9,459
Total	11,386	902	31,089	43,377

No discretionary bonuses, inducement fees, employer's contribution to pension schemes or compensation for loss of office as directors were given to any of the directors during the years ended 31 December 2017 and 2016.

There was no arrangement under which a director or the chief executive officer waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2016.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

12. INCOME TAX EXPENSE/(CREDIT)

An analysis of income tax is as follows:

	2017	2016
Current taxation		
– Mainland China income tax (a)	48,981	117,500
– Mainland China LAT (c)	(77,135)	130,472
	(28,154)	247,972
Deferred taxation		
– Mainland China income tax	184,708	44,849
– Mainland China LAT	(2,306)	(3,047)
– Mainland China withholding tax (d)	3,437	(2,179)
	185,839	39,623
Total tax charge for the year	157,685	287,595

(a) Mainland China income tax

The Group conducts a significant portion of its business in Mainland China and the applicable income tax rate of its subsidiaries operating in Mainland China is generally 25% in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of sale transactions and revenue recognition based on certain estimations. The outstanding balance recorded in "prepaid income tax" was approximately RMB50 million as at 31 December 2017 (2016: approximately RMB33 million). Such prepaid taxes are initially recorded in the statement of financial position and later released to profit or loss upon revenue recognition.

12. INCOME TAX EXPENSE/(CREDIT) (continued)

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2035. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2016: Nil).

(c) Mainland China land appreciation tax ("LAT")

LAT is incurred upon transfer of property and land ownership and is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures.

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transactions and revenue recognition, generally based on 2% to 5% (2016: 2% to 5%) on proceeds from the sale and pre – sale of properties. Prepaid LAT has been recorded in "prepaid income tax" with an amount of approximately RMB46 million as at 31 December 2017 (2016: approximately RMB63 million). Such prepaid taxes are initially recorded in the statement of financial position and later released to profit or loss upon revenue recognition. The credit to the statement of profit or loss and other comprehensive income in 2017 was due to the reversal of provision upon the final assessment of LAT for certain projects.

(d) Mainland China withholding tax

Pursuant to the PRC Corporate Income Tax Law which became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China and on gain from disposal of equity interests to non-tax resident enterprises. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from retained profits as at 31 December 2007 are exempted from withholding tax.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

12. INCOME TAX EXPENSE/(CREDIT) (continued)

(d) Mainland China withholding tax (continued)

A reconciliation of the tax expense applicable to profit before income tax using the statutory tax rate of 25% for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

	2017	2016
Profit before income tax	877,989	151,391
Tax at the applicable tax rate of 25%	219,497	37,848
Effect of different tax rate	(2,096)	(560)
Tax effect of results attributable to associates and joint ventures	(15,571)	(116,021)
Impact of LAT (which is itself classified as part of income tax) as it is deductible for income tax purposes	19,860	(31,856)
Income not subject to tax	(25,396)	(13,372)
Utilisation of previously unrecognized tax losses	(193,764)	–
Tax losses not recognised	116,485	204,186
Temporary differences not recognised as deferred tax assets due to non-recoverability	113,815	54,498
Impairment of goodwill	–	24,588
Expenses not deductible for tax	859	3,038
Effect of withholding tax at 10% on the retained profits expected to be distributed, for the Group's subsidiaries in Mainland China	3,437	(2,179)
Mainland China income tax	237,126	160,170
Mainland China LAT (including deferred LAT)	(79,441)	127,425
Total tax expense for the year at the Group's effective tax rate	157,685	287,595

The share of taxes attributable to associates amounting to approximately RMB41 million (2016: approximately RMB116 million) is included in "share of results of associates" and "share of results of joint ventures" on the face of the consolidated statement of profit or loss and other comprehensive income.

13. DIVIDENDS PAID AND PROPOSED

The Board of Directors has resolved not to recommend the payment of final dividend in respect of the year ended 31 December 2017 (2016: nil).

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic

Basic earnings per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Profit/(loss) from continuing operations attributable to owners of the Company	**690,543**	(254,660)
Profit from discontinued operation attributable to owners of the Company	–	486,420
	690,543	231,760
Weighted average number of ordinary shares in issue (thousands)	**20,564,713**	20,564,713

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The share options issued in 2016 constitute dilutive shares. For the Company's share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

For the years ended 31 December 2017 and 2016, as the average annual market share price of the Company's shares was lower than assumed exercise price including the fair value of any services to be supplied to the Group in the future under the share option arrangement, the impact of exercise of the share options on earnings/(loss) per share is anti-dilutive.

15. SHARE-BASED PAYMENTS

On 3 June 2016, the Board proposed to adopt a new share option scheme (the "Scheme") to reward the contributions made by the employees that are eligible under the Scheme (the "Eligible Employees"), which was approved and adopted by the shareholders of the Company on 6 July 2016.

On 14 July 2016, options to subscribe for a total of 1,073,717,976 new shares were offered to the Eligible Employees. The exercise price of the granted options is equal to the average closing prices per share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of the grant which is 14 July 2016. The options shall be vested in three tranches in accordance with the following vesting date and conditions: (i) 40% of the options shall be vested and exercisable from 30 August 2016 to 13 July 2021 at a condition of the Group achieving its target to turn losses into gains for the six months ended 30 June 2016; (ii) an additional 30% shall be vested and exercisable from 30 August 2017 to 13 July 2021 at a condition of the Group achieving a net profit of no less than RMB350 million for the six months ending 30 June 2017; and (iii) the remaining 30% shall be vested and exercisable from 30 August 2018 to 13 July 2021 at a condition of the Group achieving a growth rate of net profit of no less than 50% comparing the six months ending 30 June 2018 to the six months ending 30 June 2017. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

15. SHARE-BASED PAYMENTS (continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Average exercise price in HK$ per share option	**Number of share options (thousands)**	Average exercise price in HK$ per share option	Number of share options (thousands)
At 1 January	–	**1,073,718**	–	–
Granted	–	–	–	1,073,718
Lapsed (Note 11)	–	**(160,000)**	–	–
At 31 December	–	**913,718**	–	1,073,718

As at 31 December 2017, out of the 913,718 thousands (2016: 1,073,718 thousands) outstanding options, 639,603 thousands options (2016: 429,487 thousands options) were exercisable.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date – 13 July	**Exercise price in HK$ per share option**	**Number of share options (thousands) 2017**	**Number of share options (thousands) 2016**
2021	**0.2132**	**913,718**	**1,073,718**

The fair value of options granted during the period determined using the Binomial valuation model was divided into three trenches according to vesting period, being HK$7.80 cents per option for options vested on 30 August 2016, HK$7.99 cents per option for options to be vested on 30 August 2017 and HK$8.21 cents per option for options to be vested on 30 August 2018. The significant inputs into the model were closing share price of HK$0.2120 per share at the grant date, exercise price shown above, volatility of 46%, dividend yield of nil, an expected option life of 5, 4 and 3 years respectively, and an annual risk-free interest rate of 0.69%. The volatility measured at the standard deviation of continuously compounded share returns is based on the average rate of comparable companies. See Note 7 for the total expense recognised in the statement of profit or loss and other comprehensive income for share options granted to directors and employees.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

16. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
At 1 January	**642,806**	11,500
Additions	**261,999**	642,806
Fair value change during the year	**2,030**	–
Disposals	**(497,200)**	(11,500)
Currency translation differences	**(1,845)**	–
At 31 December	**407,790**	642,806
Less: Non-current portion		
Secured loan packages	**(382,836)**	(380,806)
Investment in South Gordon Estate Pty Ltd ("South Gordon")	**(24,954)**	–
	(407,790)	(380,806)
Current portion	**–**	262,000

Breakdown of available-for-sale investments:

At 31 December 2017:

		Percentage of shares (%)	Cost at 31 December 2017	Fair value at 31 December 2017	% to total assets at 31 December 2017
Investment					
Secured loan package from Industrial and Commercial Bank of China ("ICBC")	(a)	**Not applicable**	**175,806**	**175,806**	**0.8%**
Secured loan package from China Minsheng Bank ("CMSB")	(a)	**Not applicable**	**205,000**	**207,030**	**0.9%**
Investment in South Gordon	(b)	**Not applicable**	**24,954**	**24,954**	**0.1%**
Total			**405,760**	**407,790**	**1.8%**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

16. AVAILABLE-FOR-SALE INVESTMENTS (continued)

At 31 December 2016:

		Percentage of shares (%)	Cost at 31 December 2016	Fair value at 31 December 2016	% to total assets at 31 December 2016
Investment					
Secured loan package from Industrial and Commercial Bank of China ("ICBC")	(a)	Not applicable	175,806	175,806	0.7%
Secured loan package from China Minsheng Bank ("CMSB")	(a)	Not applicable	205,000	205,000	0.9%
Structured deposits with banks	(c)	Not applicable	262,000	262,000	1.2%
Total			642,806	642,806	2.8%

(a) As at 31 December 2017, the Group held the secured loan packages originated from Industrial and Commercial Bank of China and China Minsheng Bank with fair value of approximately RMB176 million (2016: approximately RMB176 million) and RMB207 million (2016: approximately RMB205 million) respectively. The fair value of the secured loan packages are based on valuation techniques. The fair value is within level 3 of the fair value hierarchy. The significant unobservable inputs are the adjusted unit market value of the comparative properties. The Group did not make any provision against the balance as it is believed that the properties pledged against such receivables will be sufficient to cover the outstanding loan balance.

(b) As at December 2017, the balance was related to a loan granted with variable return to an unlisted company in Australia with a term of one and a half years. According to the terms, neither repayment of principal nor investment returns are guaranteed for such investment products.

(c) As at December 2016, the balance represented structured deposits with banks which were purchased by the Group to earn higher returns from liquid funds. According to the terms, neither repayment of principal nor investment returns are guaranteed for such investment products.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

16. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Movement of available-for-sale investments for the year ended 31 December 2017:

	Secured loan package from ICBC	Secured loan package from CMSB	Structured deposits with banks	Investment in South Gordon	Total
Beginning of the year	175,806	205,000	262,000	–	642,806
Current year addition	–	–	235,200	26,799	261,999
Fair value change during the year	–	2,030	–	–	2,030
Currency translation differences	–	–	–	(1,845)	(1,845)
Disposal	–	–	(497,200)	–	(497,200)
Disposal gain	–	–	–	–	–
End of the year	175,806	207,030	–	24,954	407,790
Dividend received	–	–	–	–	–

Movement of available-for-sale investments for year ended 31 December 2016:

	Secured loan package from ICBC	Secured loan package from CMSB	Structured deposits with banks	Investment in Shanghai Zhufu Investment Co., Ltd	Total
Beginning of the year	–	–	1,500	10,000	11,500
Current year addition	175,806	205,000	262,000	–	642,806
Fair value change during the year	–	–	–	–	–
Disposal	–	–	(1,500)	(10,000)	(11,500)
Disposal gain	–	–	–	–	–
End of the year	175,806	205,000	262,000	–	642,806
Dividend received	–	–	–	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

17. PROPERTY, PLANT AND EQUIPMENT

	2017				
	Buildings	Leasehold improvements	Furniture, fittings, fixtures and office equipment	Motor vehicles	Total
Cost					
Beginning of year	658,526	2,767	109,410	28,767	799,470
Additions	970	–	2,003	–	2,973
Disposal of subsidiaries (Notes 43)	–	–	(428)	–	(428)
Disposals	–	–	(5,527)	(4,582)	(10,109)
End of year	659,496	2,767	105,458	24,185	791,906
Accumulated depreciation and impairment					
Beginning of year	5,831	1,914	5,271	23,854	36,870
Depreciation charge (Note 7)	17,668	853	7,671	1,062	27,254
Disposal of subsidiaries (Notes 43)	–	–	(390)	–	(390)
Disposals	–	–	(5,055)	(4,038)	(9,093)
End of year	23,499	2,767	7,497	20,878	54,641
Net carrying amount					
Balance, end of year	635,997	–	97,961	3,307	737,265
Balance, beginning of year	652,695	853	104,139	4,913	762,600

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

17. PROPERTY, PLANT AND EQUIPMENT (continued)

	2016					
	Buildings	Leasehold improvements	Furniture, fittings, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost						
Beginning of year	418,529	3,286	306,969	46,036	74	774,894
Acquisition of subsidiaries (Note 40)	637,884	–	101,061	1,349	–	740,294
Additions	–	–	1,527	5	–	1,532
Disposal of subsidiaries (Notes 42 and 43)	(397,887)	(519)	(299,902)	(8,588)	–	(706,896)
Disposals	–	–	–	(8,198)	(74)	(8,272)
Reclassified to held for sale (Note 41)	–	–	(245)	(1,837)	–	(2,082)
End of year	658,526	2,767	109,410	28,767	–	799,470
Accumulated depreciation and impairment						
Beginning of year	90,287	1,522	251,141	39,158	–	382,108
Depreciation charge (Note 7) – continued operations	997	842	792	1,056	–	3,687
Depreciation charge – discontinued operation	2,544	–	5,827	18	–	8,389
Disposal of subsidiaries (Notes 42 and 43)	(87,997)	(418)	(252,263)	(7,038)	–	(347,716)
Disposals	–	(32)	(48)	(7,690)	–	(7,770)
Reclassified to held for sale (Note 41)	–	–	(178)	(1,650)	–	(1,828)
End of year	5,831	1,914	5,271	23,854	–	36,870
Net carrying amount						
Balance, end of year	652,695	853	104,139	4,913	–	762,600
Balance, beginning of year	328,242	1,764	55,828	6,878	74	392,786

Depreciation expenses from continuing operations of approximately RMB6,880 thousand (2016: approximately RMB305 thousand), of approximately RMB21 thousand (2016: approximately RMB30 thousand) and of approximately RMB20,353 thousand (2016: approximately RMB3,352 thousand) had been respectively expensed in cost of goods sold, selling and marketing expenses and administrative expenses.

As at 31 December 2017, the property, plant and equipment with a net carrying amount of RMB133,493 thousand (2016: RMB133,657 thousand) were pledged as collateral for the Group's bank and other borrowings (Note 32).

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

18. INVESTMENT PROPERTIES

Completed investment properties

	2017	2016
At beginning of year	**5,270,895**	4,796,996
Direct acquisition	–	1,052,407
Acquisition of subsidiaries (Note 40)	–	712,301
Disposal of subsidiaries (Notes 41, 42 and 43)	–	(1,275,000)
Net fair value gain/(loss) (Note 6)	**55,165**	(17,361)
Additions in cost	**899**	1,552
Currency translation differences	**48,240**	–
At end of year	**5,375,199**	5,270,895

The investment properties as at 31 December 2017 mainly represent the following properties:

– Shanghai Oasis Central Ring Centre – Portions of eight multi-storey shopping malls and car-park places at Putuo District, Shanghai, with a total fair value of approximately RMB1,041 million, for which the operating leases entered into have terms ranging from 1 to 12 years;

– Shenyang Richgate Shopping Mall – A seven-storey shopping mall at Shenhe District, Shenyang, with a total fair value of approximately RMB2,436 million, for which the operating leases entered into have terms ranging from 1 to 10 years; and

– Shanghai Lake Malaren Transportation Hub – A five-storey shopping mall at Baoshan District, Shanghai, with a total fair value of approximately RMB237 million, for which the operating leases entered into have terms ranging from 1 to 13 years; and

– Shanghai Lake Malaren Commercial Street – A commercial street at Baoshan District, Shanghai, with a total fair value of approximately RMB540 million, for which the operating leases entered into have terms ranging from 1 to 6 years; and

– 41 Tower Hill – A ten-storey office building at 41 Tower Hill, London, UK, with a total fair value of approximately Great Britain Pound ("GBP") 90 million (equivalent to approximately RMB792 million), for which the operating leases entered into have terms ranging from 2.5 to 4 years; and

– 12 Moorgate – An eight-storey office building at 12 Moorgate, London, UK, with a total fair value of approximately GBP35 million (equivalent to approximately RMB307 million), for which the property was let in its entirety with a remaining lease term of 6 years; and

As at 31 December 2017, the Group had no unprovided contractual obligations for future repairs and maintenance (2016: Nil).

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

18. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

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

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Recurring fair value measurement for:				
Commercial properties	**–**	**–**	**5,168,199**	**5,168,199**
Car parks	**–**	**–**	**207,000**	**207,000**
	–	**–**	**5,375,199**	**5,375,199**

	Fair value measurement as at 31 December 2016 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:				
Commercial properties	–	–	5,040,702	5,040,702
Car parks	–	–	230,193	230,193
	–	–	5,270,895	5,270,895

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

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

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

18. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

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

	Commercial properties	Car parks	Total
Carrying amount at 1 January 2016	4,563,572	233,424	4,796,996
Direct acquisition	1,052,407	–	1,052,407
Acquisition of subsidiaries (Note 40)	712,301	–	712,301
Disposal of a subsidiary (Notes 41, 42 and 43)	(1,275,000)	–	(1,275,000)
Net fair value loss (Note 6)	(14,130)	(3,231)	(17,361)
Addition in cost	1,552	–	1,552
Carrying amount at 31 December 2016 and 1 January 2017	**5,040,702**	**230,193**	**5,270,895**
Net fair value gain/(loss) (Note 6)	**78,358**	**(23,193)**	**55,165**
Additions in cost	**899**	**–**	**899**
Currency translation differences	**48,240**	**–**	**48,240**
Carrying amount at 31 December 2017	**5,168,199**	**207,000**	**5,375,199**

As at 31 December 2017, the Group's investment properties were valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle"), an independent professionally qualified property valuer and consultant. The Group's finance team will review the valuation performed by the independent valuer, including:

- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the prior year valuation report;
- holds discussions with independent valuers.

The valuations were performed based on the income approach (term and reversion method or direct capitalisation method) or direct comparison approach for those investment properties. The following significant unobservable inputs for income approach have been used:

Yield	**2017**	2016
Shanghai Oasis Central Ring Centre	**6%-6.5%**	6%-6.5%
Shenyang Richgate Shopping Mall	**4.5%-6%**	4.5%-6%
Shanghai Lake Malaren Transportation Hub	**3.5%-5%**	4%-6%
Shanghai Lake Malaren Commercial Street	**4.5%-5%**	5.5%-6%
41 Tower Hill, London	**5.5%-6%**	5.8%-6.3%
12 Moorgate, London	**4%-4.5%**	4%-4.5%

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

18. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value at 31 Dec 2017	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Commercial properties – Mainland China	4,276,043 (2016: 4,210,375)	Income approach	Term yield	Term yield of 3.5%-6.5% (2016: 4%-6%), taking into account of yield generated from comparable properties and adjustment to effect the certainty of term income secured and to be received	The higher the term yield, the lower the fair value
			Reversionary yield	Reversionary yield of 4%-6.5% (2016: 4.5%-6.5%), taking into account annual unit market rental income and unit market value of the comparable properties	The higher the reversionary yield, the lower the fair value
			Market unit rent of individual unit	RMB46-RMB285 (2016: RMB45-RMB282) per square metre per month	The higher the market unit rent, the higher the fair value
Commercial properties – UK	1,099,156 (2016: 1,060,520)	Income approach	Term yield	Term yield of 4%-5.5% (2015: 4%-5.8%), taking into account of yield generated from comparable properties and adjustment to effect the certainty of term income secured and to be received	The higher the term yield, the lower the fair value
			Reversionary yield	Reversionary yield of 4.5%-6% (2016: 4.5%-6.3%), taking into account annual unit market rental income and unit market value of the comparable properties	The higher the reversionary yield, the lower the fair value
			Market unit rent of individual unit	RMB421-RMB527 (2016: RMB403-RMB508) per square metre per month	The higher the market unit rent, the higher the fair value

The term and reversion method measures the fair value of the property by taking into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates. The direct capitalisation method measures the fair value of the property by assuming a stabilised economic income capitalised by a market yield rate. The market yield was developed based on the research on the sales and rental evidences of the similar properties in the surrounding market and assuming the existing tenancy will be extended. A significant increase/(decrease) in the estimated market yield would result in a significant decrease/(increase) in the fair value of the investment properties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

18. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Were the rental rate and yield rate required assumed to increase or decrease by 10% from management's estimate, the carrying amount of investment properties as at 31 December 2017 and 2016 would have changed as follows:

	2017	2016
Investment properties increase/(decrease)		
– 10 percent rental rate higher	**5,900,121**	5,783,321
– 10 percent rental rate lower	**4,848,955**	4,786,182
Investment properties increase/(decrease)		
– 10 percent yield rate used higher	**4,956,830**	4,876,988
– 10 percent yield rate used lower	**5,855,706**	5,753,418

As at 31 December 2017, the Group's investment properties of approximately RMB5,116 million (2016: approximately RMB3,984 million) were pledged as collateral for the Group's bank and other borrowings (Note 32).

In May 2014, the property held by Shenyang Huarui Shiji Asset Management Co., Ltd., a subsidiary of the Group ("the Subsidiary"), which had already been pledged for the subsidiary's own borrowings, was also second pledged to a bank ("the Bank") for loan facilities to six companies amounting to approximately RMB175 million in form. In substance, the Subsidiary and the six companies participated in the arrangement so that the Bank could derecognize non-performing loans on its books using the loan proceeds i.e. the apparent disposal of non-performing loans in order to manage its non-performing loans ratio, which in reality had not taken place at that time. Neither the Subsidiary nor the six companies held on to the loan proceeds nor were involved in the management of the non-performing loans and the Bank had provided an officially stamped letter of undertaking which essentially absolve the companies participating in the arrangement from any economic losses, arising from litigation or the performance of the non-performing loans. The Group took steps to release the second mortgage on 30 March 2016. The Directors are of the view that this arrangement no longer has any financial impact on the Group as of 31 December 2017 and 2016.

The following amounts relating to the investment properties have been recognised in the consolidated statement of profit or loss and other comprehensive income:

	2017	2016
Rental income (Note 5)	**153,370**	77,220
Direct operating expenses arising from investment properties that generate rental income	**(28,120)**	(17,400)
Gain/(loss) from increase/(decrease) in fair value (Note 6)	**55,165**	(17,361)

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

19. PREPAID LAND LEASE PAYMENTS

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2017	2016
At beginning of year	2,840,907	3,978,402
Additions	113,458	376,951
Acquisition of subsidiaries (Note 40)	–	433,344
Disposals with the sale of completed properties	(334,098)	(947,113)
Disposal of subsidiaries (Notes 41, 42 and 43)	(559,375)	(39,749)
Amortisation capitalised as properties under development for sale	(103,134)	(97,869)
Amortisation provided during the year – continuing operations	(4,356)	(37)
Amortisation provided during the year – discontinued operation	–	(380)
Reversal of impairment of prepaid land lease payments (Note 7)	156,850	67,454
Reclassified to held for sale (Note 41)	–	(930,096)
At end of year	2,110,252	2,840,907

	2017	2016
Analysed as:		
Non-current: In relation to properties classified under property, plant and equipment	204,403	208,759
Current: In relation to properties held or under development for sale	1,905,849	2,632,148
	2,110,252	2,840,907

The movements in (reversal of impairment)/write-down of prepaid land lease payments are as follows:

	2017	2016
At 1 January	535,180	602,634
Reversal of impairment of prepaid land lease payments recognised	(156,850)	(67,454)
Disposal of subsidiaries (Notes 41, 42 and 43)	(52,306)	–
At 31 December	326,024	535,180

As at 31 December 2017, the Group's leasehold land of approximately RMB117,667 thousand (2016: approximately RMB48,548 thousand) was pledged as collateral for the Group's bank and other borrowings (Note 32).

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

20. GOODWILL

	2017	2016
Cost		
At beginning of year	**491,006**	566,872
Reclassified to held for sale (Note 41)	–	(75,866)
At end of year	**491,006**	491,006
Accumulated impairment		
At beginning of year	**474,735**	376,381
Impairment losses recognised (Note 6)	–	98,354
At end of year	**474,735**	474,735
Net carrying amount		
Balance, end of year	**16,271**	16,271
Balance, beginning of year	**16,271**	190,491

Impairment testing of goodwill

As at 31 December 2017, Goodwill acquired through certain business combinations has been mainly allocated to the following cash-generating units for impairment testing:

– Shanghai Haibo Property Development Co.,Ltd. (Haibo)

– Shanghai Xiabo Industry Ltd. (Xiabo)

As at 31 December 2017, these cash-generating units are parcels of land in the city of Shanghai. As at 31 December 2016, cash-generating units were parcels of land in the city of Shanghai and properties currently under development on these parcels would be available for sale in the forthcoming one to four years.

As at 31 December 2017, the recoverable amount Haibo and Xiabo project cash-generating units had been determined based on a fair value calculation using residual method. A professional valuer, Jones Lang LaSalle, was engaged to assist the Group in determining the estimated fair value. The recoverable amounts applied to the residual method is approximately RMB214 million for Haibo and RMB111 million for Xiabo (2016: RMB210 million for Haibo and RMB108 million for Xiabo). The carrying amounts applied to the residual method is approximately RMB175 million for Haibo and RMB78 million for Xiabo (2016: RMB 175 million for Haibo and RMB78 million for Xiabo).

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

20. GOODWILL (continued)

Movement of net carry amount of goodwill is as follows:

	Opening	Impairment	Closing
Shenyang Albany Oasis Garden (a)	–	–	–
Huating (b)	–	–	–
Haibo	12,297	–	12,297
Xiabo	1,847	–	1,847
Others	2,127	–	2,127
	16,271	–	16,271

The cost of goodwill allocated to each of the major cash-generating units before impairment is as follows:

	2017	2016
Shenyang Albany Oasis Garden	**316,653**	316,653
Huating	**144,354**	144,354
Haibo	**12,297**	12,297
Xiabo	**1,847**	1,847
Others	**15,855**	15,855
	491,006	491,006

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill with the assistance from Jones Lang LaSalle:

– Selling prices – The market prices of comparable properties nearby

– Construction costs – The estimated costs including infrastructure costs to complete the property development projects

– Discount rates – The discount rates used are before income tax and reflect specific risks relating to the relevant cash – generating units

The values assigned to key assumptions are based on historical experiences, current market condition, approved budgets and forecasts, and are consistent with external information sources.

(a) As at 31 December 2015, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill arising from the acquisition of Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao") was higher than its recoverable amount. Considering the current market condition in Shenyang and the actual selling price of Shenyang Albany Oasis Garden (Phases II and III), the Group estimated that the future cash flows that could be generated from the sale of this property (including the remaining developed Phase II and Phase III under development) would probably be reduced, resulting in the significant decrease of value-in-use. As a result, the Group provided an impairment loss of approximately RMB259 million in the consolidated financial statements for the year ended 31 December 2015. In addition to the goodwill impairment recognised, impairment provision was also made to state the properties held or under development for sale and prepaid land lease payments of Liaoning Gao Xiao at net realisable value (Note 23).

(b) As at 31 December 2016, with the sale of project Huating, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill arising from the acquisition of Shanghai Bairun Real Estate Co., Ltd. ("Bairun") was higher than its recoverable amount. Accordingly, the Group provided an impairment loss of approximately RMB98 million in the consolidated financial statements for the year ended 31 December 2016.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

21. INVESTMENTS IN ASSOCIATES

	2017	2016
Share of net assets	1,043,140	962,655
Less: Provision for impairment	–	–
	1,043,140	962,655

As at the 31 December 2017, the Company had indirect interests in the following associates:

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest Held by the Company	Proportion of ownership interest Indirectly held	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC/Mainland China 6 May 1997	–	26%	RMB50,000,000	RMB50,000,000	Research and development of housing technology
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC/Mainland China 24 October 2000	–	19.80%*	RMB100,000,000	RMB100,000,000	Development and sale of netware and construction of broadband fibre projects
Mayson Resources Limited ("Mayson")	British Virgin Islands ("BVI") 29 January 2003	–	40%	HKD8	HKD8	Property sales
Shanghai Orda Opto-electronics Science & Tech Co.,Ltd.("Orda")	PRC/Mainland China 20 March 2000	–	24%	RMB11,000,000	RMB11,000,000	Research and development of optoelectronic products
Shanghai Shang Xin Richgate Investment Management Co., Ltd. ("Richgate")	PRC/Mainland China 14 July 2011	–	25%	RMB9,100,000	RMB9,100,000	Investment management
Shanghai Real Estate Asset Management Co. Ltd ("SRE Asset") (a)	PRC/Mainland China 25 March 2016	–	20%	RMB35,000,000	RMB100,000,000	Investment management

* The Group considered that it is able to exercise significant influence over Broadband through its non-wholly-owned subsidiary which holds a 20% equity interest in Broadband.

(a) In August 2017, the Group disposed 50% of its 70% equity interest and lost control in the originally non-wholly owned subsidiary, which become an associate of the Group after the transaction (Note 43(c)).

The financial year end dates of the above associates are coterminous with that of the Group.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

21. INVESTMENTS IN ASSOCIATES (continued)

The Group's shareholdings in the associates comprise equity shares held through certain wholly-owned subsidiaries and non-wholly-owned subsidiaries of the Company. All the above associates have been accounted for using the equity method in the consolidated financial statements.

The commitments relating to the Group's interests in associates are presented in Note 39(a). There are no contingent liabilities relating to the Group's interests in the associates.

Extracts of financial information of principal associates

The following tables illustrate the financial information of the Group's principal associates as extracted from their financial statements:

(1) Broadband

	2017	2016
Current assets	**173,586**	145,912
Non-current assets	**47,221**	45,048
Current liabilities	**(65,388)**	(45,642)
Net assets	**155,419**	145,318
Revenue	**135,990**	110,132
Profit after tax	**14,338**	4,688
Total comprehensive income for the year	**14,338**	4,688
Dividend received	**847**	631

(2) Mayson

	2017	2016
Current assets	**4,709,029**	4,875,630
Non-current assets	**298,081**	304,778
Current liabilities	**(2,501,153)**	(2,814,559)
Non-current liabilities	**(40,922)**	(82,124)
Net assets	**2,465,035**	2,283,725
Revenue	**1,210,703**	8,554,646
Profit after tax	**181,310**	1,161,323
Total comprehensive income for the year	**181,310**	1,161,323
Dividend received	**–**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

21. INVESTMENTS IN ASSOCIATES (continued)

Extracts of financial information of principal associates (continued)

(3) SRE Asset

	2017
Current assets	430,508
Non-current assets	35
Current liabilities	(403,361)
Net assets	27,182
Revenue	1,676
Profit after tax	(4,628)
Total comprehensive income for the period	(4,628)
Dividend received	–

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in associates.

	Broadband		Mayson		SRE Asset	Others		Total	
	2017	2016	2017	2016	2017	2017	2016	2017	2016
Opening net assets	145,318	143,786	2,283,725	1,122,402	4,810	67,400	67,099	2,501,253	1,333,287
Profit/(loss) for the year	14,338	4,688	181,310	1,161,323	(4,628)	(532)	301	190,488	1,166,312
Capital injection	–	–	–	–	27,000	–	–	27,000	–
Dividends distribution	(4,237)	(3,156)	–	–	–	–	–	(4,237)	(3,156)
Closing net assets	155,419	145,318	2,465,035	2,283,725	27,182	66,868	67,400	2,714,504	2,496,443
Interest in associates	20%	20%	40%	40%	20%				
Goodwill and adjustments	(298)	(298)	–	–	638				
Carrying value	30,786	28,766	986,015	913,490	6,074	20,265	20,399	1,043,140	962,655

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

22. INVESTMENTS IN JOINT VENTURES

	2017	2016
Share of net assets	**4,046,587**	1,281,119
Less: Provision for impairment	**(27,882)**	–
	4,018,705	1,281,119

As at the 31 December 2017, the Company had indirect interests in the following joint ventures:

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest Held by the Company	Proportion of ownership interest Indirectly held	Issued and paid-up capital	Authorised share capital	Principal activities
Jiangsu Da Run Sensor Technology Co., Ltd. ("Da Run")	PRC/Mainland China 20 May 2010	–	12%*	RMB53,000,000	RMB53,000,000	Research and development of sensor
Yunnan Ming Zhen Hospital Management Co., Ltd. ("Ming Zhen") (a)	PRC/Mainland China 22 October 2014	–	–	RMB150,000,000	RMB150,000,000	Hospital management
SRegal Sinclair LLP("Sinclair") (b)	UK/London 30 September 2016	–	92.91%*	GBP13,400,000	GBP14,400,000	Property development
Ningbo Meishan Free Trade Zone Zhi Miao Investment Center LLP ("Ningbo Meishan') (c)	PRC/Mainland China 29 December 2016	–	19.10%*	RMB5,116,000,000	RMB5,116,000,000	Equity investment
Certain Business of Golden Luodian ("Relevant Business of Golden Luodian")	PRC/Mainland China 2016	–	72.63%*	RMB200,000,000	RMB200,000,000	Property development
75 Howard Owner LP ("75 Howard") (d)	USA/Delaware 27 March 2017	–	80%*	USD114,506,108	USD114,506,108	Property development
Shanghai Jinxin Real Estate Co., Ltd. ("Jinxin Real Estate") (e)	PRC/Mainland China 28 October 2002	–	51%*	RMB2,660,000,000	RMB2,660,000,000	Property development
Napa Lifestyle Holdings, LLC ("NAPA") (f)	USA/State of Delaware 2 January 2015	–	78.53%*	USD19,260,310	USD19,260,310	Property development
Shanghai Gaoxin Business Management Co., Ltd. ("Gao Xin") (g)	PRC/Mainland China 17 July 2017	–	50%	RMB8,000,000	RMB8,000,000	Management consulting

* The Group accounts for its investments in these companies as joint ventures although the Group holds more or less than 50% of equity interest. According to the investment agreements and articles of associations, the Group and the other investors will jointly control the key relevant activities of these companies.

22. INVESTMENTS IN JOINT VENTURES (continued)

(a) In July 2017, the Group disposed all of its equity interest of Ming Zhen at a consideration of approximately RMB62 million, with approximately RMB17 million gain.

(b) In September 2016, the Group entered into an agreement to set up Sinclair at a consideration of approximately GBP13 million (approximately RMB114 million), of which approximately GBP1.8 million (approximately RMB15 million) had been contributed as at 31 December 2016 and the remaining commitment was disclosed in Note 39. In January 2017, the Group paid the remaining consideration in Sinclair of approximately GBP11.5 million (equivalent to approximately RMB100 million).

(c) In December 2016, the Group entered into a joint venture agreement in relation to the formation of the joint venture of Ningbo Meishan with the total capital commitment of approximately RMB5,116 million, of which an aggregate of approximately RMB997 million, being approximately 19% of the total capital commitment, was contributed by the Group. In May 2017, the Group reduced its investment in Ningbo Meishan at a consideration of RMB20 million. Accordingly the Group's equity interest in Ningbo Meishan is decreased from 19.49% to 19.10%.

(d) In February 2017, the Group entered into an agreement with RDF 75 Howard LP to acquire 75 Howard at a consideration of approximately USD92 million (equivalent to approximately RMB631 million) with 80% equity interest in 75 Howard.

(e) In April 2017, the Group disposed 49% of its equity interest and lost control in the originally wholly-owned subsidiary, Jinxin Real Estate. As such, Jinxin Real Estate becomes a joint venture of the Group after the transaction (Note 43(a)).

(f) In May 2017, the Group entered into an agreement to acquire NAPA at a consideration of approximately USD15 million (equivalent to approximately RMB104 million) with 78.53% equity interest.

(g) In July 2017, the Group entered into an agreement to set up Gaoxin at a consideration of approximately RMB 4 million with 50% equity interest.

The financial year end dates of the above joint ventures are coterminous with that of the Group.

The Group's shareholdings in the joint ventures comprise equity shares held through certain wholly-owned subsidiaries and non-wholly-owned subsidiaries of the Company. All the above joint ventures have been accounted for using the equity method in the consolidated financial statements.

The commitments relating to the Group's interests in joint ventures are presented in Note 39(a). There are no contingent liabilities relating to the Group's interests in the joint ventures.

Extracts of financial information of principal joint ventures

The following tables illustrate the financial information of the Group's principal joint ventures as extracted from their financial statements:

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

22. INVESTMENTS IN JOINT VENTURES (continued)

Extracts of financial information of principal joint ventures (continued)

(1) Ningbo Meishan

	2017	2016
Current assets		
Cash and cash equivalents	2,050	130,300
Other current assets	387,153	129,700
Total current assets	389,203	260,000
Non-current assets	4,856,000	4,856,000
Current liabilities	(131,205)	–
Net assets	5,113,998	5,116,000
Revenue	–	–
Profit after tax	(2,002)	–
Total comprehensive income for the year	(2,002)	–
Dividend received	–	–

(2) Relevant Business of Golden Luodian

	2017	2016
Current assets		
Cash and cash equivalents	17,741	3,986
Other current assets	1,207,811	1,282,488
Total current assets	1,225,552	1,286,474
Non-current assets	963,566	999,793
Current liabilities	(1,884,251)	(1,879,611)
Non-current liabilities	(119,088)	(127,715)
Net assets	185,779	278,941
Revenue	84,627	–
Profit after tax	(93,162)	–
Total comprehensive income for the year	(93,162)	–
Eliminated interest cost	60,195	–
Dividend received	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

22. INVESTMENTS IN JOINT VENTURES (continued)

Extracts of financial information of principal joint ventures (continued)

(3) 75 Howard

	2017
Current assets	
Cash and cash equivalents	9,048
Other current assets	109
Total current assets	9,157
Non-current assets	750,216
Current liabilities	(4,743)
Net assets	754,630
Revenue	15,143
Profit after tax	5,958
Total comprehensive income for the year	5,958
Dividend received	–

(4) Jinxin Real Estate

	2017
Current assets	
Cash and cash equivalents	8,518
Other current assets	6,903,239
Total current assets	6,911,757
Non-current assets	445
Current liabilities	(30,155)
Non-current liabilities	(2,743,549)
Net assets	4,138,498
Revenue	–
Profit after tax	(2,502)
Total comprehensive income for the period	(2,502)
Dividend received	–

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

22. INVESTMENTS IN JOINT VENTURES (continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in joint ventures.

	Ningbo Meishan		Relevant Business of Golden Luodian		75 Howard	Jinxin Real Estate	Others		Total	
	2017	2016	2017	2016	2017	2017	2017	2016	2017	2016
Opening net assets	5,116,000	5,116,000	278,941	278,941	–	4,141,000	277,045	199,660	9,812,986	5,594,601
(Loss)/profit for the year/period after acquisition	(2,002)	–	(93,162)	–	5,958	(2,502)	(19,948)	(4,699)	(111,656)	(4,699)
Other Comprehensive Income	–	–	–	–	(161)	–	–	–	(161)	–
Capital injection/(reduction)	–	–	–	–	748,833	–	52,800	–	801,633	–
Closing net assets	5,113,998	5,116,000	185,779	278,941	754,630	4,138,498	309,897	194,961	10,502,802	5,589,902
Interest in joint ventures	19.10%	19.49%	72.63%	72.63%	80%	51%				
Impairment in joint ventures	–	–	–	–	–	–	(27,882)	–	(27,882)	–
Goodwill and adjustments	19	–	–	–	–	(12,670)				
Carrying value	976,618	997,000	134,932	202,595	603,704	2,097,964	205,487	81,524	4,018,705	1,281,119

23. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

	2017	2016
At cost	2,442,770	3,730,615
Less: Provision for impairment loss	(185,084)	(533,530)
	2,257,686	3,197,085
– In Shanghai City, PRC	449,387	707,534
– In Shenyang City, PRC	865,771	1,527,780
– In Wuxi City, PRC	–	76,508
– In Jiaxing City, PRC	325,898	481,231
– In Chengdu City, PRC	342,001	186,613
– In Dalian City, PRC	143,333	88,078
– In Changsha City, PRC	131,296	129,341
	2,257,686	3,197,085

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

23. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE (continued)

	2017	2016
Properties held or under development expected to be completed, at net realisable value		
– Within one year	**1,278,558**	1,718,574
– After one year	**979,128**	1,478,511
	2,257,686	3,197,085

The movements in (reversal of impairment)/write-down of properties held or under development for sale are as follows:

	2017	2016
At 1 January	**533,530**	721,814
Write-down/(reversal of impairment) of properties held or under development (Note 7)	**1,663**	(188,284)
Disposal of a subsidiary (Notes 43)	**(350,109)**	–
At 31 December	**185,084**	533,530

For year 2016, the reversal of impairment was mainly for the properties owned by Liaoning Gao Xiao with delivery of those properties that were written down in prior years and the recovery of the property market in certain cities.

As at 31 December 2017 and 2016, approximately RMB339 million (2016: approximately RMB75 million) of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank and other borrowings (Note 32).

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

24. PREPAYMENTS AND OTHER CURRENT ASSETS

	2017	2016
Non-current		
Prepayment (a)	**5,000**	5,000
Less: Provision for impairment (a)	**(5,000)**	(5,000)
	–	–
Current		
Prepaid business tax	**34,768**	35,260
Prepaid VAT	**29,874**	3,309
Prepayments (b)	**254,930**	333,578
Others	**15,543**	7,616
	335,115	379,763
Less: Provision for impairment	**(12,750)**	(6,250)
	322,365	373,513

(a) On 12 December 2013, the Company signed a letter of intent with a third party (the "Vendor") to acquire a 100% equity interest in a real estate company in Shanghai at a total consideration of RMB800 million. In connection with this transaction, the Group paid RMB5 million to the Vendor as earnest money. Due to the termination of the project as well as the low probability of collection of the aforementioned prepayment, full provision has been made for the earnest money as at 31 December 2017 and 2016.

(b) The prepayments as at 31 December 2017 mainly included approximately RMB7 million (2016: approximately RMB30 million) of prepayments for construction cost of properties under development, approximately RMB248 million (2016: approximately RMB248 million) of prepayments for leasehold land in the PRC and approximately RMB56 million as at 31 December 2016 of earnest money for investments in projects located in the United States.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

25. OTHER RECEIVABLES

	2017	2016
Receivables in connection with acquisition of Konmen Investment Limited (a)	–	66,486
Receivables from subsidiaries disposed of (Note 43)	339,224	163,812
Receivables from related parties (Note 45)	1,026,996	1,104,556
Advance to a non-controlling shareholder of a subsidiary	294,330	204,330
Receivable from disposal of a subsidiary (b)	12,862	12,862
Interest receivable from related parties (Note 45)	82,879	–
Others	191,598	177,195
	1,947,889	1,729,241
Less: Provision for impairment (Note 7)	(231,506)	(51,100)
Other receivables, net	1,716,383	1,678,141

(a) On 17 August 2007, SRE Investment Holding Limited ("SREI", or the "Vendor") and an independent third party (the "Original Shareholder") entered into an acquisition agreement (the "Vendor Acquisition Agreement"), pursuant to which the Vendor agreed to purchase, from the Original Shareholder, the entire issued share capital (the "Sale Share") of Konmen, which held a 70% interest in Liaoning Gao Xiao, at a consideration of HK$1,600 million.

On the same date, the Vendor and a subsidiary of the Company (the "Purchaser") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Purchaser agreed to purchase the Sale Share from the Vendor at a consideration of HK$1,600 million. Pursuant to the Acquisition Agreement, the consideration was satisfied by the Company issuing shares to the Vendor.

On 15 November 2007, a supplemental agreement was entered into between the Vendor, the Company, the Purchaser, the Original Shareholder and Konmen.

According to the above agreements, the Original Shareholder agreed to pay for the purchase of a land use right that will be held by Liaoning Gao Xiao, to bear certain liabilities ("the Liabilities") of Liaoning Gao Xiao and to reimburse Liaoning Gao Xiao the relevant amounts incurred in respect of the Liabilities, to the extent that they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. If the amounts reimbursed by the Original Shareholder under such arrangements are made to the Vendor, the Vendor agreed to transfer such amounts to the Group.

Pursuant to the above agreements, the Vendor has also undertaken to pay Liaoning Gao Xiao the above mentioned amounts, to the extent they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. In the event that Liaoning Gao Xiao failed to obtain the relevant land use right by 30 June 2009, the Vendor would undertake to pay the Company HK$1,600 million in cash on or before 30 December 2009. On 4 December 2009, the Special General Meeting of the Company passed a resolution that the Company shall not exercise its right under the above agreements and shall delay enforcement against the Vendor to 31 December 2012. In early 2013, the Group received from the Vendor the full settlement of the Land Purchase Cost and Liaoning Gao Xiao has consequently obtained the land use rights certificates for the entire site area of the Land.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

25. OTHER RECEIVABLES (continued)

(a) (continued)

As of 31 December 2016, the amount which would have to be reimbursed from the Vendor according to the agreements above, as such amount has not been paid for by the Original Shareholder or the Original Minority Shareholder, had been agreed between the Purchaser and the Vendor, as having a balance of approximately RMB 66 million, which has been fully repaid as of 31 December 2017.

(b) As of 31 December 2017 and 2016, this was the remaining consideration which has not been received for the disposal of a subsidiary, Skyway (Note 42).

All other receivables are non-interest-bearing and are normally settled within one year.

26. TRADE RECEIVABLES

	2017	2016
Trade receivables	**52,281**	51,668
Less: Provision for impairment	**(27,843)**	(26,805)
	24,438	24,863

An aged analysis of trade receivables as at the end of the reporting period, from the date when they were recognised, is as follows:

	2017	2016
Within 6 months	**18,056**	18,697
6 months to 1 year	**6,382**	4,388
1 to 2 years	**–**	20,113
Over 2 years	**27,843**	8,470
	52,281	51,668

The Group's sales of development properties and hotel operations are generally on a cash basis while the Group's trading terms with its customers for other operations are mainly on credit. The credit terms of the Group are generally within six months.

The Group's trade receivables are related to a large number of diversified customers. There is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

26. TRADE RECEIVABLES (continued)

An aged analysis of trade receivables neither past due nor impaired and those past due but not impaired is as follows:

	2017	2016
Neither past due nor impaired	17,809	17,897
Past due but not impaired:		
Within 30 days	247	–
31 to 60 days	–	2,391
61 to 90 days	–	–
91 to 120 days	–	–
Over 120 days	6,382	4,575
	6,629	6,966
	24,438	24,863

Receivables that were past due but not impaired are related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movements in the provision for impairment of trade receivables are as follows:

	2017	2016
At beginning of year	26,805	8,002
Additions (a) (Note 7)	1,397	18,803
Disposal of subsidiaries	(359)	–
At end of year	27,843	26,805

(a) The provision was made as at December 2017 as the directors of the Group consider the recoverability of the receivables is uncertain.

No provision for impairment of trade receivables was reversed during the year ended 31 December 2017 and 2016.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

27. CASH AND BANK BALANCES

	2017	2016
Cash on hand	**472**	353
Demand deposits	**1,140,431**	1,309,571
Time deposits with original maturity of no more than 3 months	**66,216**	200,000
Cash and cash equivalents	**1,207,119**	1,509,924
Pledged bank deposits (a)	**214,000**	–
Restricted bank deposits under a development project (b)	**–**	329
Restricted bank deposits relating to bank borrowings (c)	**4,626**	2,604
Restricted bank deposits relating to lawsuits	**27,170**	–
Restricted cash	**245,796**	2,933
Cash and bank balances	**1,452,915**	1,512,857

(a) As at 31 December 2017, bank deposits of approximately RMB214 million (2016: nil) were pledged as security for bank and other borrowings (Note 32).

(b) The balance represented deposits that are restricted from use, as a result of the guarantees provided by the Group in respect of the mortgage facilities granted by certain banks to certain purchasers of the Group's properties.

(c) An amount of approximately RMB5 million (2016: approximately RMB3 million) is restricted in connection with bank borrowings.

The carrying amounts of the cash and bank balances which are denominated in the following currencies are:

	2017	2016
HK$	**86,012**	170,894
United States dollars ("US$")	**261,137**	177,693
Singapore dollars	**1**	1
Australian dollars ("AUD")	**90,068**	–
GBP	**154,903**	14,934
RMB	**860,794**	1,149,335
	1,452,915	1,512,857

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Demand deposits earn interest at floating rates based on daily bank deposit rates. Time deposits earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents pledged and restricted deposits approximate to their fair values.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

28. LOANS AND RECEIVABLES

	2017	2016
Loans and receivables (a)	**1,892,011**	191,200
Less: Non-current portion		
Loans to a disposed subsidiary	**700,000**	–
Current portion	**1,192,011**	191,200
Less: Provision for impairment (b)	**(140,006)**	(26,200)
Loans and receivables, net	**1,752,005**	165,000

(a) The balance as at 31 December 2017 mainly represented the interest-bearing loans granted to a related party of approximately RMB1,172 million (Note 45(c)), to a subsidiary disposed of approximately RMB700 million with a provision of approximately RMB120 million (Note 43(e)), and to certain third parties. The balance as at 31 December 2016 mainly represented the interest-bearing loans granted to certain third parties, with approximately RMB165 million received as at December 2017.

(b) The provision was made as at December 2017 as the directors of the Group consider the recoverability of the receivables is uncertain.

29. OTHER NON-CURRENT ASSETS

	2017	2016
Prepayments for acquisition of certain real estate assets (a)	**660,800**	–
Receivables from land development (b)	**150,000**	–
Receivables from St Leonard project (c)	**–**	71,519
Other receivables (d)	**4,000**	12,000
Others (d)	**3,250**	9,750
	818,050	93,269
Less: Provision for impairment (d)	**(7,250)**	(21,750)
	810,800	71,519

(a) The balance represented prepayments for acquisition of certain real estate assets of approximately RMB661 million.

(b) The balance represented payments for land redevelopment of approximately RMB150 million in the PRC, with total capital commitment of approximately RMB270 million (Note 39(a)).

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

29. OTHER NON-CURRENT ASSETS (continued)

(c) In year 2016, the Group extended a loan to a real estate project company in Sydney, Australia. The principal of the loan is approximately AUD13 million (equivalent to approximately RMB64 million), term is 2.5 years, and annual interest rate is 25%. As at 31 December 2016, an interest receivable of approximately AUD1 million (equivalent to approximately RMB7 million) was recognized. As at 31 December 2017, the loan and interest has been fully repaid of approximately AUD17 million (equivalent to approximately RMB82 million).

(d) The balance of other receivables and others comprised a cash consideration of approximately RMB4 million (2016: approximately RMB12 million) and a non-cash consideration of approximately RMB3.25 million (2016: approximately RMB9.75 million) for the disposal of a former subsidiary in 2014. Full provision was made for such balances as at 31 December 2016 and as at 31 December 2017 as the directors of the Group consider the recoverability of the receivables is uncertain.

30. ISSUED SHARE CAPITAL AND SHARE PREMIUM

Shares

	2017	2016
Issued and fully paid:		
20,564,713 thousand (2016: 20,564,713 thousand) ordinary shares	**6,747,788**	6,747,788

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

		Amount		
	Number of shares (thousands)	**Issued capital**	**Share premium**	**Total**
At 1 January 2016, 31 December 2016 and 31 December 2017	**20,564,713**	**1,701,661**	**5,046,127**	**6,747,788**

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

31. OTHER RESERVES

	Surplus reserve	Exchange fluctuation reserve	Available-for-sale investments	Others	Total
At 1 January 2017	**365,455**	**3,379**	**–**	**(156,004)**	**212,830**
Other comprehensive losses, net of tax					
Currency translation differences	**–**	**352**	**–**	**–**	**352**
Revaluation – gross	**–**	**–**	**2,030**	**–**	**2,030**
Revaluation – tax	**–**	**–**	**(507)**	**–**	**(507)**
	–	**352**	**1,523**	**–**	**1,875**
Transactions with owners					
Appropriation from retained profits	**12,325**	**–**	**–**	**–**	**12,325**
Change in ownership interests in a subsidiary without change of control	**–**	**–**	**–**	**(32)**	**(32)**
Share-based payments (Note 15)	**–**	**–**	**–**	**13,442**	**13,442**
	12,325	**–**	**–**	**13,410**	**25,735**
At 31 December 2017	**377,780**	**3,731**	**1,523**	**(142,594)**	**240,440**

	Surplus reserve	Exchange fluctuation reserve	Available-for-sale investments	Others	Total
At 1 January 2016	340,425	7,008	–	(199,357)	148,076
Other comprehensive losses, net of tax					
Currency translation differences	–	(3,629)	–	–	(3,629)
Transactions with owners					
Appropriation from retained profits	25,030	–	–	–	25,030
Share-based payments (Note 15)	–	–	–	43,353	43,353
	25,030	–	–	43,353	68,383
At 31 December 2016	365,455	3,379	–	(156,004)	212,830

31. OTHER RESERVES (continued)

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's entities which are established in Mainland China has been transferred to reserve funds which are restricted as to use.

Companies within the Group, most of which are registered in the PRC as foreign invested entities, are required to make appropriations from statutory net profits to the reserve fund and the enterprise expansion fund, upon distribution of their post-tax profits of the current year. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the boards of directors of these companies.

Companies within the Group, which are registered in the PRC as domestic invested entities, are required to appropriate 10% of statutory net profits to the statutory surplus reserve, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profit, a company may make further contribution to the surplus reserve using its post-tax profit in accordance with a resolution of the board of directors.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017	2016
Other short-term borrowings		
– Unsecured, from parent company and companies ultimately controlled by the same company (c)	**600,000**	3,000,000
– Unsecured, from an associate (c)	**138,000**	–
– Unsecured, from others	**180,000**	–
	918,000	3,000,000
Current portion of long-term bank borrowings		
– Secured (a)	**621,173**	397,209
Current portion of other long-term borrowings		
– Secured (b)	**18,000**	–
– Unsecured, from parent company (d)	**890,065**	520,275
	908,065	520,275
Borrowings, current portion	**2,447,238**	3,917,484
Long-term bank borrowings, non-current portion		
– Secured (a)	**2,391,830**	1,531,205
– Unsecured (e)	**330,120**	–
	2,721,950	1,531,205
Other long-term borrowings, non-current portion		
– Secured, from parent company (b)	**560,000**	–
– Secured, from others (b)	**148,638**	–
– Unsecured, from parent company and companies ultimately controlled by the same company (d)	**2,518,095**	1,120,275
– Unsecured, from others	**202,881**	196,504
	3,429,614	1,316,779
Borrowings, non-current portion	**6,151,564**	2,847,984

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2017	2016
The long-term borrowings are repayable as follows:		
– Within 1 year	**1,529,238**	917,484
– 1 to 2 years	**2,984,770**	175,421
– 2 to 3 years	**987,819**	1,323,649
– 3 to 5 years	**1,537,005**	276,504
– After 5 years	**641,970**	1,072,410
	7,680,802	3,765,468
Less: Long-term borrowings, current portion	**(1,529,238)**	(917,484)
Long-term borrowings, non-current portion	**6,151,564**	2,847,984

(a) Long-term bank borrowings – secured

As at 31 December 2017, long-term bank borrowings of approximately RMB3,013 million (2016: approximately RMB1,928 million) were secured by the pledges of the Group's leasehold land, together with bank deposits, property, plant and equipment, investment properties, properties held or under development for sale and equity interests of subsidiaries.

(b) Other long-term borrowings – secured

As at 31 December 2017, long-term bank borrowings of approximately RMB727 million (2016: nil) were secured by the pledges of the Group's leasehold land, together with property, plant and equipment, properties held or under development for sale, investment properties and equity interests of subsidiaries. Among the above other long-term borrowings, a loan with a total principal of approximately RMB560 million were guaranteed by Mr. Shi Janson Bin.

(c) Other short-term borrowings – unsecured

As at 31 December 2017, the balance represented three loans from related parties and a loan from third party. The loan of RMB138 million was provided by SRE assets, an associate of the group, with interest rate of 8.5% per annum. The tenure of the loan was twelve months. The loans of RMB600 million were provided by companies ultimately controlled by the same company in 2017, which comprised the following borrowings: the entrusted loan of RMB400 million with tenure of twelve months, was provided in March 2017. Interest rate of the loan is 7.5% per annum. The loan of RMB200 million was provided by Linzhi Zhong Min Real Estate Co., Ltd. ("Linzhi") , a company ultimately controlled by the same company, with supplemental agreemented signed in 2017 defined it as a loan with interest rate of 6% between December 2016 and June 2017, 6.5% between July 2017 and December 2017. (As at December 2016, the loan of RMB2 billion was provided by the parent company in April 2016 with interest rate of 8% per annum. The tenure of the loan was twelve months. Entrusted loans of RMB1 billion were provided by China Minsheng Zhixuan Investment Co., Ltd., a company ultimately controlled by the same company in 2016, which comprised the following borrowings: the loan of RMB800 million with tenure of twelve months, was provided in March 2016. Interest rate of the loan is 8.5% per annum. The loan of RMB200 million with original tenure of twelve months, was provided in May 2016. Interest rate of the loan is 8.35% per annum.)

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(d) Other long-term borrowings – unsecured

As at 31 December 2017, the balance represented loans of approximately RMB3,408 million from parent company or a company ultimately controlled by the same company. The loan of USD150 million (approximately RMB980 million), was provided in September 2016 with interest rate of 4% per annum. 50% of loan falls due in 3 years and the remaining 50% falls due in one year. The loan of RMB600 million was provided in April 2016 with interest rate of 8% per annum. The tenure of the loan was six months. It was renewed on November 2016 for three years.

(e) Long-term bank borrowings – unsecured

As at 31 December 2017, the balance represented an entrusted loan provided by a third party of RMB330 million. The tenure for the loan of RMB130 million is 60 months, and the interest rate for the first year is 8%, for the second to the fifth year is 6%. The tenure for the loan of RMB200 million is 52 months, and the interest rate is 6% per annum.

Overall collateral arrangements for bank and other borrowings

As at 31 December 2017 and 2016, pledged assets as collateral for the Group's borrowings and banking facilities were as follows:

	2017	2016
Leasehold land (Note 19)	117,667	48,548
Investment properties (Note 18)	5,116,056	3,984,350
Properties held or under development for sale (Note 23)	339,111	74,740
Property, plant and equipment (Note 17)	133,493	133,657
Assets classified as held for sale (Note 41)	–	930,096
Bank deposits (Note 27)	214,000	–
Equity interests in certain subsidiaries	208,436	–
Pledged assets provided by a related party (Note 45(c))	2,525,307	–

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The weighted average effective interest rates for these borrowings at the end of the reporting period were as follows:

	2017				2016		
	HK$	**US$**	**GBP**	**RMB**	HK$	US$	RMB
Short-term bank borrowings	**–**	**–**	**–**	**–**	–	–	–
Other short-term borrowings	**–**	**–**	**–**	**7.64%**	–	–	8.16%
Long-term bank borrowings	**–**	**–**	**2.80%**	**5.16%**	–	–	5.88%
Other long-term borrowings	**7.85%**	**4.00%**	**–**	**7.64%**	7.85%	4.00%	8.00%

As bank loans are all borrowed at prevailing market interest rates, which would be adjusted from time to time in line with interest rate changes in the market, the carrying amounts of the bank loans approximate to their fair values.

The carrying amounts of the borrowings are denominated in the following currencies:

	2017	2016
HK$	**202,881**	196,504
US$	**980,130**	1,040,550
GBP	**796,884**	–
RMB	**6,618,907**	5,528,414
	8,598,802	6,765,468

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

33. DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, levied by the same tax authority on the same taxable entity. As of 31 December 2017 and 2016, the majority of deferred tax assets and liabilities are to be recovered after more than 12 months.

The gross movements in the deferred tax account are as follows:

	2017	2016
At beginning of year	**1,018,042**	1,120,449
Business combination (Note 40)	**–**	131,292
Reclassified to current tax liability upon the final assessment of LAT	**–**	(4,700)
Reclassified to held for sale (Note 41)	**–**	(42,710)
Disposal of subsidiaries (Notes 41, 42 and 43)	**33**	(225,912)
Recognised in profit or loss (Note 12)	**185,839**	39,623
Recognised in other comprehensive income or loss (Note 31)	**507**	–
At end of year	**1,204,421**	1,018,042

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

Deferred tax assets

	Tax losses carried forward	**Difference in accounting and tax bases arising from share transfer consideration**	**Other temporary differences**	**Total**
At 1 January 2016	17,119	242,837	–	259,956
Recognised in profit or loss	(17,119)	–	–	(17,119)
At 31 December 2016 and 31 December 2017	–	242,837	–	242,837

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

33. DEFERRED TAX (continued)

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

Deferred tax liabilities

	Fair value gains	Excess of fair value over book value in the subsidiaries as a result of business combination	Withholding taxes	Others	Total
At 1 January 2016	742,061	272,420	264,977	100,947	1,380,405
Business combination (Note 40)	57,003	74,289	–	–	131,292
Recognised in profit or loss	(4,424)	19,601	(2,051)	9,378	22,504
Reclassified to current tax liability upon the final assessment of LAT	–	(4,700)	–	–	(4,700)
Reclassified to held for sale (Note 41)	–	(17,149)	(1,426)	(24,135)	(42,710)
Disposal of subsidiaries (Note 43)	(224,978)	–	(934)	–	(225,912)
At 31 December 2016	569,662	344,461	260,566	86,190	1,260,879
Recognised in profit or loss	15,340	155,263	3,437	11,799	185,839
Recognised in other comprehensive income or loss	507	–	–	–	507
Disposal of subsidiaries (Note 43)	–	–	33	–	33
At 31 December 2017	**585,509**	**499,724**	**264,036**	**97,989**	**1,447,258**

As at 31 December 2017, no deferred tax asset arose from unused tax losses (2016: Nil). With respect to the recognition of the deferred tax assets, after considering the evidence including the approval from local authorities permitting the sale of the properties, and estimated future taxable profit by reference to recent selling prices of certain properties and current market condition, the Group believes that no sufficient taxable profit will be available against which the unused tax losses can be utilised in the foreseeable future.

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

	2017	2016
Tax losses	**1,563,189**	2,604,929

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

33. DEFERRED TAX (continued)

The above tax losses arising in Mainland China for offsetting against future taxable profit will expire in one to five years. Deferred tax assets have not been recognised in respect of the tax losses mentioned above as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these temporary differences can be utilised.

Pursuant to the resolution of the board of directors of the Company, part of PRC subsidiaries' profits generated from 2011 onwards will be retained by PRC subsidiaries for use in future operations or investments. In the opinion of the directors, it is probable that the temporary differences relating to the profits that are not expected to be distributed in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB738 million (2016: approximately RMB693 million).

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

34. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

	2017	2016
Advances received from the pre-sale of properties under development	**1,015,262**	1,141,086

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest-bearing.

35. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, from the date when they were incurred, is as follows:

	2017	2016
Within 1 year	**467,638**	391,277
1 to 2 years	**48,693**	107,741
Over 2 years	**187,051**	293,283
	703,382	792,301

Trade payables represent payables arising from property construction and land development. The trade payables are non-interest – bearing and are normally settled within one year.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

36. OTHER PAYABLES AND ACCRUALS

	2017	2016
Deposits received from and other payable to customers and construction companies	**8,720**	51,932
Tax and surtaxes payable	**23,906**	59,815
Dividends payable to non-controlling shareholders of subsidiaries	**32,281**	32,281
Relocation costs payable	**226,317**	264,651
Deposits from stores, rents received for developers and public utility fees collected and paid for tenants	**26,017**	22,416
Payroll and welfare payable	**90,546**	26,330
Accrued interest	**429,896**	123,649
Payables to former shareholders of a subsidiary for business combination	**–**	20,000
Payables to former shareholders of subsidiaries for acquisition of non-controlling interests	**17,000**	17,000
Payable to the former non-controlling shareholder of a disposed subsidiary	**20,000**	20,000
Advance received in relation to the disposal of a subsidiary (a)	**–**	2,305,000
Payables to related parties (Note 45)	**836,560**	1,226,728
Others	**182,135**	239,974
	1,893,378	4,409,776

(a) The balance as of 31 December 2016 represents advance received from a third party purchaser in relation to the disposal of the 49% equity interest of Shanghai Jinxin Real Estate Co., Ltd. ("Jinxin Real Estate") (Note 41), which has been disposed as of 31 December 2017.

Other payables are non-interest-bearing and are normally settled within one year.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

37. CASH FLOW INFORMATION

(a) Cash (used in)/from operations

Reconciliation of profit before income tax from continuing operations and discontinued operation to cash (used in)/from operations:

	2017	2016
Profit before income tax		
Continuing operations	877,989	151,391
Discontinued operation	–	532,342
	877,989	683,733
Adjustments for:		
Depreciation of property, plant and equipment	27,254	12,076
Net loss/(gain) from disposal of property, plant and equipment	332	(3,960)
Share of results of associates	(74,332)	(465,549)
Share of results of joint ventures	12,049	1,464
Share-based payments	13,442	43,353
Net fair value (gain)/loss on investment properties	(55,165)	17,361
Write-down/(reversal of impairment) of properties held or under development for sale	1,663	(188,284)
Reversal of impairment of prepaid land lease payments	(156,850)	(67,454)
Provision for impairment of loans and receivables	120,006	26,200
Provision for impairment of other receivables	175,912	43,349
Provision for impairment of trade receivables	1,397	18,803
Impairment of investment in a joint venture	27,882	–
Impairment of goodwill	–	98,354
Net gain from acquisition and disposal of subsidiaries and a joint venture		
– Continuing operations	(1,585,922)	(11,903)
– Discontinued operation	–	(548,679)
Finance income	(35,010)	(10,284)
Finance costs	503,294	442,648
	(146,059)	91,228
(Increase)/decrease in restricted bank deposits	(26,841)	1,288
Decrease in prepaid land lease payments	328,130	830,647
Decrease in properties held or under development for sale	349,358	1,068,783
(Increase)/decrease in inventories	(909)	6,221
(Increase)/decrease in prepayments and other current assets	(1,037,867)	21,157
Increase in other receivables	(1,205,782)	(540,611)
Decrease in trade receivables	140	15,254
Increase in non-current assets	(150,000)	–
Decrease in trade payables	(80,288)	(112,986)
Increase in other payables and accruals	547,289	96,626
Increase/(decrease) in advances received from the pre-sale of properties under development	11,573	(947,107)
Cash (used in)/from operations	(1,411,256)	530,500

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

37. CASH FLOW INFORMATION (continued)

(b) Net debt reconciliation

An analysis of net debt and the movements in net debt as follows:

Net debt

	2017	2016
Cash and bank balances	**1,452,915**	1,512,857
Borrowings – repayable within one year	**(2,447,238)**	(3,917,484)
Borrowings – repayable after one year	**(6,151,564)**	(2,847,984)
Net debt	**(7,145,887)**	(5,252,611)
Cash and liquid investments	**1,452,915**	1,512,857
Gross debt – fixed interest rates	**(5,763,332)**	(5,315,058)
Gross debt – variable interest rates	**(2,835,470)**	(1,450,410)
Net debt	**(7,145,887)**	(5,252,611)

		Liabilities from financing activities		
	Cash and bank balances	**Borrowings due within one year**	**Borrowings due after one year**	**Total**
Net debt as at 31 December 2016	1,512,857	(3,917,484)	(2,847,984)	(5,252,611)
Assets/liabilities classified to held for sale as at 31 December 2016 (Note 41)	9,886	(30,000)	–	(20,114)
Net cash flows	(31,040)	2,139,209	(4,479,480)	(2,371,311)
Foreign exchange adjustments	(25,929)	30,630	41,872	46,573
Amortization of discount or premium	–	–	(15,565)	(15,565)
Disposal of subsidiary (Note 43)	(12,859)	1,080,000	–	1,067,141
Reclassified from other payables and accruals	–	(600,000)	–	(600,000)
Other non-cash movements	–	(1,149,593)	1,149,593	–
Net debt as at 31 December 2017	**1,452,915**	**(2,447,238)**	**(6,151,564)**	**(7,145,887)**

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for remaining terms mainly ranging from 1 to 13 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2017, the Group had total future minimum lease receivables under operating leases with its tenants falling due as follows:

	2017	2016
Within one year	142,900	140,101
In the second to fifth years, inclusive	349,281	345,128
After five years	94,520	104,762
	586,701	589,991

(b) As lessee

The Group leases certain of its office properties and housing properties under operating lease arrangements. Leases for properties are negotiated for terms mainly ranging from one to five years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2016
Within one year	12,491	2,327
In the second to fifth years, inclusive	25,620	–
	38,111	2,327

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

39. COMMITMENTS AND CONTINGENCIES

(a) The Group had the following capital commitments and commitments in respect of property development for sale at the end of the reporting period:

	2017	2016
Contracted, but not provided for		
Properties held or under development for sale	58,501	3,916,114
Committed investments in a land development	120,000	–
Committed investments in joint ventures and associates	15,640	114,670
	194,141	4,030,784

(b) The Group provides guarantees in respect of the mortgage facilities granted by certain banks to certain purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates when the relevant mortgage loans are granted and end when the purchasers pledge related property certificates as security to the banks offering the mortgage loans. The Group entered into guarantee contracts of principal amounts totalling approximately RMB844 million (2016: approximately RMB446 million) and these contracts were still effective as at the close of business on 31 December 2017.

The Group did not incur any material losses during the financial year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The Directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty, because the principal of each of the mortgage loans was normally below 70% of the sales price of the properties at the date of the sales agreement, and therefore no provision has been made in connection with the guarantees.

(c) With reference to the Company's announcement dated 24 September 2015, certain financing transactions were executed by Mr. Shi Jian (former Chairman of the Company), purportedly acting for and on behalf of certain members of the Group, between 2011 and 2014 with third party financial institutions (the "Financing Transactions") without the knowledge of the other Directors of the Company.

The purposes of these Financing Transactions were to guarantee the repayment obligations of certain loans owed by the subsidiaries or connected persons of SRE Investment Holding Limited ("SREI"). SREI, which is majority held by Mr. Shi and his family members or relatives, was the controlling shareholder of the Company at the time when those Financing Transactions were entered into.

39. COMMITMENTS AND CONTINGENCIES (continued)

(c) (continued)

The Financing Transactions constituted as financial assistance to related parties and also contingent liabilities of the Group, and the total outstanding balance of the loans secured by the Financing Transactions amounted to approximately RMB2.383 billion as of 31 August 2015.

On 4 December 2015, upon completion of the subscription of shares, China Minsheng Jiaye became controlling shareholder of the Company. On the same date, China Minsheng Jiaye agreed to provide back-to-back indemnity in favour of the Company to indemnify and hold harmless the Company from and against any losses and costs that might be incurred as a result of the Financing Transaction as described above.

As at 31 December 2017, the total outstanding balance of the loans secured by the Financing Transactions were fully repaid (31 December 2016: RMB1.252 billion) and thereby the relevant guarantees and property mortgage provided by the Group have been fully released. As at 9 February 2018, the above back-to-back indemnity was terminated accordingly, and the above guarantees have not been enforced thereby causing direct economic loss to the Group.

40. BUSINESS COMBINATION

On 6 July 2016, shareholders of the Company approved the acquisition master agreement (the "Agreement") dated 20 April 2016 between the Company, CNTD and SREI. Pursuant to the Agreement, the Company, conditionally, acquires certain businesses from CNTD (the "Certain Businesses") at a consideration of approximately RMB1,315 million, comprising RMB238 million as consideration for the equity interest of the Certain Businesses and the repayment of RMB1,077 million of payables of the Certain Businesses due to CNTD and/or its subsidiaries. The transaction was completed in 2016 when the conditions in the Agreement were met. The Certain Businesses are comprised of 100% equity interest in Chengdu Shanghai Real Estate Co., Ltd., 100% equity interest in Shanghai Lake Malaren Hospital Investment Co., Ltd., 72.63% equity interest in Shanghai Lake Malaren Commercial Management Co., Ltd., 72.63% equity interest in Shanghai Lake Malaren Corporate Development Co., Ltd. as well as 72.63% portion of certain rights and obligations relating to Relevant Business of Golden Luodian. The certain businesses of Golden Luodian (the "Relevant Business of Golden Luodian") include Lake Malaren Golf Course, Crowne Plaza Lake Malaren Shanghai Hotel and unsold portion of Lake Malaren Silicon Valley Project. The legal title of the Relevant Business of Golden Luodian remains unchanged under CNTD due to certain reasons, but the Company has the rights to possess, use, make profit and dispose them within the limits laid down by law. Given that the Company does not have the control over the Relevant Business of Golden Luodian, the Group accounts for the Relevant Business of Golden Luodian as joint venture using equity method in the consolidated financial statements.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

40. BUSINESS COMBINATION (continued)

As a result of the acquisition, the Group recognised a negative goodwill of approximately RMB6 million. The negative goodwill arising from the acquisition is attributable to the expected further appreciation of properties.

The following table summarises the consideration paid for the above business combination, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

In 2016	RMB'000
Total consideration in cash	238,247
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Assets:	
Cash and cash equivalents	38,472
Prepaid income tax	9,953
Trade receivables	791
Other receivables	283,380
Prepayments and other current assets	90,144
Inventories, at cost	730
Properties held or under development for sale	311,823
Prepaid land lease payments, current portion (Note 19)	227,015
Prepaid land lease payments, non-current portion (Note 19)	206,329
Investment in a joint venture	202,595
Investment properties (Note 18)	712,301
Property, plant and equipment (Note 17)	740,294
	2,823,827
Liabilities:	
Other payables and accruals	(1,541,035)
Trade payables	(236,761)
Advances received from the pre-sale of properties under development	(129,793)
Deferred tax liabilities (Note 33)	(131,292)
Interest-bearing bank and other borrowings	(492,629)
	(2,531,510)
Total identifiable net assets	292,317
Less: Non-controlling interest	(48,410)
Net assets acquired	243,907
Negative goodwill recognised as gain from acquisition	(5,660)

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

40. BUSINESS COMBINATION (continued)

The Group recognised non-controlling interest in the Certain Businesses from CNTD at the non-controlling interest's proportionate share of its net identifiable assets.

The revenue in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 contributed by the Certain Businesses from CNTD was approximately RMB76 million. The Certain Businesses from CNTD also contributed loss of approximately RMB10 million over the same period.

Had the Certain Businesses from CNTD been consolidated from 1 January 2016, the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 would show pro-forma revenue of approximately RMB3,690 million and loss before income tax of approximately RMB25 million.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the businesses is as follows:

	2016
Outflow of cash to acquire the businesses	238,247
Less: Cash and bank balances acquired	(38,472)
Net outflow of cash and cash equivalents in respect of the acquisition of equity interest of the businesses	199,775
Settlement of relevant payables	1,076,945
Total considerations paid, net of cash acquired	1,276,720

41. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS CLASSIFIED AS HELD FOR SALE

(a) On 29 December 2016, SRE Group Limited entered into a cooperation framework agreement (the "Agreement") with a third party purchaser (the "Purchaser") in relation to the disposal of the 49% equity interest in Jinxin Real Estate together with the settlement of 50% of the loan amount provided by companies within the Group to Jinxin Real Estate (the "inter – company receivables") from funds provided by the third party purchaser (the "Disposal of Jinxin Real Estate"). The agreed consideration was approximately RMB2,305 million, including approximately RMB2,112 million for equity and approximately RMB193 million for debt. Upon completion of the Disposal of Jinxin Real Estate, the Group's attributable interest in Jinxin Real Estate will be reduced to 51%. According to the Agreement and articles of association of Jinxin Real Estate, the Group and the Purchaser will jointly control the project development and sales of properties as well as other key relevant activities of Jinxin Real Estate. The profit of Jinxin Real Estate will be distributed between the Group and the Purchaser according to a 50:50 ratio. As at 31 December 2016, the transaction was in progress and the transaction was subsequently completed in April 2017. Consequently, the related assets and liabilities of Jinxin Real Estate were classified as held for sale and presented under the property development segment.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

41. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS CLASSIFIED AS HELD FOR SALE (continued)

(a) (continued)

The major classes of assets and liabilities of Jinxin Real Estate classified as held for sale as at 31 December 2016 are as follows:

Assets	
Cash and bank balances	5,415
Other receivables	18,610
Properties held or under development for sale	944,062
Prepayments	1,590,270
Prepaid land lease payments – Current (Note 19)	930,096
Property, plant and equipment (Note 17)	254
Goodwill (Note 20)	75,866
Assets classified as held for sale	3,564,573
Liabilities	
Trade payables	–
Other payables and accruals	(6,362)
Interest-bearing bank and other borrowings – Current	(30,000)
Deferred tax liabilities (Note 33)	(41,284)
Liabilities directly associated with the assets classified as held for sale	(77,646)
Net assets directly associated with the disposal group *	3,486,927

* Net assets classified as held for sale excluded inter-company payables of approximately RMB559 million which have been fully eliminated upon consolidation as at 31 December 2016.

As at 31 December 2016, approximately RMB930 million of the Group's assets classified as held for sale had been pledged as collateral for the Group's bank and other borrowings classified as liabilities directly associated with the assets held for sale.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

41. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS CLASSIFIED AS HELD FOR SALE (continued)

(b) On 30 November 2016, SRE Group Limited entered into a sale and purchase agreement (the "Agreement") with a third party purchaser in relation to the disposal of the 100% equity interest held by Shanghai Wingo Infrastructure Co., Ltd. in Shanghai Shanghui Construction Co., Ltd.("Shanghui Construction"). The agreed consideration was approximately RMB5.8 million. As at 31 December 2016, the transaction was in progress and the transaction was subsequently completed in September 2017. Consequently, the related assets and liabilities of Shanghui Construction were classified as held for sale and presented under the other operations segment.

The major classes of assets and liabilities of Shanghui classified as held for sale as at 31 December 2016 are as follows:

Assets	
Cash and bank balances	4,471
Accounts receivable	1,412
Other receivables	66
Prepayments and other current assets	47
Assets classified as held for sale	5,996
Liabilities	
Trade payables	
Other payables and accruals	(80,894)
Current income tax liabilities	(12,538)
Deferred tax liabilities	(1,426)
Liabilities directly associated with the assets classified as held for sale	(94,858)
Net assets directly associated with the disposal group *	(88,862)

* Net assets classified as held for sale excluded inter-company payables of approximately RMB121 million which have been fully eliminated upon consolidation as at 31 December 2016.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

42. DISCONTINUED OPERATION

(a) Description

On 5 April 2016, the Group disposed all its equity interest in a 56% owned subsidiary, Shanghai Skyway Hotel Co. Ltd., to the Great Wall Guo Fu Real Estate Co. Ltd. ("the Purchaser"). Given that Shanghai Skyway Hotel Co. Ltd. constituted the majority of hotel operations of the Group, hotel operations were regarded as discontinued operation after the disposal of this subsidiary.

The carrying amount of assets and liabilities as at the date of sale were:

	2016
Property, plant and equipment	357,454
Prepaid land lease payment (Note 19)	39,749
Investment properties (Note 18)	1,275,000
Other receivables	246,592
Trade receivables	6,530
Cash and bank balances	19,941
Prepayments and other current assets	88
Inventories	8,398
Advances received from the pre-sale of properties under development	(13,965)
Trade payables	(5,737)
Other payables and accruals	(87,741)
Interest-bearing bank and other borrowings	(1,453,044)
Deferred tax liabilities (Note 33)	(224,978)
Non-controlling interests	(73,862)
Net assets	94,425

(b) Financial performance and cash flow information

Financial information relating to Shanghai Skyway Hotel Co. Ltd. for the period from 1 January 2016 to the date of disposal is set out below. The income statement distinguishes discontinued operation from continuing operations.

Income statement information

	2016
Revenue	38,760
Cost and expenses	(55,097)
Loss before income tax from discontinued operation	(16,337)
Income tax expense	–
Loss for the period/year from discontinued operation before disposal	(16,337)
Loss from discontinued operation attributable to:	
– Owners of the Company	(9,149)
– Non-controlling interests	(7,188)
	(16,337)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

42. DISCONTINUED OPERATION (continued)

(b) Financial performance and cash flow information (continued)

Cash flows

	2016
Operating cash flows	1,611
Investing cash flows	557,191
Total cash flows	558,802
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash from operations	1,611
Net cash flows from operating activities	1,611
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from disposal of the subsidiary, net of cash disposed	557,191
Net cash flows from investing activities	557,191
NET INCREASE IN CASH AND CASH EQUIVALENTS	558,802

(c) Details of the sale of the subsidiary

	2016
Consideration	
Cash received	577,132
Withholding tax paid by the Purchaser on behalf of the Group	53,110
Receivable	12,862
Total disposal consideration	643,104
Carrying amount of net assets sold	(94,425)
Gain on disposal before income tax	548,679
Income tax expense on gain	(53,110)
Gain on disposal after income tax	495,569

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

43. DISPOSAL OF SUBSIDIARIES

(a) In April 2017, the Group disposed 49% of its equity interest in Shanghai Jinxin Real Estate Co., Ltd."(Jinxin Real Estate") to Shanghai Zhongchong Binjiang Industry Co., Ltd. (hereinafter "Zhongchong Binjiang") and lost control in the originally wholly-owned subsidiary. Jinxin Real Estate became a joint venture of the Group after the transaction.

On the disposal date, the net asset value of Jinxin Real Estate amounted to approximately RMB3,082 million, and the fair value of 51% equity interest of Jinxin Real Estate determined based on the fair value of the net asset of Jinxin Real Estate amounted to approximately RMB2,112 million. After the disposal of 49% equity interest in Jinxi Real Estate, the 51% remained interest held by the Group was remeasured to its fair value of approximately RMB2,112 million at the date when control was lost, and the difference with its then carrying amount of approximately RMB540 million was recognised as part of disposal gain. The consideration in relation to the 49% equity interest in of Jinxin Real Estate was approximately RMB2,112 million. As such, the Group recorded a gain on disposal of approximately RMB1,142 million.

	2017
Net assets disposed of:	
Property, plant and equipment	240
Goodwill	75,866
Prepaid land lease payments – Current	936,207
Properties held or under development for sale	1,019,421
Prepayments and other current assets	2,610,000
Other receivables	1,101
Cash and bank balances	1,237
Deferred tax liabilities	(41,284)
Interest-bearing bank and other borrowings	(1,080,000)
Other payables and accruals	(439,335)
Current income tax liabilities	(1,577)
100% of net assets disposed at book value	3,081,876
Fair value of 51% retained interest accounted for as a joint venture	(2,111,910)
Gain on disposal of the subsidiary	1,141,944
Satisfied by cash	2,111,910

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017
Cash proceeds received	2,111,910
Cash and bank balances disposed of	(1,237)
Net inflow of cash and cash equivalents in respect of the disposal of the subsidiary	2,110,673

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

43. DISPOSAL OF SUBSIDIARIES (continued)

(b) In July 2017, the Group disposed all of its 100% equity interest held by Wuxi Zhongqing Real Estate Co., Ltd. ("Wuxi Zhongqing") in Wuxi Yongqing Real Estate Co., Ltd. ("Wuxi Yongqing") at a consideration of approximately RMB67 million. On the disposal date, the net asset value attributable to the Group of Wuxi Zhongqing was approximately RMB17 million. The Group recorded a gain on disposal of approximately RMB50 million.

	2017
Net assets disposed of:	
Prepaid land lease payments	368,621
Properties held or under development for sale	48,696
Other receivables	698
Cash and bank balances	1,146
Other payables and accruals	(402,585)
Non-controlling interests	349
	16,925
Gain on disposal of the subsidiary	50,397
Satisfied by cash	67,322

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017
Cash proceeds received	67,322
Cash and bank balances disposed of	(1,146)
Net inflow of cash and cash equivalents in respect of the disposal of the subsidiary	66,176

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

43. DISPOSAL OF SUBSIDIARIES (continued)

(c) In August 2017, the Group disposed 50% of its 70% equity interest in Shanghai Real Estate Asset Management Co., Ltd. ("SRE Asset") at a consideration of RMB–. SRE Asset became an associate of the Group after the transaction. On the disposal date, the net asset value attributable to the Group of SRE Asset was approximately RMB5 million. The Group recorded a gain on disposal of approximately RMB2 million.

	2017
Net assets disposed of:	
Property, plant and equipment	33
Prepayments and other current assets	148
Other receivables	1,366
Trade receivables	288
Cash and bank balances	3,222
Other payables and accruals	(177)
Current income tax liabilities	(8)
Non-controlling interests	(62)
100% of net assets disposed at book value	4,810
Fair value of 20% retained interest accounted for as an associate	(7,000)
Gain on disposal of the subsidiary	2,190
Satisfied by cash	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017
Cash proceeds received	–
Cash and bank balances disposed of	(3,222)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(3,222)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

43. DISPOSAL OF SUBSIDIARIES (continued)

(d) In September 2017, the Group disposed all of its 100% equity interest held by Shanghai Wingo Infrastructure Co., Ltd in Shanghai Shanghui Construction Co., Ltd. ("Shanghui Construction") at a consideration of approximately RMB5.8 million. On the disposal date, the net asset value attributable to the Group of Shanghui Construction was approximately RMB-73 million. The Group recorded a gain on disposal of approximately RMB79 million.

	2017
Net liabilities disposed of:	
Inventories	679
Other receivables	3,000
Trade receivables	2
Cash and bank balances	6,071
Prepayments and other current assets	(1,393)
Other payables and accruals	(69,200)
Current income tax liabilities	(11,691)
Non-controlling interests	(292)
	(72,824)
Gain on disposal of the subsidiary	78,624
Satisfied by cash	5,800

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017
Cash proceeds received	5,800
Cash and bank balances disposed of	(6,071)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(271)

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

43. DISPOSAL OF SUBSIDIARIES (continued)

(e) In December 2017, the Group disposed all of its 100% equity interest held by Shanghai Oasis Garden Real Estate Co., Ltd. and Lihon Investment Limited in Shenyang Lukang Real Estate Ltd..("Shenyang Lukang") at a consideration of RMB2.

On the disposal date, the net asset value attributable to the Group of Shenyang Lukang was approximately RMB-296 million. The Group recorded a gain on disposal of approximately RMB296 million. As of 31 December 2017, the Group has not collected approximately RMB700 million loans and approximately RMB176 million receivables from Shenyang Lukang. The Group estimated that it would be able to collect the loan of approximately RMB580 million considering the assets held by Shenyang Lukang. As there is uncertainty in the collection of the portion of loans of approximately RMB120 million and the receivables of approximately RMB176 million, a loss of approximately RMB296 million was recognised.

	2017
Net liabilities disposed of:	
Property, plant and equipment	19
Prepaid land lease payments	190,754
Properties held or under development for sale	500,180
Prepayments and other current assets	13,845
Other receivables	396,458
Trade receivables	10
Cash and bank balances	1,183
Interest-bearing bank and other borrowings	(700,000)
Advances received from the pre-sale of properties under development	(137,397)
Trade payables	(8,631)
Other payables and accruals	(557,776)
Current income tax liabilities	(154)
Non-controlling interests	5,591
	(295,918)
Gain on disposal of the subsidiary	295,918
Satisfied by cash	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017
Cash proceeds received	–
Cash and bank balances disposed of	(1,183)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(1,183)

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

43. DISPOSAL OF SUBSIDIARIES (continued)

(f) In January 2016, the Group disposed all its 80% equity interest in Haikou Century, to Khorgos Rui Hong Equity Investment Co. Ltd. ("Rui Hong"). The agreed consideration was approximately RMB176 million for equity and approximately RMB245 million for the settlement of the inter-company receivables. On the disposal date, the net asset value attributable to the Group of Haikou Century Habour City Co. Ltd. amounted to approximately RMB168 million. As of 31 December 2016, the Group had collected approximately RMB94 million related to the disposal and had filed a lawsuit against Haikou Century and Rui Hong for the collection of the outstanding balances. As of the date of issuance of these consolidated financial statements, the lawsuit was still in progress. The Group estimated that it would be able to collect the remaining debt of approximately RMB110 million considering the assets held by Haikou Century Habour City Co. Ltd. However, there is uncertainty in the collection of the equity portion of approximately RMB176 million and, hence, a loss of approximately RMB168 million was recognised.

	2016
Net assets disposed of:	
Property, plant and equipment	909,813
Prepaid land lease payment	61,436
Prepaid income tax	39,471
Other receivables	9,319
Cash and bank balances	650
Prepayments and other current assets	3,443
Properties held or under development for sale	80,232
Prepaid land lease payments – Current	296,650
Advances received from the pre-sale of properties under development	(2,974)
Trade payables	(337,447)
Other payables and accruals	(419,043)
Current income tax liabilities	(12,685)
Interest-bearing bank and other borrowings	(411,979)
Deferred tax liabilities (Note 33)	(724)
Non-controlling interests	(47,852)
	168,310
Loss on disposal of the subsidiary	(168,310)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	2016
Cash proceeds received	–
Cash and bank balances disposed of	(650)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(650)

The Group is in the process of suing the purchaser of the transaction on the collectability of such receivables.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

43. DISPOSAL OF SUBSIDIARIES (continued)

(g) In January 2016, the Group disposed 60% of its equity interest in Mayson to Mainlandcn Ten Company Limited (a wholly-owned subsidiary of China Vanke Co., Ltd.) and lost control in the originally wholly-owned subsidiary. Mayson became an associate of the Group after the transaction.

On the disposal date, the net asset value of Mayson amounted to approximately RMB669 million, and the fair value of 40% equity interest of Mayson determined based on the fair value of the net asset of Mayson amounted to approximately RMB449 million. After the disposal of 60% equity interest in Mayson, the 40% retained interest in Mayson held by the Group was re-measured to its fair value of approximately RMB449 million at the date when control was lost, and the difference with its then carrying amount of approximately RMB181 million was recognised as part of disposal gain in the consolidated statement of profit or loss and other comprehensive income. The consideration in relation to the 60% equity interest in of Mayson was approximately RMB322 million. As such, the Group recorded a gain on disposal of approximately RMB102 million.

As a result of the disposal, the 60% equity interest in Shuo Cheng was also disposed of as it is a wholly-owned subsidiary of Mayson.

	2016
Net assets disposed of:	
Property, plant and equipment	1,261
Investment properties	361,494
Deferred income tax assets	44,611
Other receivables	4,508
Cash and bank balances	551,758
Prepaid income tax	247,027
Properties held or under development for sale	3,796,505
Prepaid land lease payments – Current	3,221,476
Advances received from the pre-sale of properties under development	(3,070,572)
Trade payables	(117,537)
Other payables and accruals	(1,123,469)
Current income tax liabilities	(169,081)
Interest-bearing bank and other borrowings	(3,000,000)
Deferred tax liabilities	(78,195)
Non-controlling interests	(509)
100% of net assets disposed at book value	669,277
Fair value of 40% retained interest accounted for as an associate	(448,961)
Gain on disposal of the subsidiary	102,353
Satisfied by cash	322,669

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	2016
Cash proceeds received	322,669
Cash and bank balances disposed of	(551,758)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(229,089)

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

43. DISPOSAL OF SUBSIDIARIES (continued)

(h) In April 2016, the Group disposed all its 85% equity interest in Shanghai Real Estate Internet Financial Information Service Co. Ltd. to Shanxi Xifeng Investment Co. Ltd., He Xing Jin Kong Investment Co. Ltd. and Shanghai Qin Yi Business Consulting Co. Ltd. at a total consideration of RMB1. On the disposal date, the net asset value attributable to the Group of Shanghai Real Estate Internet Financial Information Service Co. Ltd. was approximately RMB-3 million. The Group recorded a gain on disposal of approximately RMB3 million.

	2016
Net liabilities disposed of:	
Property, plant and equipment	229
Other receivables	243
Trade receivables	516
Cash and bank balances	39
Prepayments and other current assets	559
Trade payables	(129)
Other payables and accruals	(5,191)
Non-controlling interests	561
	(3,173)
Gain on disposal of the subsidiary	3,173
Satisfied by cash	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	2016
Cash proceeds received	–
Cash and bank balances disposed of	(39)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(39)

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

43. DISPOSAL OF SUBSIDIARIES (continued)

(i) In November 2016, the Group disposed all its 100% equity interest in Rosy Central Investments Limited ("Rosy Central") at a consideration of RMB1. As a result of the disposal, the 100% equity interest in Shanghai Real Estate Property Management. Co. Ltd., 100% equity interest in Shanghai Lake Malaren Property Management Co., Ltd. and 50% equity interest in Shanghai Richgate Hotel Management Co., Ltd. were also disposed of as they are subsidiaries of Rosy Central. On the disposed date, the net asset value attributable to the Group of Rosy Central was approximately RMB-69 million. The Group recorded a gain on disposal of approximately RMB69 million.

	2016
Net liabilities disposed of:	
Property, plant and equipment	1,497
Other receivables	58,746
Trade receivables	10,351
Cash and bank balances	39,090
Prepayments and other current assets	2,088
Inventories	283
Advances received from the pre-sale of properties under development	(5,983)
Trade payables	(7,858)
Other payables and accruals	(166,955)
Deferred tax liabilities (Note 33)	(210)
Non-controlling interests	(76)
	(69,027)
Gain on disposal of the subsidiary	69,027
Satisfied by cash	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	2016
Cash proceeds received	–
Cash and bank balances disposed of	(39,090)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(39,090)

The board of directors is of the view that the amount of the above transaction was insignificant, and hence does not constitute discontinued operation of business.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

44. PARTLY OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTEREST

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

	Shanghai Bairun Real Estate Co., Ltd. ("Bairun")	
	2017	2016
Percentage of equity interest held by non-controlling interest	**49.64%**	49.64%

	Bairun	
	2017	2016
Profit for the year allocated to non-controlling interest	**6,944**	128,491
Accumulated balance of non-controlling interests at the reporting dates	**118,128**	111,184

The following tables illustrate the summarised financial information of the above subsidiaries.

	Bairun	
	2017	2016
Revenue	**255,861**	1,955,735
Total expenses	**238,976**	1,603,398
Other losses	**(10,633)**	(4,211)
Profit for the year	**13,990**	258,859
Total comprehensive income for the year	**13,990**	258,859
Current assets	**792,828**	928,533
Non-current assets	**141**	196
Current liabilities	**(551,490)**	(701,015)
Non-current liabilities	**(3,499)**	(3,733)
Net cash flows (used in)/from operating activities	**(167,179)**	558,853
Net cash flows from/(used in) investing activities	**261,204**	(257,011)
Net cash flow used in financing activities	**(90,000)**	(597,033)
Net increase/(decrease) in cash and cash equivalents	**4,025**	(295,191)

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

45. RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions and balances with related parties.

(a) Name and relationship with related parties

Name	Relationship
Broadband	An associate of the Group
New Technology	An associate of the Group
Da Run	A joint venture of the Group
Relevant Business of Golden Luodian	A joint venture of the Group
Linzhi Zhong Min Real Estate Co., Ltd. ("Linzhi")	A company ultimately controlled by the same company
China Minsheng Jujia Information Technology Co., Ltd. ("China Minsheng Jujia")	A company ultimately controlled by the same company
Mayson	An associate of the Group
Shuo Cheng	A subsidiary of an associate of the Group
Black Eagle	A subsidiary of the minority shareholder of the Group
Jinxin Real Estate	A joint venture of the Group
SRE Asset	An associate of the Group
Gao Xin	A joint venture of the Group

(b) Transactions with related parties

(i) Purchases from a related party

	2017	2016
Da Run	**1,500**	–

(ii) Paid on behalf of a related party

	2017	2016
Relevant Business of Golden Luodian	**654,507**	951,180
Jinxin Real Estate	**147,166**	–
Gao Xin	**42,000**	–
Broadband	**89**	–
	843,762	951,180

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

45. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties (continued)

(iii) Fundings/advances from related parties

	2017	2016
Shuo Cheng	480,000	356,560
Linzhi	–	600,000
Broadband	–	44
	480,000	956,604

(iv) Repayment of fundings to a related party

	2017	2016
Black Eagle	270,124	–

(v) Compensation to key management personnel of the Group

	2017	2016
Salaries and other short-term employee benefits	36,636	59,728

(vi) Occupation of properties owned by a related party

Some subsidiaries of the Group occupied certain properties with total gross floor areas of approximately 1,150 square meters leased by the Company's parent company for operational use, which is free of charge.

(c) Related-party balances

(i) Trade receivable due from a related party

	2017	2016
Broadband	247	247

(ii) Trade payable due to a related party

	2017	2016
New Technology	109	112

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

45. RELATED PARTY TRANSACTIONS (continued)

(c) Related-party balances (continued)

(iii) Other receivables due from related parties

	2017	2016
Relevant Business of Golden Luodian	433,676	951,180
Mayson	153,376	153,376
Jinxin Real Estate*	397,899	–
Gao Xin	42,000	–
Broadband	45	–
	1,026,996	1,104,556

* The balance comprises an inter-company receivable fully eliminated upon consolidation as at 31 December 2016, but turned into other receivables as Jinxin Reel Estate was disposed and became an a joint venture of the Group.

Amounts due from related parties are unsecured, bear no interest and are repayable on demand.

(iv) Other payables due to related parties

	2017	2016
Shuo Cheng	836,560	356,560
Linzhi	–	600,000
Black Eagle*	–	270,124
Broadband	–	44
	836,560	1,226,728

* The balance represented the payable carried forward from the business combination (Note 40).

Amounts due to related parties are unsecured, bear no interest and are repayable on demand.

(v) Prepayments due from a related party

	2017	2016
Da Run	1,500	–

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

45. RELATED PARTY TRANSACTIONS (continued)

(c) Related-party balances (continued)

(vi) Non-current asset (downpayment) due from a related party

	2017	2016
Shuo Cheng	**660,800**	–

(vii) Loans receivable due from a related party

	2017	2016
Relevant Business of Golden Luodian	**1,172,011**	–

Loans receivable due from a related party are interest-bearing loans granted to a related party of approximately RMB1,172 million with an interest rate of 8% per annum and the interest receivable as of 31 December 2017 amounted to approximately RMB82.9 million.

(viii) Loans from related parties

	2017	2016
Loans from parent company (a)	**3,568,160**	3,640,550
– Current	**490,065**	2,520,275
– Non-current	**3,078,095**	1,120,275
Loans from companies ultimately controlled by the same company		
– Current (b)	**1,000,000**	1,000,000
Loans from an associate of the Group		
– Current (c)	**138,000**	–
	4,706,160	4,640,550

(a) Term loans of approximately RMB3.57 billion (31 December 2016: approximately RMB3.64 billion) were provided by the parent company, China Minsheng Jiaye in 2016 and 2017, which comprised the following borrowings:

(i) The loan of RMB600 million was provided in April 2016 with an interest rate of 8% per annum. The tenure of the loan was six months. The loan was renewed in November 2016 for three years with an interest rate of 7% per annum.

(ii) The loan of RMB2 billion was provided in April 2016 with an interest rate of 8% per annum. The tenure of the loan was twelve months. The loan was repaid in 2017.

(iii) The loan of USD150 million (approximately RMB980 million), was provided in September 2016 with an interest rate of 4% per annum. The tenure of the loan was three years with 50% of the loan due within one year.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

45. RELATED PARTY TRANSACTIONS (continued)

(c) Related-party balances (continued)

(viii) Loans from related parties (continued)

(a) (continued)

(iv) The loan of RMB560 million, secured by the pledges of the Company's equity interests of subsidiaries and guaranteed by Mr. Shi Janson Bing was repaid on December 2016, and renewed for 36 months in January 2017. Interest rate of the loan was 7% per annum.

(v) The loan of RMB550 million was repaid on December 2016, and renewed for 36 months in January 2017. Interest rate of the loan was 7% per annum.

(vi) The loan of RMB878 million was provided in December 2017 with interest rate of 8% per annum. The tenure of the loan was 28 months.

(b) Entrusted loans of RMB800 million (31 December 2016: RMB1 billion) were provided by a related party, China Minsheng Jujia in 2016 and 2017, and loans of RMB200 million were provided by a related party, Linzhi in 2017, which comprised the following borrowings:

(i) The loan of RMB800 million which was provided in March 2016 with tenure of twelve months. Interest rate of the loan was 8.5% per annum. The loan was repaid in March 2017.

(ii) The loan of RMB200 million which was provided in May 2016 with tenure of twelve months. Interest rate of the loan was 8.35% per annum. The loan was repaid in May 2017.

(iii) The loan of RMB800 million which was provided in March 2017. Interest rate of the loan is 7.75% per annum. The tenure of 50% loan was twelve months and the tenure of the remaining 50% was fifteen months.

(iv) The funding of RMB600 million was provided in December 2016 by Linzhi. A supplemental agreement of the loan signed in 2017 with interest rate of 6% between December 2016 and June 2017, 6.5% between July 2017 and December 2017, and to be repaid on demand. The loan was partially repaid in the amount of RMB400 million in 2017.

(c) The loan of RMB138 million was provided by a related party, SRE Asset, in September 2017 with tenure of twelve months. Interest rate of the loan was 8.5% per annum.

(ix) Pledged assets provided by a related party

	2017	2016
Relevant Business of Golden Luodian	**2,525,307**	–

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

46. FINANCIAL INSTRUMENTS BY CATEGORY

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

	2017	2016
Financial assets		
Available-for-sale investments	407,790	642,806
Loans and receivables		
– Loans and receivables	1,752,005	165,000
– Other receivables	1,716,383	1,678,141
– Trade receivables	24,438	24,863
– Cash and bank balances	1,452,915	1,512,857
– Other non-current assets	810,800	71,519
	6,164,331	4,095,186
Financial liabilities		
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	8,598,802	6,765,468
– Trade payables	703,382	792,301
– Others	1,349,030	4,151,714
	10,651,214	11,709,483

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. When an active market exists, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market or when current market prices are not available, fair value is determined using valuation techniques (Note 2.4).

The Group's financial assets mainly include cash and bank balances, receivables and available-for-sale investments.

The Group's financial liabilities mainly include interest-bearing bank and other borrowings and payables.

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and appropriate valuation models.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and liabilities (continued)

Assets and liabilities measured at fair value:

The available-for-sale financial assets of the Group are measured at fair value.

The following table presents the Group's financial assets that are measured at fair value at 31 December 2017. See Note 18 for disclosures of the investment properties that are also measured at fair value.

	Level 1	Level 2	Level 3	Total
Available-for-sale investments	–	–	407,790	407,790

There were no transfers between level 1 and 2 during the year.

The following table presents the changes in level 3 instruments for the year ended 31 December 2017.

Opening balance	642,806
Additions	261,999
Fair value change during the year	2,030
Disposals	(497,200)
Currency translation differences	(1,845)
Ending balance	407,790

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest-bearing loans, and cash and bank deposits. The main purpose of these financial instruments is to raise funds to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group does not enter into derivative transactions for trading purposes. The Group's accounting policies in relation to derivatives are set out in Note 2.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank and other borrowings. The Group does not use derivative financial instruments to manage its interest rate risk. The interest rates and terms of repayment of the borrowings are disclosed in Note 32.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates of the major currencies in which the Group's borrowings are denominated, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings). The Group's equity is not affected, except for the consequential effect on retained profits (a component of the Group's equity) by the changes in profit before income tax.

	2017 Impact on profit before income tax	2016 Impact on profit before income tax
Changes in variables – RMB interest rate		
+ 50 basis points	**(10,061)**	(9,642)
– 50 basis points	**10,061**	9,642
Changes in variables – GBP interest rate		
+ 50 basis points	**(3,052)**	–
– 50 basis points	**3,052**	–

Foreign currency risk

Most of the Group's operating entities operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk with only limited exposure arising primarily with respect to cash at banks and bank borrowings, which are mainly denominated in United States dollars ("US$"), Hong Kong dollars ("HK$"), GBP and AUD.

Renminbi is not a freely convertible currency. The conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$, the HK$, the GBP and the AUD exchange rates, with all other variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). The Group's equity is not affected, except for the consequential effect on retained profits (a component of the Group's equity) by the impact on profit before income tax as disclosed below.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	2017 Impact on profit before income tax	2016 Impact on profit before income tax
Changes in exchange rate of US$ against Renminbi		
+ 5%	**(2,197)**	(43,134)
– 5%	**2,197**	43,134
Changes in exchange rate of HK$ against Renminbi		
+ 5%	**(5,844)**	(1,327)
– 5%	**5,844**	1,327
Changes in exchange rate of GBP against Renminbi		
+ 5%	**781**	–
– 5%	**(781)**	–
Changes in exchange rate of AUD against Renminbi		
+ 5%	**5,751**	–
– 5%	**(5,751)**	–

Credit risk

Credit risk mainly arises from cash at banks, trade receivables and other receivables. The guarantees as disclosed in Note 39 might also result in credit risk to the Group. For the sale of developed properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks. Receivable balances are monitored on an on-going basis other than the significant receivables in Note 25. Except for due from related parties, there is no other significant concentration of credit risk within the Group as other debtors of the Group's receivables are widely dispersed and the majority of the Group's financial assets are cash at banks as at 31 December 2017. Directors of the Group believe credit risk associated with due from related parties is low considering the financial position of these related parties.

The table below shows the maximum exposure to credit risk for the assets subject to credit risk at the end of the reporting period. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancement.

	2017	2016
Financial assets		
Available-for-sale investments	**407,790**	642,806
Loans and receivables		
– Loans and receivables	**1,752,005**	165,000
– Other receivables	**1,716,383**	1,678,141
– Trade receivables	**24,438**	24,863
Cash at banks	**1,452,915**	1,512,857
Other non-current assets	**810,800**	71,519
	6,164,331	4,095,186

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group maintains sufficient liquidity at all times with a financial planning system which is used to monitor the Group's future state of liquidity as estimated from the results of the Group's strategic and planning process. A 12-month forecast of fund requirements is updated monthly for the latest development.

Other than properties developed for sale, the Group also develops and holds properties for the long-term, such as investment properties. Such long-term assets have constituted an increasing proportion of total assets in recent years, which bring liquidity risk to the Group. In order to mitigate the liquidity risk, the Group adjusted its financing strategy to get more long-term borrowings and shareholder's loans.

The Group has developed strategic relationship with certain major state-owned banks that will normally provide financing to the Group when approval from the relevant government authorities for the commencement of a project is obtained. The Group also seeks financing from overseas markets through close cooperation with several world-wide banks.

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

	2017					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest-bearing bank and other borrowings	**490,065**	**602,742**	**1,558,013**	**6,223,355**	**927,873**	**9,802,048**
Trade payables	**95,015**	**80,626**	**142,506**	**385,235**	**–**	**703,382**
Others	**981,167**	**2,874**	**364,989**	**–**	**–**	**1,349,030**
	1,566,247	**686,242**	**2,065,508**	**6,608,590**	**927,873**	**11,854,460**

	2016					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	–	852,312	3,364,505	2,344,382	1,615,386	8,176,585
Trade payables	109,155	31,602	290,744	360,800	–	792,301
Others	493,503	17,924	1,070,602	264,651	–	1,846,680
	602,658	901,838	4,725,851	2,969,833	1,615,386	10,815,566

Management has assessed that the fair values of trade payables and others approximate to their carrying amounts largely due to the short term maturities of these instruments.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

As the Group is mainly engaged in the development of properties, it needs a substantial amount of funds. The Group monitors capital using a gearing ratio, as defined by management for capital management purposes, which is net debt divided by capital plus net debt.

Net debt includes interest-bearing bank and other borrowings, less cash and bank balances, and excludes assets classified as held for sale and liabilities directly associated with the assets classified as held for sale. Capital includes equity attributable to owners of the parent and non-controlling interests. The gearing ratios are calculated as follows:

	2017	2016
Interest-bearing bank and other borrowings (Note 32)	**8,598,802**	6,765,468
Less: Cash and bank balances (Note 27)	**(1,452,915)**	(1,512,857)
Net debt	**7,145,887**	5,252,611
Equity attributable to owners of the Company	**7,380,207**	6,674,379
Non-controlling interests	**433,761**	377,682
Capital	**7,813,968**	7,052,061
Capital and net debt	**14,959,855**	12,304,672
Gearing ratio	**48%**	43%

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

49. INFORMATION ABOUT SUBSIDIARIES

As at 31 December 2017, the Company had direct or indirect interests in the following principal subsidiaries:

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Sinopower Investment Limited	British Virgin Islands ("BVI") 1 October 1998	100%	–	US$52	US$50,000	Investment holding
Shanghai Xin Dong Industry Co., Ltd.	PRC/Mainland China 28 May 1993	–	98%	US$3,457,729	US$3,457,729	Property leasing and real estate agency
Shanghai Oasis Garden Real Estate Co., Ltd. ("Oasis Garden")	PRC/Mainland China 29 September 1998	–	98.75%	US$19,600,000	US$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd.	PRC/Mainland China 4 August 1999	–	98.96%	US$20,000,000	US$20,000,000	Development of technology housing and provision of construction services
Shanghai Zhufu Property Development Co., Ltd. ("Zhufu")	PRC/Mainland China 11 August 2000	–	50.36%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd.	BVI 29 September 2001	–	52%	US$100	US$50,000	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd.	PRC/Mainland China 16 April 2002	–	51.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd.	PRC/Mainland China 14 June 2002	–	98%	US$10,000,000	US$10,000,000	Property development
Shanghai Andong Real Estate Development Ltd.	PRC/Mainland China 18 October 2007	–	99%	RMB370,000,000	RMB370,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd.	PRC/Mainland China 12 August 2002	–	95.79%	US$54,962,000	US$54,962,000	Property development and property leasing
Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management")	PRC/Mainland China 30 October 2007	–	100%	US$31,936,200	US$31,936,200	Property leasing
Shanghai Shangzhi Real Estate Development Co., Ltd.	PRC/Mainland China 16 October 2008	–	98.75%	RMB10,000,000	RMB10,000,000	Property development

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

49. INFORMATION ABOUT SUBSIDIARIES (continued)

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao")	PRC/Mainland China 4 December 2000	–	98.71%	RMB1,450,000,000	RMB1,450,000,000	Property development
Shanghai Xiangdao Real Estate Ltd. ("Xiangdao")	PRC/Mainland China 21 July 2009	–	98.75%	RMB330,000,000	RMB330,000,000	Property development
Shanghai Xiabo Industry Ltd. ("Xiabo")	PRC/Mainland China 14 September 1995	–	98.75%	RMB3,000,000	RMB3,000,000	Property development
Shanghai Haibo Property Development Co., Ltd. ("Haibo")	PRC/Mainland China 27 December 1996	–	98.75%	RMB15,000,000	RMB15,000,000	Property development
Shanghai Bairun Real Estate Co., Ltd. ("Bairun")	PRC/Mainland China 16 May 2002	–	50.36%	RMB605,500,000	RMB605,500,000	Property development
Wuxi Zhongqing Real Estate Co., Ltd. ("Wuxi Zhongqing")	PRC/Mainland China 11 July 2008	–	98.75%	RMB85,000,000	RMB85,000,000	Property development
Jiaxing Lake Richgate Real Estate Co., Ltd. ("Jiaxing Lake Richgate")	PRC/Mainland China 26 September 2007	–	98.75%	US$49,900,000	US$49,900,000	Property development
Shanghai Zhiyi Enterprise Ltd.	PRC/Mainland China 14 March 2011	–	98.96%	RMB30,000,000	RMB30,000,000	Procurement management
Dalian Shangzhi Real Estate Development Co., Ltd.	PRC/Mainland China 19 July 2013	–	50.36%	RMB30,000,000	RMB30,000,000	Property development
Shanghai Zhi Yi Investment Ltd.	PRC/Mainland China 21 January 2014	–	100%	RMB140,000,000	RMB790,000,000	Investment
Changsha Horoy Real Estate Co., Ltd.	PRC/Mainland China 25 September 2007	–	66.5%	RMB20,000,000	RMB20,000,000	Property development
Chengdu Shanghai Real Estate Co., Ltd	PRC/Mainland China 20 December 2010	–	100%	RMB20,000,000	RMB20,000,000	Property development
Shanghai Lake Malaren Obstetrical and Gynecological Hospital Co., Ltd.	PRC/Mainland China 17 October 2013	–	100%	RMB10,000,000	RMB10,000,000	Hospital

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

49. INFORMATION ABOUT SUBSIDIARIES (continued)

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Shanghai Lake Malaren Corporate Development Co., Ltd	PRC/Mainland China 8 April 2014	–	72.63%	RMB70,000,000	RMB70,000,000	Property development
Shanghai Lake Malaren Commercial Management Co., Ltd	PRC/Mainland China 8 April 2014	–	72.63%	RMB70,000,000	RMB70,000,000	Property development
Jiangsu Jiaye SRE Commercial Factoring Limited	PRC/Mainland China 10 February 2017	–	79.17%	RMB100,000,000	RMB100,000,000	Factoring
Qingdao Zhongtong Environmental Fund Center (Limited Partnership)	PRC/Mainland China 16 October 2017	–	100%	RMB90,000,000	RMB90,000,000	Investment
Zhongtong Wanfang Construction and Development (Zhangjiakou) Co., Ltd.	PRC/Mainland China 21 November 2017	–	90%	RMB100,000,000	RMB100,000,000	Construction
CMSREUK Tower Hill Propco Limited	UK/Bailiwick of Jersey 25 August 2016	–	100%	GBP15,000,000	GBP15,000,000	Property leasing
CMSREUK Moorgate Propco Limited	UK/Bailiwick of Jersey 14 September 2016	–	100%	GBP5,700,000	GBP5,700,000	Property leasing

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

Other than disclosed above, the Company has several investment holding subsidiaries incorporated in the BVI, Hong Kong, the United Kingdom, Australia and the United States of America with nominal issued shares. All subsidiaries located in Mainland China are limited liability entities.

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2017	2016
ASSETS		
Non-current assets		
Property, plant and equipment	18	26
Investments in subsidiaries	2,391,954	2,427,368
Advances to subsidiaries	1,965,695	1,777,260
	4,357,667	4,204,654
Current assets		
Dividends receivable from subsidiaries	1,951,622	1,951,622
Prepayments and other current assets	42,373	98,441
Cash and bank balances	529,108	546,067
	2,523,103	2,596,130
Total assets	6,880,770	6,800,784
EQUITY AND LIABILITIES		
Equity		
Issued share capital and share premium	6,747,788	6,747,788
Reserves	(1,303,091)	(1,205,788)
Total equity	5,444,697	5,542,000
LIABILITIES		
Non-current liabilities		
Interest-bearing bank and other borrowings	889,600	716,779
Current liabilities		
Interest-bearing bank and other borrowings	490,065	520,275
Other payables and accruals	56,408	21,730
	546,473	542,005
Total liabilities	1,436,073	1,258,784
Total equity and liabilities	6,880,770	6,800,784

The statement of financial position of the Company was approved by the Board of Directors on 28 March 2018 and was signed by the following Directors on its behalf:

Peng Xinkuang
Chairman

Liu Feng
Chief Executive Officer

For the year ended 31 December 2017 (Amounts presented in thousands of Renminbi unless otherwise stated)

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

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

	Accumulated losses	**Others**	**Total**
Balance at 1 January 2017	**(1,524,709)**	**318,921**	**(1,205,788)**
Total comprehensive loss for the year	**(120,624)**	**–**	**(120,624)**
Transaction with owners:			
Share-based payments	**–**	**23,321**	**23,321**
Balance at 31 December 2017	**(1,645,333)**	**342,242**	**(1,303,091)**

	Accumulated losses	Others	Total
Balance at 1 January 2016	(1,353,703)	275,649	(1,078,054)
Total comprehensive loss for the year	(171,006)	–	(171,006)
Transaction with owners:			
Share-based payments	–	43,272	43,272
Balance at 31 December 2016	(1,524,709)	318,921	(1,205,788)

51. APPROVAL OF THESE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 28 March 2018.